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"The FY 2019 ending balance is now projected to be \$1.01 billion, for a net increase of \$243 million [above the budgeted amount]"

Summary

The state's Fiscal Year 2019 ended on June 30th. Based on preliminary data, state General Fund revenues grew at a strong 11.2% rate in FY 2019. This high level of revenue growth did not appear until late in the fiscal year, fueled by a large increase in May Individual Income Tax collections.

FY 2019 General Fund revenue collections totaled \$11.23 billion, the highest level ever recorded. While the book closing process will continue for another 4 months, our initial findings for June and all of FY 2019 are as follows:

June 2019:

- Total June General Fund revenue collections increased by 8.0% and were \$72 million above forecast for the month. This growth in June revenues was uneven across the state's revenue categories, since the state typically receives large deposits of non-tax revenue at the end of the fiscal year. As a result, some of the state's smaller revenue categories showed significant percentage fluctuations.
- In terms of the state's main revenue categories, Individual Income Tax (IIT) and Corporate Income Tax (CIT) continued their strong double-digit growth seen during the rest of FY 2019, with IIT growing at 10.2% and CIT increasing by 23.4% for the month. Insurance Premium Tax (IPT) also posted significant growth during the month, with a 9.5% increase during June.
- The state's \$72 million forecast gain for June was spread between core tax collections and other non-tax revenue categories.

Within core tax collections, CIT posted the largest forecast gain of \$36 million followed by IPT with a forecast gain of \$15 million. For non-tax revenue categories, Miscellaneous revenues were \$27 million above forecast, helped by a significant increase in unclaimed property revenues for the state.

All of FY 2019:

- Excluding fund transfers and Urban Revenue Sharing, total FY 2019 General Fund revenues were 9.5% above the prior year. After factoring in these adjustments, bottom-line General Fund revenues were 11.2% above FY 2018.
- FY 2019 General Fund revenues were \$345 million above the January Baseline forecast. As noted in the May *Monthly Fiscal Highlights*, the enacted budget incorporated 2 adjustments: 1) Reduced the ongoing revenue forecast by \$(66) million; and 2) Increased the forecast by \$155 million to account for Tax Year (TY) 2018 conformity. After accounting for these adjustments, the FY 2019 results represent a forecast gain of \$256 million above the enacted budget forecast.
- The level of FY 2019 spending was relatively close to the amount assumed in the enacted budget. FY 2019 spending of \$10.68 billion exceeded the budgeted spending amount by approximately \$13 million.
- The enacted budget assumed an FY 2019 ending balance of \$764 million. The FY 2019 ending balance is now projected to be \$1.01 billion, for a net increase of \$243 million. This projected \$1.01 billion balance would lag only the \$1.04 billion recorded in FY 2006.
- The \$1.01 billion cash balance excludes the state's Budget Stabilization Fund, which itself will be approximately \$1 billion in FY 2020.

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Summary (Continued)

FY 2020 Potential Impacts

The enacted FY 2020 budget had a projected cash balance of \$65 million. Given the FY 2019 results reported above, the FY 2020 cash balance is likely to be significantly higher than that amount.

JLBC Staff will release revised FY 2020 budget estimates later this fall. The state’s budget projections will next be updated at the October 10th Finance Advisory Committee (FAC) meeting. At that meeting, input from the FAC panel and JLBC Staff will be used to determine the following: 1) An updated FY 2020 revenue forecast, which will attempt to determine how much of the FY 2019 overage is ongoing; and 2) Updated spending projections, which will adjust for recent caseload trends in the K-12 formula and Medicaid program.

FY 2019 Revenues

As noted above, bottom-line FY 2019 General Fund revenues were 11.2% above the prior year.

Total FY 2019 General Fund resources were \$11.68 billion. This amount consists of \$11.23 billion from current FY 2019 revenue collections combined with a \$449 million beginning balance that was carried forward from FY 2018.

The state’s strong overall revenue growth in FY 2019 occurred across all the major revenue categories. Each major revenue category also contributed to the FY 2019 forecast gain, with the IIT category posting the largest dollar gain during the year.

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

Three of the state’s four core revenue categories set records during FY 2019 in terms of total dollar collections – Sales Tax, Individual Income Tax, and Insurance Premium Tax.

	<u>Jan. Forecast</u>	<u>Prelim. Actual</u>	<u>Above/ (Below) Forecast</u>
Sales	6.1%	6.5%	\$17 M
Individual Income	6.6%	10.2%	\$163 M
Corporate Income	17.2%	37.9%	\$77 M
Insurance Premium	0.2%	7.9%	\$40 M

Sales Tax

Sales and Use Tax revenues grew by 6.5% and were \$17.3 million above the January Baseline forecast during FY 2019. Tax collections by category for all of FY 2019 are shown in Table 2. The 5 major categories of the state’s Sales Tax in the table account for approximately 90% of total collections.

For all of FY 2019, prime contracting increased by 15.3%, which is the highest growth rate since FY 2006. The retail classification, which represents half of total sales tax collections, grew by 6.3% in FY 2019, which is the best performance since FY 2014 when collections increased by 7.8%.

Retail	6.3%
Contracting	15.3%
Use	10.6%
Restaurant & Bar	6.2%
Utilities	(0.2)%

The broad-based growth in Sales Tax revenue is generally reflective of Arizona’s strong economic conditions. The healthy growth rate in the Retail and Restaurant/Bar categories is likely related to higher levels of consumer confidence, while the significant growth in contracting collections reflects increased levels of building permitting and construction activity in the state.

Individual Income Tax

Individual Income Tax collections grew by 10.2% during FY 2019 and were \$163 million above the January Baseline revenue forecast. A significant portion of the forecast overage is related to estimated and final payments, which grew by 11.0% during FY 2019.

During FY 2019, there was significant monthly fluctuations in IIT collections, particularly with regards to estimated and final payments. The state saw large declines in payments during December and January – while some declines were expected in those months, the drop in payment collections was steeper than projected.

During tax filing season, the trajectory of payment activity turned significantly more positive. After modest payment growth in April, the state experienced a very large surge in IIT payments during the month of May. During the month of May alone, IIT posted a forecast gain of \$343 million.

Summary (Continued)

As noted in prior *Monthly Fiscal Highlights*, there are likely 2 main reasons for the overall 10.2% growth: 1) Additional revenues from Tax Year 2018 conformity; and 2) Higher than projected IIT liability even after accounting for conformity due to the state's strong economic conditions.

Corporate Income Tax

Corporate Income Tax has been a volatile revenue source for the state over the last several years. During the state's multi-year phase in of a corporate income tax rate reduction, CIT experienced double-digit declines (in FY 2016 and FY 2017), followed by very modest growth in FY 2018 of only 1.3%. In comparison, net FY 2019 CIT collections grew by 37.9% during the year and were \$77 million above the January Baseline forecast. This 37.9% growth rate was the largest increase for the category since FY 1994.

While Corporate Income Tax revenue increased by the largest percentage in recent history, the growth rate was significantly slower in the second half of FY 2019 (7.0%) compared to the first half (85.7%). The rapid deceleration in the last 6 months of FY 2019 (or equivalently, the first 6 months of CY 2019) was likely related to a change in corporate tax-filing behavior induced by the federal Tax Cuts and Jobs Act (TCJA) enacted in December 2017.

TCJA reduced the federal corporate income tax rate from 35% in TY 2017 to 21% in TY 2018, which served to incentivize corporations to shift their taxable income from TY 2017 to TY 2018. Since federal taxable income is the starting point for calculating state corporate income tax, this tax-shifting behavior at the federal level had the effect of artificially driving up corporate tax collections at the state level. This suggests that a significant portion of the surge in FY 2019 corporate tax collections was likely non-recurring or one-time revenue.

Insurance Premium Tax

Insurance Premium Tax revenues grew by 7.9% in FY 2019 and were \$40 million above the January Baseline revenue forecast. The FY 2019 performance for the IPT category was significantly more robust than the last few years, where FY 2017 and FY 2018 posted modest growth below 3%.

We do not yet know what caused the increase in FY 2019 collections – detailed data on FY 2019 collections by insurance line will not be available until September 2019. Prior trends in Insurance Premium Tax collections were correlated to trends in Medicaid enrollment growth. This correlation did not hold in FY 2019, as the state's Medicaid program continues to

show minimal growth, with AHCCCS General Fund spending increasing by less than 1% during FY 2019.

FY 2019 Spending

Based on preliminary spending data from the state's General Accounting Office (GAO), FY 2019 General Fund spending is estimated to be \$10.68 billion, which is an increase of 8.4% over the prior year. This amount includes the \$271 million deposit into the Budget Stabilization Fund made during FY 2019.

Given the overall size of the state's General Fund budget, the FY 2019 spending level was relatively close to the amount assumed in the enacted budget. The FY 2019 spending of \$10.68 billion exceeded the budgeted spending amount by approximately \$13 million.

Operating Fund Balance

The state's fiscal health can also be measured by the operating fund balance, which consists of the General Fund and certain dedicated funds. Given the recent strong growth in revenue collections, the state's operating balance has recently reached all-time record levels.

The ending FY 2019 operating balance was \$3.6 billion, compared to \$2.8 billion a year earlier. As of mid-July, the operating fund balance has fallen to \$2.2 billion, primarily due to large K-12 rollover payments that occur in the beginning of the fiscal year.

Budget Stabilization Fund

Over the last several years, the state's typical Budget Stabilization Fund (BSF) balance has been approximately \$460 million – \$470 million, after accounting for "bridge loans" made to various state agencies as authorized by the Legislature.

The enacted budget authorized 2 deposits from the state General Fund to the Budget Stabilization Fund: \$271 million in FY 2019 and \$271 million in FY 2020.

As of mid-July, the state Budget Stabilization Fund (BSF) has a balance of \$811 million due to the processing of these deposits as follows: 1) The \$271 million FY 2019 deposit was made in June 2019; and 2) The \$271 million FY 2020 deposit will be made in 4 equal installments (\$67.8 million each), and the first of these four installments was made in July.

June Revenues

	<u>FY 2019 Collections</u>	<u>Difference From Baseline Forecast</u>	<u>Difference From FY 2018</u>
June	\$ 1,335.8	\$ 71.6	\$ 99.4
Year-to-Date	\$ 11,234.6	\$ 344.7	\$ 1,127.4

Sales Tax collections of \$439.6 million were 3.1% above June of last year and \$(9.0) million below the forecast for the month. June tax collections reflect sales activity in May. Total FY 2019 Sales Tax revenue of \$5.10 billion was 6.5% above the amount collected in FY 2018 and \$17.3 million above the January Baseline forecast.

The 3.1% increase in June was the lowest year-over-year growth rate of any month in FY 2019. However, the growth rate in June was lower-than-forecast mainly for technical reasons. 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 6.4%, year-over-year.

Individual Income Tax net revenues of \$463.6 million in June were \$(10.0) million below forecast for the month. Year-to-date, Individual Income Tax revenues are 10.2% above the prior year and \$163.3 million above forecast.

Year-to-date, Individual Income Tax payments are 11.0% above the prior year.

As indicated in *Table 4*, July withholding revenues of \$347.6 million were 8.0% above last year and \$(9.4) million below the forecast. Withholding has grown by 6.2% year-to-date.

June Individual Income Tax refunds totaled \$(36.6) million, which compares to \$(38.4) million from last year. With a forecasted refund level of \$(43.9) million, the lower level of actual refunds produced a forecast gain of \$7.3 million.

	<u>June</u>	<u>FY 19</u>
Withholding	8.0%	6.2%
Estimated/Final Payments	11.4%	11.0%
Refunds	(4.6)%	(1.3)%

Corporate Income Tax net revenue was \$103.0 million in June, which was \$19.5 million above the amount collected in the prior year and \$36.3 million above

the forecast for the month. Total FY 2019 collections of \$514.3 million were 37.9% above the prior year and \$77.1 million above the January Baseline forecast.

Insurance Premium Tax net collections were \$101.2 million in June, \$8.8 million above the same month last year and \$14.8 million above forecast. Year-to-date net collections are 7.9%, above the previous fiscal year and \$39.6 million above forecast.

In June, **tobacco tax** revenues were \$1.5 million. This amount is \$(0.3) million below the prior year and \$(0.7) million below the forecast. **Liquor tax collections** during the month were \$3.1 million. This amount is \$0.2 million, or 5.8% above June 2018 and \$0.4 above forecast.

Tobacco tax collections totaled \$21.0 million in FY 2019, which is \$(0.9) million, or (4.2)% below FY 2018 and \$(0.2) million below forecast. FY 2019 liquor tax collections totaled \$37.3 million. This amount is \$1.2 million, or 3.5% above FY 2018 and \$0.3 million above forecast.

The **Lottery Commission** reports that June ticket sales were \$81.7 million, which is \$5.4 million, or 4.3% above sales in June 2018. Year-to-date, ticket sales are \$1.08 billion and 9.7% above the prior year.

Distributions of 4th quarter Lottery profits to the General Fund are currently incomplete. The Lottery Commission expects to make a final 4th quarter profit transfer after completing a year-end audit review. Given the uncertainty of how this final transfer will be treated during the state's booking closing process, June Lottery revenue totals are reported at forecast.

Highway User Revenue Fund (HURF) collections of \$135.9 million in June were up 6.3% compared to June of last year and were \$7.5 million above forecast. Year-to-date, collections have increased by 4.4% above the prior year and are \$30.0 million above forecast.

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 \$0.3 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 2019

	Current Month					FY 2019 YTD (Twelve Months)					
	Actual June 2019	Change From				Actual June 2019	Change from				
		June 2018		Baseline Forecast			June 2018		Baseline Forecast		
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent	
Taxes											
Sales and Use	\$439,575,368	\$13,216,383	3.1 %	(\$8,971,813)	(2.0) %	\$5,096,723,835	\$309,076,638	6.5 %	\$17,329,387	0.3 %	
Income - Individual	463,570,229	43,034,248	10.2	(10,021,980)	(2.1)	5,007,985,876	463,904,712	10.2	163,285,342	3.4	
- Corporate	103,042,989	19,506,889	23.4	36,346,604	54.5	514,305,804	141,229,420	37.9	77,130,233	17.6	
Property	3,229,460	(1,484,763)	(31.5)	(3,974,666)	(55.2)	29,683,305	(9,036,328)	(23.3)	(6,915,215)	(18.9)	
Luxury - Tobacco	1,545,516	(303,321)	(16.4)	(668,408)	(30.2)	21,045,796	(932,355)	(4.2)	(161,074)	(0.8)	
- Liquor	3,117,486	171,742	5.8	370,885	13.5	37,268,286	1,248,561	3.5	291,940	0.8	
Insurance Premium	101,218,865	8,789,606	9.5	14,774,925	17.1	549,760,567	40,484,565	7.9	39,585,374	7.8	
Other Taxes	655,674	(30,873)	(4.5)	(241,959)	(27.0)	13,539,399	5,888,904	77.0	1,661,054	14.0	
Sub-Total Taxes	\$1,115,955,588	\$82,899,911	8.0 %	\$27,613,588	2.5 %	\$11,270,312,869	\$951,864,116	9.2 %	\$292,207,041	2.7 %	
Other Revenue											
Lottery	13,668,510	13,668,510	--	0	--	96,554,587	28,129,226	41.1	3,750,285	4.0	
License, Fees and Permits	3,232,301	311,244	10.7	387,066	13.6	32,022,143	(5,947,761)	(15.7)	(2,184,752)	(6.4)	
Interest	45,170,221	23,423,636	107.7	11,344,077	33.5	48,040,847	26,027,757	118.2	13,040,847	37.3	
Sales and Services	2,421,128	(3,795,559)	(61.1)	(12,374,121)	(83.6)	24,053,992	(10,066,895)	(29.5)	(20,841,886)	(46.4)	
Other Miscellaneous	93,947,779	4,259,230	4.7	27,434,935	41.2	111,394,468	3,082,679	2.8	29,208,708	35.5	
Disproportionate Share	95,552,550	11,847,890	14.2	11,948,550	14.3	95,552,550	11,847,890	14.2	11,948,550	14.3	
Transfers and Reimbursements	18,238,111	10,783,514	144.7	5,545,086	43.7	58,724,866	18,126,287	44.6	17,820,008	43.6	
Sub-Total Other Revenue	\$272,230,601	\$60,498,466	28.6 %	\$44,285,593	19.4 %	\$466,343,454	\$71,199,183	18.0 %	\$52,741,760	12.8 %	
TOTAL BASE REVENUE	\$1,388,186,188	\$143,398,377	11.5 %	\$71,899,181	5.5 %	\$11,736,656,322	\$1,023,063,299	9.5 %	\$344,948,801	3.0 %	
Other Adjustments											
Urban Revenue Sharing	(56,233,703)	497,137	(0.9)	(0)	0.0	(674,804,438)	5,965,642	(0.9)	(0)	0.0	
One-Time Transfers	11,000	(48,356,728)	(100.0)	(255,844)	(95.9)	100,425,856	26,034,128	35.0	(255,844)	(0.3)	
Public Safety Transfers	3,851,318	3,851,318	--	(0)	(0.0)	72,364,498	72,364,498	--	(0)	(0.0)	
Sub-Total Other Adjustments	(52,371,385)	(44,008,273)	526.2 %	(255,844)	0.5 %	(502,014,083)	104,364,269	(17.2) %	(255,844)	0.1 %	
TOTAL GENERAL FUND REVENUE	\$1,335,814,803	\$99,390,104	8.0 %	\$71,643,338	5.7 %	\$11,234,642,240	\$1,127,427,568	11.2 %	\$344,692,958	3.2 %	
Non-General Funds											
Highway User Revenue Fund	135,891,155	8,026,079	6.3 %	7,516,168	5.9 %	1,520,221,114	64,442,201	4.4 %	30,021,114	2.0 %	

1/ The enacted budget made the following adjustments to the January Baseline forecast - Reduced the ongoing revenue forecast by \$(66) M and a \$155 M adjustment for TY 2018 tax conformity. After accounting for these adjustments, year-to-date revenues are \$255.7 million above the enacted budget forecast.

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis' third or "final" estimate, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 3.1% in the first quarter of 2019. This was unchanged from the second or "preliminary" estimate released in May. Relative to the preliminary estimate, there were downward revisions to personal consumption expenditures, which were offset by upward revisions to business fixed investment and government consumption.

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 (7.5)%, or (9.8) points, from 131.3 in May to 121.5 in June, its lowest level since September 2017. Both the index of consumer views on the present situation and expectations contributed to the index' decline in May. The reason for the large decline in June is not entirely clear but appears to be related to ongoing international trade tensions. The present situation index was the highest since December 2000. The labor index, which is calculated as the percentage of respondents who think that jobs are plentiful minus the percentage who think that jobs are difficult to find, declined by (5.9) points in June to a net value of 27.6, its lowest value in a year.

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 2018, the price index is up by 1.5%. The "core" PCI price index excludes food and energy prices and is the Federal Reserve's (Fed) preferred inflation measure. This core index increased year over year by 1.6% in May, which is below the Fed's inflation target of 2.0%.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.1% in June and increased 1.6% above June 2018 prices. The food index did not change for the month. The energy index declined (2.3)% for the month, primarily due to decreases in the indexes for gasoline, fuel oil, and natural gas. Core inflation (all items less food and energy) increased 0.3% for the month. The indexes for shelter and medical care increased about 3% for the month. The indexes for used vehicles and motor vehicle insurance saw minor monthly increases of around 1%.

The Conference Board's **U.S. Leading Economic Index** was unchanged in May, remaining at 111.8 and is 2.1% above its May 2018 reading. The lack of change was balanced by positive contributions from financial conditions and consumers' outlook paired with negatives

from stock prices and the manufacturing sector. The yield spread's contribution was also neutral.

ARIZONA

Housing

Single-family housing construction is increasing. In May, Arizona's 12-month total of **single-family building permits** was 31,708, or 9.6% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was a decrease of (1.8)%.

The 12-month total of multi-family building permits has been up and down. In May, Arizona's total of 10,312 **multi-family building permits** was (4.0)% less than in 2018. Nationwide multi-family permits were only 0.6% more than in 2018.

Tourism

Revenue per available room was \$82.68 in May, 3.9% above the same month in the prior year.

State park visitation was 279,075 in May, 5.9% below the same month in the prior year.

Ridership through Phoenix Sky Harbor Airport during the month increased 1.3% above May 2018.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state lost (44,600) **nonfarm jobs** in June compared to the prior month. This was less than the 10-year average job loss of (52,700) 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 78,000 net new jobs in June, which is a year-over-year increase of 2.8%. The largest year-over-year job gains in June came from the following industries: Education and Health Services (+23,900), Construction (+18,200), and Professional and Business Services (+12,600).

Manufacturing employment increased by 4.7% or 8,000 jobs, year over year, in June. A little less than 40% of the job gains in this industry came from the high-paying computer/electronic and aerospace sectors. The manufacturing industry employed 178,100 persons in June, which is the highest level since December 2007. The construction industry, especially the specialty trades sector, is performing strongly with double-digit employment growth in each of the last 6 months. With its 176,700 jobs in June, the construction industry has now more persons on their payrolls than any time since September 2008.

Monthly Indicators (Continued)

In June, the state's regular **unemployment rate** was 4.9%, which was unchanged from the prior month but 0.2% higher than June 2018. The U.S. unemployment rate increased from 3.6% to 3.7% in June. With the exception of January 2013, Arizona's jobless rate has been consistently higher than the national unemployment in each of the last 134 months. This is different from other periods of economic recovery when Arizona's unemployment has typically been lower than the national average.

OEO reported that 18,895 **initial claims for unemployment insurance** were filed in June, a decrease of (5.4)% compared to the same month last year. In addition, June was the 13th consecutive month with year-over-year declines in initial claims. The last time the state had fewer initial claims for unemployment insurance in the month of June was in 2006.

According to OEO, the state had a total of 23,316 **claimants receiving unemployment insurance benefits** in June, the lowest figure for this month since at least 2000. The number of persons receiving unemployment insurance benefits in June was (9.4)% below the same month in the prior year. Year-over-year, the indicator has declined every month since June 2014.

Average Hourly Earnings

The **Average Hourly Earnings** received by private sector workers in May was \$26.07, which was (0.1)% above the average in the prior month. Year-over-year growth in earnings decreased from 2.0% in April to 1.9% in May.

State Agency Data

At the beginning of July 2019, the total **AHCCCS caseload** was 1.82 million members. Total monthly enrollment increased by 0.4% for July and was 1.3% higher than a year ago. Parent and child enrollment in the Traditional population increased by 0.3% for July and was (0.7)% lower than a year ago.

Enrollment in KidsCare is 34,610 for July, which represents 0.9% growth compared to June and is 16.4 % above last year.

For July 2019, growth in the Proposition 204 childless adult population was 0.9%. At 322,823, this population is 5.1% higher than a year ago.

In the adult Medicaid expansion program up to 133% of the Federal Poverty Level, enrollment was flat for July and totals 76,816 individuals. Enrollment is 0.4% higher than a year ago.

Based on information the Department of Child Safety provided for May 2019, **reports of child maltreatment** totaled 46,344 over the last 12 months, a decrease of (2.2)% over the prior year. There were 14,151 **children in out-of-home care** as of April 2019, or (4.8)% less than in April 2018. Compared to the prior month, the number of out-of-home children increased by 0.9%.

The Arizona Department of Correction's **inmate population** was 42,312 as of June 30, 2019. This was a 0.2% decrease from May 31, 2019 and a 0.5% increase since June 2018.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County **probation caseload** was 28,121 as of June 2019. This was a decrease of (155) below the prior month, and a decrease of (296) since last May. In addition, the state's non-Maricopa County probation caseload was 19,272. This was an increase of 36 above the prior month, and an increase of 23 since last May. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

There were 13,792 **TANF Cash Assistance recipients** in the state in June, representing a 0.3% monthly caseload increase from May. The year-over-year number of TANF Cash Assistance recipients has declined by (8.5)%. 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, 810,525 people received food stamp assistance in the state, representing a 1.4% increase above May caseloads. Compared to June 2018, the level of food stamp participation has declined by (4.1)%.

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	June	4.9%	0.0%	0.2%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2019	9.0%	(0.1)%	(0.3)%
- Initial Unemployment Insurance Claims	June	17,486	(7.5)%	(5.4)%
- Unemployment Insurance Recipients	June	23,316	3.0%	(9.4)%
- Non-Farm Employment - Total	June	2,874,700	(1.5)%	2.8%
Manufacturing	June	178,100	1.1%	4.7%
Construction	June	176,700	0.9%	11.5%
- Average Hourly Earnings, Private Sector	May	\$26.07	(0.1)%	1.9%
<u>Building</u>				
- Residential Building Permits (12-month avg) Single-family	May	31,708	(0.1)%	9.6%
Multi-family	May	10,312	7.2%	(4.0)%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	May	6,823	(5.9)%	3.1%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	May	\$294,900	0.0%	3.9%
- Phoenix S&P/C Home Price Index (2000 = 100)	April	189.67	0.8%	6.0%
- Maricopa Pending Foreclosures	May	2,435	(5.7)%	(11.3)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	May	21,386	(7.4)%	3.4%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	May	3,951,387	(13.4)%	3.9%
- State Park Visitors	May	279,075		(5.9)%
- Revenue Per Available Hotel Room	May	\$82.68	(17.4)%	3.9%
<u>General Measures</u>				
- Arizona Leading Index – 6-month projected growth	May	2.9%	(2.5)%	(2.2)%
- Arizona Personal Income	1 st Q 2019	\$323.5 billion	1.4%	5.2%
- 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	July 1st	1,824,499	0.4%	1.3%
Acute Care Traditional		1,025,621	0.3%	(0.7)%
Prop 204 Childless Adults		322,823	0.9%	5.1%
Other Prop 204		186,599	0.3%	2.0%
Adult Expansion		76,816	0.0%	0.4%
Kids Care		34,610	0.9%	16.4%
Long-Term Care – Elderly & DD		65,419	0.6%	5.4%
Emergency Services		112,611	0.3%	1.7%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	May	46,344	0.2%	(2.2)%
DCS Out-of-Home Children Filled Caseworkers (1406 Budgeted)	April	14,151	0.9%	(4.8)%
- ADC Inmate Growth	May	1,271	(12)	(36)
- Department of Economic Security	June	42,312	0.2%	0.5%
- TANF Cash Assistance Recipients	June	13,750	1.1%	(3.3)%
- SNAP (Food Stamps) Recipients	June	799,615	0.6%	(4.5)%
- Judiciary Probation Caseload				
Non-Maricopa	May	19,272	36	23
Maricopa County	May	28,121	(155)	(296)
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	1 st Q, 2019 (3rd Estimate)	\$18.9 trillion	3.1%	3.2%
- Consumer Confidence Index (1985 = 100)	June	121.5	(7.5)%	(4.4)%
- Leading Indicators Index (2016 = 100)	May	111.8		2.1%
- Consumer Price Index, SA (1982-84 = 100)	June	256.1	0.4%	1.6%
- Personal Consumption Expenditure Price Index (2012 = 100)	May	109.7	0.2%	1.5%

Summary of Recent Agency Reports

AHCCCS – Report on Reconciliation Payments – Pursuant to an FY 2019 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) submitted its report on reconciliation payments and penalties received and deposited during FY 2019. AHCCCS reports that during that 12-month period it deposited reconciliation payments and penalties/sanctions totaling \$7.4 million into the General Fund and \$6.8 million into the Hospital Assessment Fund, and used the remaining \$85.5 million to offset Federal Medicaid Authority expenditures.

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 2019 totaled \$95.9 million while penalties and sanctions totaled \$3.8 million. (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 FY 2018 contributions provided \$293.6 million for partial funding of 1,717 residency positions at 16 hospitals. The largest recipients included Banner University Medical Center - Tucson (\$65.0 million), Maricopa Medical Center (\$57.0 million), Banner University Medical Center - Phoenix (\$43.8 million), St. Joseph's Hospital - Phoenix (\$38.9 million), and Phoenix Children's Hospital (\$38.2 million).

The \$293.6 million in Total Funds included local contributions of \$88.9 million and a federal match of \$204.7 million. Local government contributors included University of Arizona (\$53.4 million), Maricopa Integrated Health System (\$23.9 million), Arizona State University (\$8.3 million), the City of Tucson (\$2.3 million) and Mohave County (\$987,451). (Maggie Rocker)

Arizona Health Care Cost Containment System – Report on *Arnold v. Sarn* – Pursuant to an FY 2019 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) reported on its implementation of the *Arnold v. Sarn* joint agreement. The state was previously a longstanding defendant in the *Arnold v. Sarn* litigation, which concerned the level of services provided to the Seriously Mentally Ill (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 (ACT) 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 \$61.0 million, including \$31.1 million from the General Fund. The General Fund amounts consist of:

- \$5.6 million for ACT teams.
- \$628,800 for Peer Support Services.
- \$626,800 for Supported Employment.
- \$24.2 million for Supported Housing, which consists of \$12.6 million for rental subsidies and \$11.6 million for support services.

As of April 2019, these funds have provided supportive housing services for 5,505 members, peer support for 6,656 members, and supportive employment services for 1,600 members. Funds additionally support 24 ACT teams. (Maggie Rocker)

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 2019, the department took \$9.8 million in credits. The department paid \$1.1 million for the state match, and received \$8.7 million in net savings. Of the net savings, \$6,800 was for services rendered in FY 2017, \$2.3 million was for services rendered in FY 2018, and \$6.4 million was for services rendered in FY 2019. ADC utilizes the net savings to augment funding for the inmate health care contracted services. (Geoffrey Paulsen)

Summary of Recent Agency Reports (Continued)

Department of Education – Report on Federal Monies for English Learners – Pursuant to A.R.S. § 15-756.10, paragraph 3, the Department of Education (ADE) recently submitted a report that includes an itemized list of all federal monies received by the department for English language learners in FY 2018. ADE received \$13.3 million in federal Title III (Language Instruction for Limited English Proficient and Immigrant Students) funding for FY 2019. Of that amount, approximately \$12.6 million was distributed directly to school districts and charter schools. The remaining \$0.7 million was used for state administration, technical assistance, and to meet federal set-aside requirements for immigrant education. (Steve Schimpp)

JLBC Staff – Public Programs Eligibility Report – As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

Universities – Across the 3 public universities, 177,382 students registered for spring 2019. The universities were able to verify legal citizenship or immigration status of 163,274 students. In addition, 17,615 students did not require verification because they did not request in-state tuition or receive state-supported financial aid. The universities reported no students who were unable to provide required verification of their lawful immigration status/lawful presence in the United States.

Department of Economic Security – Between December 1, 2018 and May 31, 2019, the department reported 6,807 applications for child care assistance. Of those, 13 applications were denied because applicants failed to provide the necessary documentation to meet the criteria for citizenship or legal residency.

Community Colleges – In the spring 2019 semester, 190,134 students were entitled to be classified as in-state by Arizona community colleges. The community colleges reported 229 students were not entitled to classification as an in-state student due to lack of citizenship or lawful presence in the United States. The community colleges received 11,793 individual applications for financial aid funded by state monies. Of those applications, 10 were not entitled to financial aid with state monies because the student was not a citizen or legal resident of the United States or was not lawfully present in the United States.

Department of Education – Between December 2018 and June 2019, the department reported that 8,130 individuals applied for instruction in Arizona Adult Education. Of these applicants, 279 individuals were denied instruction because of failure to provide acceptable evidence of citizenship or legal residence in the United States. All students must provide documentation of legal residency at the time of enrollment. The Arizona Adult Education program is funded with a combination of state and Federal Funds. (Alexis Pagel)

State Treasurer – Report on Expenditures of Interest Earnings – Pursuant to a General Appropriation Act footnote, the State Treasurer submitted a report on expenditures of interest earnings for services pursuant to A.R.S. § 35-315 and 35-318. Expenditures in FY 2018 totaled \$4.3 million and are projected to total \$6.0 million in FY 2019 and \$6.3 million in FY 2020. These costs are paid from General Fund interest earnings. Expenditure categories include: banking service contracts (which make up the bulk of total expenditures), custodial banking services, administration and information technology, payment card industry compliance, external investment management services and investment advisory and support services. The FY 2020 expenditure estimate does not include costs to upgrade the General Ledger software system. Those costs will be reported pursuant to a separate General Appropriation Act footnote after the contract is awarded. [Jeremy Gunderson]

June Spending

June 2019 General Fund spending was \$959.4 million, which is an increase of \$263.8 million above June 2018. Year-to-date, General Fund spending of \$10.68 billion is an increase of \$831.3 million above the prior year. (See Tables 7 & 8).

- The large increase in June spending is mostly due to the deposit of \$271 million of General Fund monies into the Budget Stabilization Fund (BSF). This FY 2019 BSF deposit was included in the enacted budget. The budget also included another \$271 million BSF deposit in FY 2020.
- Year-to-date, Department of Education (ADE) spending has increased by \$474.8 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 Economic Security (DES) spending has increased by \$76.4 million compared to the prior year. The FY 2019 budget included funding for the following: 1) 4% enrollment growth; 2) 3.5% capitation rate increase; and 3) The shift of the Children's Rehabilitative Services (CRS) program from AHCCCS to DES.
- During FY 2019, Department of Corrections (ADC) spending increased by \$31.9 million. This increase is mostly due to 2 issues: 1) Increased retirement costs in the Corrections Officer Retirement Plan (CORP); and 2) Increased health care per diem costs for prisoners in state-run facilities. Funding for both of these items was included in the FY 2019 budget.

Agency	Change From			YTD Change from FY 18
	<u>June 19</u>	<u>June 18</u>	<u>Year-to-Date</u>	
AHCCCS	101.6	(49.5)	1,781.7	15.6
Corrections	86.4	(1.7)	1,098.4	31.9
Child Safety	21.8	(26.9)	341.8	(43.9)
Economic Security	9.4	(11.4)	649.2	76.4
Education	330.1	61.4	4,675.6	474.8
Health Services	6.0	(1.5)	87.8	(1.2)
Public Safety	3.4	0.5	104.5	(6.1)
School Facilities Board	25.1	24.9	299.6	(2.7)
Universities	58.3	(0.4)	725.5	20.8
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Budget Stabilization Fund Deposit	271.1	271.1	271.1	271.1
Other	<u>46.2</u>	<u>(2.7)</u>	<u>557.3</u>	<u>(5.4)</u>
Total	959.4	263.8	10,676.6	831.3

General Fund Spending				
(\$ in Thousands)				
Agency	June 19	Change from June 18	Year-to-Date	YTD Change from FY 18
Dept. of Admin./Automation Projects Fund	1,038.4	(784.9)	14,525.8	(18,128.1)
ADOA – Sale/Leaseback Debt Service	-	-	84,112.0	(3.1)
Office of Administrative Hearings	63.1	5.2	868.9	(2.0)
Commission of African-American Affairs	9.1	(1.3)	119.9	(8.3)
Department of Agriculture	1,055.4	(93.7)	9,877.6	580.7
AHCCCS	101,643.6	(49,489.2)	1,781,702.1	15,604.0
Attorney General	2,228.4	(1,372.6)	25,438.4	(510.2)
State Board of Charter Schools	89.8	(54.9)	1,086.5	8.9
Department of Child Safety	21,763.8	(26,919.6)	341,809.8	(43,901.7)
AZ Commerce Authority	1,791.7	-	21,800.0	-
Community Colleges	12.1	(81.0)	57,244.1	1,967.1
Corporation Commission	120.1	39.0	1,593.9	7.1
Department of Corrections	86,376.3	(1,671.2)	1,098,407.3	31,887.8
County Funding	-	-	20,566.2	4,915.5
AZ State Schools for the Deaf & Blind	743.5	(1,489.0)	20,871.2	(1,830.7)
Office of Economic Opportunity	62.6	20.9	485.7	27.1
Department of Economic Security	9,387.0	(11,392.5)	649,221.3	76,365.2
State Board of Education	81.3	(24.4)	911.9	(166.8)
Department of Education	330,072.5	61,435.1	4,675,627.2	474,787.1
DEMA	988.1	(2,282.1)	7,881.3	(4,744.0)
DEQ – WQARF	-	-	-	(2,823.6)
Office of Equal Opportunity	-	(22.0)	0.1	(190.4)
State Board of Equalization	31.4	(14.1)	437.8	(75.2)
Board of Executive Clemency	98.7	27.6	1,019.7	99.6
Department of Financial Institutions	199.3	(58.5)	1,743.6	(411.5)
Department of Forestry and Fire Management	684.6	92.6	11,550.5	(3,551.3)
Department of Gaming	-	-	1,779.5	-
Governor/OSPB	849.6	46.8	10,212.4	(669.3)
Department of Health Services	5,964.3	(1,465.2)	87,762.2	(1,191.0)
Arizona Historical Society	397.3	(15.7)	3,195.0	15.2
Prescott Historical Society of AZ	59.0	(6.3)	848.6	43.6
Department of Housing	-	(0.0)	-	(246.1)
Independent Redistricting Comm.	-	-	-	(0.8)
Department of Insurance	387.9	(157.9)	5,101.0	(353.0)
Judiciary				
Supreme/Superior Court	3,035.3	261.9	99,567.9	2,562.5
Court of Appeals	1,761.7	398.3	15,992.9	1,318.8
Department of Juvenile Corrections	2,852.6	(155.5)	21,460.4	2,378.9

Table 8 (Continued)

Agency	June 19	Change from June 18	Year-to-Date	YTD Change from FY 18
State Land Department	1,097.4	(240.3)	11,569.6	(435.9)
Legislature				
Auditor General	762.6	953.9	20,603.9	1,085.3
House of Representatives	1,098.1	135.2	14,773.4	918.9
Joint Legislative Budget Comm.	173.1	(4.9)	2,307.4	(80.4)
Legislative Council	677.1	44.8	6,533.9	(38.2)
Senate	721.8	(18.0)	9,708.5	406.8
Mine Inspector	121.4	21.7	1,130.3	(0.5)
Nav. Streams & Adjudication	7.9	(0.9)	119.2	(1.5)
Phoenix Convention Center	-	-	22,996.3	497.3
Comm. for Postsecondary Ed.	-	-	1,646.8	(202.1)
Department of Public Safety	3,410.0	466.7	104,457.8	(6,109.4)
Public Safety Personnel Retirement System	-	-	7,000.0	1,000.0
Radiation Regulatory Agency	-	2.6	-	(784.3)
Real Estate Department	264.5	12.6	2,494.1	(120.0)
Department of Revenue	2,837.6	(1,444.2)	29,058.1	(1,848.5)
School Facilities Board	25,104.8	24,938.5	299,625.5	(2,711.0)
Secretary of State	1,121.6	1,127.1	17,356.6	3,634.4
Tax Appeals Board	20.9	0.1	275.4	(1.9)
Office of Tourism	-	-	7,112.0	-
Department of Transportation	-	-	65.0	65.0
Governor's Office on Tribal Relations	8.8	(12.3)	58.3	1.8
Universities				
Board of Regents	634.2	73.7	6,932.1	56.8
Arizona State University	26,404.0	(281.8)	328,775.8	8,519.2
Northern Arizona University	8,977.6	(73.4)	112,095.7	3,482.9
University of Arizona	22,264.9	(155.0)	277,734.1	8,695.5
Department of Veteran Services	745.2	235.3	6,151.6	441.6
Department of Water Resources	1,963.4	(273.5)	22,959.8	7,750.4
Department of Weights & Measures	-	-	-	1.0
Other - State Treasurer/JP Salaries	32.6	4.9	1,116.7	15.5
Other - Budget Stabilization Fund Deposit	271,107.0	271,107.0	271,107.0	271,107.0
Other	-	-	73.1	(203.8)
Total	959,364.3	263,791.9	10,676,619.3	831,295.7

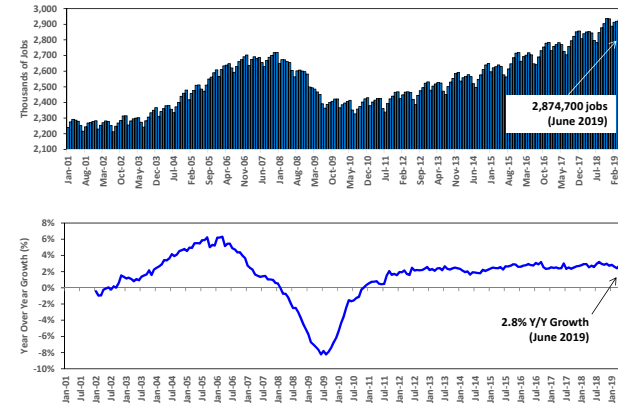
Arizona Economic Trends

July 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

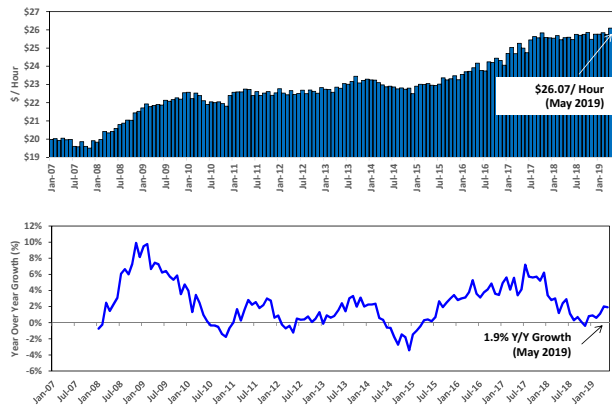
Total Non-Farm Employment



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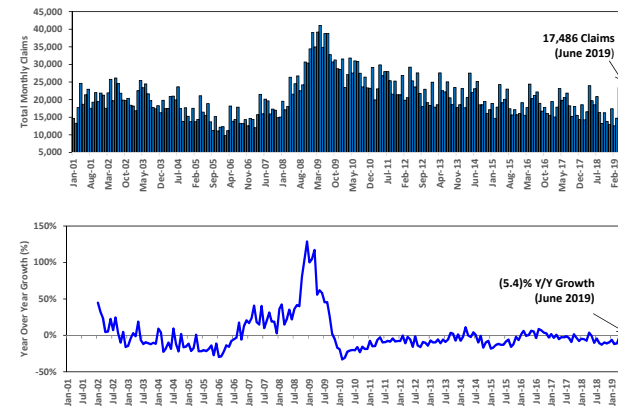
Average Hourly Earnings – Private Sector



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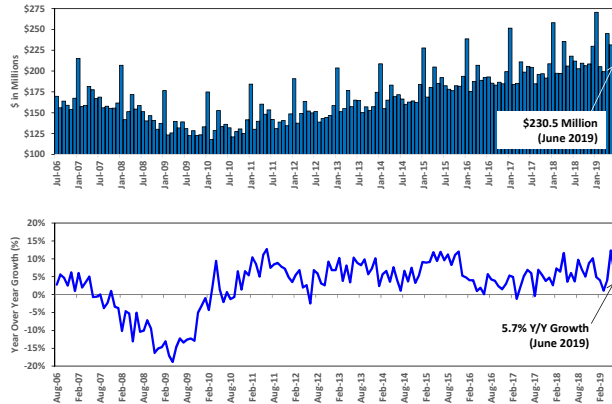
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



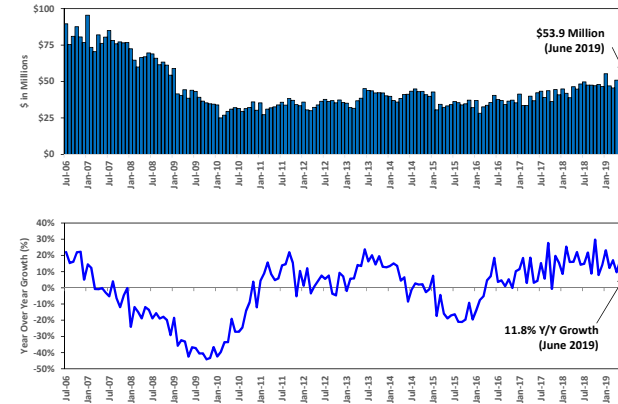
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Excludes temporary 1-cent sales tax

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

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State Sales Tax Collections – Contracting Category

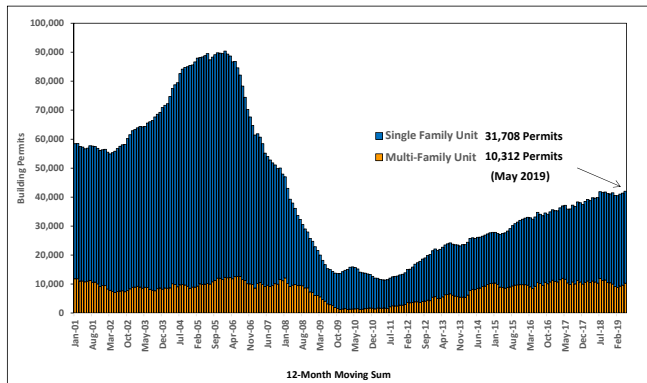


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Excludes temporary 1-cent sales tax

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Residential Building Permits



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