

1716 W. Adams
Phoenix, AZ 85007

Phone:
(602) 926-5491



www.azleg.gov/jlbc.htm

**"Year-to-date
FY 2020
General Fund
revenues are
8.7% above
the prior year
and are \$178.6
million above
the enacted
budget
forecast."**

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on October 21, 2019.

Summary

September General Fund revenues totaled \$1.16 billion and grew by 11.8% during the month. This level of collections was \$119.9 million above the enacted budget forecast.

The strong growth during September occurred in all of the state's large revenue categories.

Sales Tax collections grew by 6.9% and were \$15.0 million above forecast, helped by continued healthy performance in the Retail, Contracting and Restaurant/Bar subcategories. Sales Tax has grown by above 6% each month so far during FY 2020.

With the deposit of quarterly estimated tax payments during the month, September tends to be a larger month for Individual Income Tax (IIT) collections. During September, IIT payments grew by 18.2%, which lead to the overall IIT category growing by 9.9% for the month and ending up \$48.2 million above forecast.

September is also a significant month for Corporate Income Tax (CIT) collections. CIT revenues were 15.8% above the prior year, posting a \$35.2 million gain above the enacted forecast.

Insurance Premium Tax revenues increased by 79.7% during September – however, as noted in the prior *Monthly Fiscal Highlights*,

Insurance Premium Tax (IPT) declined significantly during August due to a timing issue with IPT quarterly tax payments (which are typically processed during August). Because of a timing shift, these IPT payments were collected in September, effectively recouping the loss seen last month for the category.

Operating Balance/BSF Information

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-October 2019 is \$1.96 billion. In addition, the state Budget Stabilization Fund (BSF) currently has a balance of \$1.01 billion.

Year-to-Date Results

Given the significant revenue growth during September, excluding Urban Revenue Sharing and fund transfers, year-to-date FY 2020 General Fund revenues are 8.7% above the prior year and are \$178.6 million above the enacted budget forecast.

As noted during the October FAC meeting, the current year-to-date revenue growth of 8.7% significantly exceeds both the enacted budget forecast (2.1%) and the revised FY 2020 October FAC revenue projection (2.4%).

There is, however, significant uncertainty to how state revenues will perform in the second half of FY 2020. As part of addressing federal tax conformity, substantial tax reductions were

Table of Contents

Summary

- Operating Balance/BSF Information..... 1
- Year-to-Date Results 1
- October FAC Summary..... 2
- September Revenues** 2
- Monthly Indicators** 5
- JLBC Summary** 8
- JCCR Summary**..... 9
- JLBC/JCCR Meeting Follow-Up**..... 10
- Summary of Recent Agency Reports**
- ADOA – Investment Yield Restriction 11
- ADOA – Telecommunications Office..... 11
- AHCCCS – Immigration Status Report 11
- Aud. General – Foster Home Recruitment... 11

- OEO – Annual Report 12
- DES – DD Reimbursement Rates 12
- DES – Child Care Expenditures..... 12
- ADE – Report on District Overrides 12
- JLBC Staff – County Flexibility Report..... 13
- DOR/DOI – Tax Credit Report..... 13
- DOR – Revenue Enforcement Goals 14
- ADOT/ADOA – Vehicle Fleet Report..... 15
- Universities – Report on University Centers... 15
- ABOR – Graduation Rates. 16
- DWR – Interstate Water Banking..... 16
- September Spending** 17
- Arizona Economic Trends** Appendix A

Summary (Continued)

enacted for FY 2020. Given the broad-based tax changes (such as increasing the standard deduction) and that taxpayers are unlikely to actively adjust their withholding, these changes are likely to start impacting state revenues during tax filing season in the spring of 2020, as taxpayers receive larger refunds or owe smaller payments.

We would note, however, that these types of major revisions to the state's income tax code add uncertainty to the forecast and the exact timing of these revenue impacts can be difficult to predict.

October FAC Summary

The Finance Advisory Committee (FAC) met on October 10, 2019 to update its 4-sector revenue forecast. The FAC is a 11-member panel of private and public sector economists and their views serve as one of the 4 equal inputs into JLBC's Consensus revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) models.

The JLBC Staff provided the FAC with a [presentation](#) on updated FY 2020 – FY 2023 budget projections. The updated projections were revised upwards from the FY 2020 enacted budget projections mostly due to the better-than-expected performance of state

revenues during FY 2019. During FY 2019, revenues grew by 10.2% compared to a budgeted level of 7.8%. Given this higher revenue base, JLBC Staff is now projecting the state will have a cash balance of \$694 million in FY 2020.

In terms of calculating the amount of resources available, JLBC Staff presented "planning targets" based on certain parameters. Assuming the state retains \$50 million as an uncommitted cash balance, up to \$170 million is available for ongoing initiatives such as revenue reductions or spending increases. Beyond that amount, \$475 million would be available for one-time purposes, such as capital projects.

These long-term financial projections are subject to several potential risks. One potential risk is litigation, as the state is involved in several lawsuits, including the issues of K-12 capital funding and prison health care. In addition, while the October FAC revenue forecast builds in some caution, it does not specifically include a recession scenario. For more information, please see the [JLBC Staff Budget Update](#) for a narrative description of the current budget projections and the [October FAC meeting packet](#).

September Revenues

	General Fund Revenues (\$ in Millions)		
	FY 2020 <u>Collections</u>	Difference From <u>Budget Forecast</u>	Difference <u>From FY 2019</u>
September	\$ 1,161.8	\$ 119.9	\$ 122.6
Year-to-Date	\$ 2,885.0	\$ 178.6	\$ 129.0

Sales Tax collections of \$445.2 million were 6.9% above September of last year and \$15.0 million above the forecast for the month. Year to date, collections are up by 6.9% and exceed the forecast by \$34.0 million. Sales tax collections by category for September are shown in *Table 2*. The 5 major categories of the state's sales tax shown in the table account for approximately 90% of total collections.

As shown in *Table 2* below, retail, contracting and restaurant/bar sales had strong year-over-year growth in September whereas use tax and utilities sales declined.

	Sales Tax Growth Rates Compared to Prior Year	
	<u>September</u>	<u>YTD</u>
Retail	7.4%	7.0%
Contracting	21.3%	17.8%
Use	(3.8)%	11.9%
Restaurant & Bar	10.5%	7.8%
Utilities	(0.8)%	(5.2)%

September Revenues (Continued)

Individual Income Tax net revenues of \$525.6 million in September were \$48.2 million above the enacted revenue forecast.

As indicated in *Table 3*, September withholding revenues of \$365.6 million were 5.8% above last year and \$5.9 million below the forecast.

September estimated and final payments of \$179.5 million were 18.2% above the prior year and \$43.5 million above forecast.

The amount of refunds in September totaled \$(19.4) million, which is almost unchanged from the \$(19.1) million amount last year. With a forecasted refund level of \$(18.1) million, the higher level of actual refunds produced a forecast loss of \$(1.3) million.

Table 3

**Individual Income Tax Growth Rates
Compared to Prior Year**

	<u>September</u>	<u>YTD</u>
Withholding	5.8%	7.1%
Estimated/Final Payments	18.2%	21.5%
Refunds	1.9%	1.6%

Corporate Income Tax net revenue was \$121.4 million in September and 15.8% above the same month in the prior year. This was \$35.2 million above the forecast for the month. Year to date, net collections are up by 9.5% relative to the same period in the prior year, and \$43.8 million above forecast. Historically, September is the first month in the fiscal year with significant amounts of estimated payments by corporate filers. In terms of corporate net revenue, about 20% of the fiscal-year total is typically collected in September. While the reason for September's larger-than-expected increase in net collections is currently unclear, we believe that the so-called "tax-shifting" effect following the passage of the federal Tax Cuts and Jobs Act (TCJA) at the end of 2017 may explain at least part of this revenue surge.

TCJA lowered the federal corporate tax rate from 35% in Tax Year (TY) 2017 to 21% in TY 2018. This change incentivized corporations to shift their federal taxable income from TY 2017 to TY 2018 so as to take advantage of the lower corporate tax rate. The starting point for state corporate income tax is federal taxable income. Thus, the shifting of federal

taxable income from TY 2017 to TY 2018 benefitted Arizona's corporate income tax in FY 2019 since the state corporate rate did not change. Unlike individual income tax filers, corporate filers often use a fiscal year that is different from the calendar year. In addition, large corporations typically request a 6-month filing extension. This means that the changes under TCJA that took effect in TY 2018 (such as the corporate rate reduction) will continue to affect state corporate income tax collections not only in FY 2019 but also in FY 2020 and FY 2021 depending on when a corporation's fiscal year begins.

Insurance Premium Tax net collections were \$110.4 million in September, \$48.9 million more or 79.7% higher than the same month last year. It was also \$13.9 million above forecast. Through September, insurance premium tax revenue was up by 5.8% and remained \$5.9 million above forecast. September's increase in revenues was caused by recording a significant amount of delayed August payments.

Due to a delay in receiving September **tobacco** and **liquor** tax revenue data, September collections are reported at forecast.

The **Lottery Commission** reports that September ticket sales were \$74.5 million, which is \$0.1 million, or 0.1% above sales in September 2018. Year-to-date, ticket sales are \$233.1 million, or (0.9)% below sales in the prior year.

Highway User Revenue Fund (HURF) collections of \$128.2 million in September were up by 0.4% compared to September of last year and were \$(0.3) million below forecast. Year-to-date, collections have increased by 1.4% above the prior year and are \$(2.7) million below forecast.

Due to delays in reporting final August revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For September, DOR has increased the amount of prior General Fund revenue collections by \$41,600, and the adjustment has been included in the reported year-to-date results.

Table 4

General Fund Revenue: Change from Previous Year and Budget Forecast September 2019

	Current Month					FY 2020 YTD (Three Months)				
	Actual September 2019	Change From September 2018		Enacted Forecast		Actual September 2019	Change from September 2018		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$445,214,178	\$28,746,805	6.9 %	\$14,953,773	3.5 %	\$1,318,009,276	\$84,690,049	6.9 %	\$34,016,772	2.6 %
Income - Individual	525,626,609	47,458,010	9.9	48,206,507	10.1	1,360,793,107	120,273,881	9.7	80,147,090	6.3
- Corporate	121,360,798	16,590,560	15.8	35,220,449	40.9	161,698,104	14,050,801	9.5	43,750,341	37.1
Property	(337,898)	(534,559)	--	(459,403)	--	1,258,984	(190,832)	(13.2)	594,269	89.4
Luxury - Tobacco	1,428,920	(455,800)	(24.2)	0	--	5,313,364	(326,640)	(5.8)	484,392	10.0
- Liquor	2,493,157	(293,457)	(10.5)	0	--	7,885,649	(270,685)	(3.3)	(184,852)	(2.3)
Insurance Premium	110,404,809	48,949,420	79.7	13,853,610	14.3	156,478,781	8,553,216	5.8	5,873,489	3.9
Other Taxes	2,913,796	2,198,451	307.3	2,104,095	259.9	6,623,915	4,305,602	185.7	4,085,980	161.0
Sub-Total Taxes	\$1,209,104,370	\$142,659,430	13.4 %	\$113,879,032	10.4 %	\$3,018,061,179	\$231,085,391	8.3 %	\$168,767,480	5.9 %
<u>Other Revenue</u>										
Lottery	0	(14,835,733)	(100.0)	(2,372,921)	(100.0)	20,000,000	5,164,267	34.8	(4,248,421)	(17.5)
License, Fees and Permits	2,710,564	440,665	19.4	374,975	16.1	9,636,618	984,419	11.4	2,046,726	27.0
Interest	4,665	(1,501)	(24.3)	(154,429)	(97.1)	(5,005)	(1,563,114)	(100.3)	(258,812)	(102.0)
Sales and Services	3,328,614	1,480,558	80.1	686,091	26.0	5,904,999	1,519,063	34.6	917,995	18.4
Other Miscellaneous	1,598,936	(176,363)	(9.9)	1,010,764	171.8	2,781,899	1,372,987	97.5	1,684,328	153.5
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	6,495,873	5,959,211	--	6,495,873	--	13,031,655	7,970,311	157.5	9,701,578	291.3
Sub-Total Other Revenue	\$14,138,653	(\$7,133,162)	(33.5) %	\$6,040,353	74.6 %	\$51,350,167	\$15,447,934	43.0 %	\$9,843,393	23.7 %
TOTAL BASE REVENUE	\$1,223,243,023	\$135,526,269	12.5 %	\$119,919,385	10.9 %	\$3,069,411,346	\$246,533,324	8.7 %	\$178,610,873	6.2 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(61,463,432)	(5,229,729)	9.3	(0)	0.0	(184,390,296)	(15,689,186)	9.3	(0)	0.0
One-Time Transfers	0	0	--	0	--	0	(94,158,056)	--	0	--
Public Safety Transfers	0	(7,702,636)	--	0	--	0	(7,702,636)	--	0	--
Sub-Total Other Adjustments	(61,463,432)	(12,932,365)	26.6 %	(0)	0.0 %	(184,390,296)	(117,549,879)	175.9 %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,161,779,592	\$122,593,904	11.8 %	\$119,919,385	11.5 %	\$2,885,021,050	\$128,983,445	4.7 %	\$178,610,873	6.6 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	128,191,596	517,499	0.4 %	(299,846)	(0.2) %	375,126,326	5,315,454	1.4 %	(2,711,923)	(0.7) %

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 a seasonally adjusted annual rate of 2.0% in the second quarter of 2019. This final estimate remained the same from the preceding preliminary estimate due to decreases in residential investment, inventory investment, and net exports.

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 (6.8)%, or 9.1 points, from August's revised 134.2 to 125.1 in September. Consumer views on trade and tariff tensions caused the decline in September. 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, decreased by 5.1 points, or (13.3)%, in September to a net value of 33.2.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure (PCE) Price Index** remained unchanged from July to August. Compared to August 2018, the overall price index is up by 1.4%. The "core" PCE 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 1.8% in August, which remains below the Fed's inflation target of 2.0%.

Consumer prices, which are measured by the U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)**, did not change in September, reflecting a 1.7% increase above September 2018 prices. The food index rose by 0.1% and the shelter index by 0.3%, but these increases were offset by a (1.4)% decrease in the energy index and a (1.6)% decrease in the index for used cars and trucks. In addition, the gasoline index fell (2.4)%. Core inflation (all items less food and energy) rose 0.1% for the month, and compared to September 2018, the core CPI is up by 2.4%. The index for medical care services rose 0.4%, while the index for apparel fell 0.4% and the index for new vehicles fell 0.1%.

The Conference Board's **U.S. Leading Economic Index** was unchanged in August at 112.2 and is 1.2% above its August 2018 reading. The lack of change was the result of strong numbers from housing permits and the Leading Credit Index (Treasury bill and investor sentiment outlook). This was offset by a weak manufacturing index and interest rate spread.

ARIZONA

Single-family housing construction is increasing. However, the pace of growth has started to decline. In August, Arizona's 12-month total of **single-family building permits** was 31,581, or 3.9% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was a decrease of (3.6)%.

The 12-month total of multi-family building permits has been up and down. In August, Arizona's total of 10,939 **multi-family building permits** was (2.7)% less than in 2018. Nationwide multi-family permits were 4.7% more than in 2018.

Tourism

Revenue per available room was \$63.50 in August, 8.1% above the same month in the prior year.

Ridership through Phoenix Sky Harbor Airport during August increased 2.2% above the prior year.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state added 21,900 **nonfarm jobs** in September compared to the prior month. This was less than the 10-year average job gain of 28,500 for the month of September.

Compared to the same month in the prior year, Arizona added 65,000 net new jobs in September, which is a year-over-year increase of 2.3%. This is the slowest employment growth rate since July 2017. The largest year-over-year job gains in September came from the following industries: Construction (+16,800), Education and Health Services (+16,300), and Manufacturing (+8,900). The only major sector that had a net loss of jobs in September was the government sector, which shed (1,600) jobs. Year-over-year, government employment growth is down by (0.4)%.

In September, the state's regular **unemployment rate** decreased from 5.0% to 4.9%. In September 2018, the jobless rate was 4.8%. The state jobless rate has remained essentially unchanged over the last 6 months. The U.S. unemployment rate declined from 3.7% in August to 3.5% in September, the lowest jobless rate since December 1969.

According to OEO, the state had a total of 22,908 **claimants receiving unemployment insurance benefits** in September, a decrease of (10.2)% from August. This figure is (6.1)% below the September 2018 level.

Monthly Indicators (Continued)

OEO reported that 15,415 **initial claims for unemployment insurance** were filed in September, an increase of 16.5% compared to the same month last year. This is the first year-over-year increase in initial claims in 17 months.

Average Hourly Earnings

The **Average Hourly Earnings** received by private sector workers in August was \$26.54, which was 0.8% above the average in the prior month. Year-over-year growth in earnings increased from 2.2% in July to 3.3% in August.

Arizona Personal Income

According to the U.S. Department of Commerce Bureau of Economic Analysis, Arizona personal income increased at a seasonally adjusted annual rate of 6.3% from the first quarter to the second quarter of 2019. Arizona's growth rate was the sixth highest in the nation and was 0.9% above the U.S. personal income growth rate of 5.4%.

State Agency Data

At the beginning of October 2019, the total **AHCCCS caseload** was 1.84 million members. Total monthly enrollment increased by 0.1% for October and was 1.5% higher than a year ago. Parent and child enrollment in the Traditional population was flat for October and was (0.1)% lower than a year ago.

Enrollment in KidsCare is 36,050 for October, which represents 1.7% growth compared to September and is 6.0% above last year.

For October 2019, growth in the childless adult population was 0.7%. At 331,438, this population is 6.6% higher than a year ago.

In the adult Medicaid expansion program up to 133% of the Federal Poverty Level, enrollment increased 1.0% for October and totals 77,568 individuals. Enrollment is 0.9% higher than a year ago.

Based on information the Department of Child Safety provided for August 2019, **reports of child maltreatment** totaled 46,244 over the last 12 months, a decrease of (2.1)% over the prior year. There were 14,156 **children in out-of-home care** as of July 2019, or (1.3)% less than in July 2018. Compared to the prior month, the number of out-of-home children decreased (1.3)%

The Arizona Department of Correction's **inmate population** was 42,594 as of September 30, 2019. This was an increase of 0.3% since August 31, 2019 and a 1.2% increase since September 2018.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County **probation caseload** was 27,825 as of June 2019. This was a decrease of (296) below the prior month, and a decrease of (610) since last June. In addition, the state's non-Maricopa County probation caseload was 19,283. This was an increase of 11 above the prior month, and an increase of 27 since last June. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

There were 13,448 **TANF Cash Assistance recipients** in the state in August, representing a 3.0% monthly caseload increase from July. The year-over-year number of TANF Cash Assistance recipients has declined by (6.9)%. 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 August, 822,868 people received food stamp assistance in the state, representing a 0.4% increase above July caseloads. Compared to August 2018, the level of food stamp participation has declined by (3.4)%.

Table 5

MONTHLY INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	September	4.9%	(0.1)%	0.1%
- Total Unemployment Rate (discouraged/underemployed)	2nd Q 2019	9.2%	0.2)%	0.1%
- Initial Unemployment Insurance Claims	September	15,415	(1.7)%	16.5%
- Unemployment Insurance Recipients	September	22,908	(10.2)%	(6.1)%
- Non-Farm Employment - Total	September	2,942,000	0.7%	2.3%
Manufacturing	September	180,100	(0.2)%	5.2%
Construction	September	177,800	1.0%	10.4%
- Average Hourly Earnings, Private Sector	August	\$26.54	0.8%	3.3%
<u>Building</u>				
- Residential Building Permits (12-month avg) Single-family	August	31,581	(0.3)%	3.9%
Multi-family	August	10,939	3.5%	(2.7)%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	August	5,475	(14.1)%	6.8%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	August	\$294,000	1.4%	5.0%
- Phoenix S&P/C Home Price Index (2000 = 100)	July	194.06	0.7%	5.8%
- Maricopa Pending Foreclosures	August	2,325	(0.9)%	(8.9)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	17,492	(2.9)%	(11.8)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	August	3,651,884	(4.7)%	2.2%
- State Park Visitors	June	312,634	9.2%	12.3%
- Revenue Per Available Hotel Room	August	\$63.50	(0.1)%	8.1%
<u>General Measures</u>				
- Arizona Leading Index – 6-month projected growth	August	2.5%	(0.9)%	0.0%
- Arizona Personal Income, SAAR	2nd Q 2019	\$335.1 billion	6.3%	6.3%
- 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	October 1st	1,844,204	0.1%	1.5%
Acute Care Traditional		1,033,223	0.0%	(0.1)%
Prop 204 Childless Adults		331,438	0.7%	6.6%
Other Prop 204		187,215	(0.2)%	1.5%
Adult Expansion		77,568	0.1%	0.9%
KidsCare		36,050	1.7%	6.0%
Long-Term Care – Elderly & DD		66,196	0.3%	4.8%
Emergency Services		112,514	(0.4)%	(0.4)%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	August	46,244	0.1%	(2.1)%
DCS Out-of-Home Children	July	14,156	(0.3)%	(1.3)%
Filled Caseworkers (1406 Budgeted)	July	1,293	21	(47)
- ADC Inmate Growth	September	42,594	0.3%	1.2%
- Department of Economic Security				
- TANF Cash Assistance Recipients	August	13,448	2.9%	(6.94)%
- SNAP (Food Stamps) Recipients	August	822,868	0.4%	(3.4)%
- Judiciary Probation Caseload				
Non-Maricopa	June	19,283	11	27
Maricopa County	June	27,825	(296)	(610)
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	2nd Q, 2019 (3rd Estimate)	\$19.0 trillion	2.0%	2.3%
- Consumer Confidence Index (1985 = 100)	September	125.1	(6.8)%	(7.5)%
- Leading Indicators Index (2016 = 100)	August	112.1	0.0%	1.1%
- Consumer Price Index, SA (1982-84 = 100)	September	256.4	0.0%	2.4%
- Personal Consumption Expenditure Price Index (2012 = 100)	August	110.0	0.0%	1.4%

JLBC Summary

At its September 25, 2019 meeting, the Joint Legislative Budget Committee considered the following issues:

Executive Session

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

Regular Agenda

AHCCCS/Department of Economic Security – Review of Capitation Rate Changes for Plan Year 2020 – The Committee gave an unfavorable review of AHCCCS' plans to adjust capitation rates for numerous programs. In aggregate, the AHCCCS rate adjustments are 5.0%. These adjustments would have a General Fund cost of \$54.0 million. The enacted budget included \$30.0 million for AHCCCS formula expenses or (\$24.0) million less than the cost of AHCCCS' proposed rates.

Arizona Department of Administration/Automation Projects Fund – Review of FY 2020 Projects – The Committee gave a favorable review of \$12.3 million in expenditures for 5 projects. The favorable review included reporting requirements. The 5 projects include:

- Business One-Stop Shop portal, \$1.0 million
- Department of Agriculture IT upgrade feasibility study, \$200,000
- DCS CHILDS project implementation, \$8.5 million
- Arizona Medical Board cloud migration, \$300,000
- DPS Criminal Justice Information System upgrade, \$2.3 million

Arizona Department of Corrections – Review of FY 2020 First Quarter Correctional Officer Staffing Report – The Committee gave a favorable review of ADC's first quarter report. Of 1,290 vacant correctional officer positions, ADC proposes filling 812 of them by June 2019. Through August 26, ADC has a net decrease of (74) officers. The favorable review included additional reporting requirements.

Arizona Department of Education – Review of K-12 Broadband Connectivity Projects – The Committee gave a favorable review to ADE's June 2019 report on K-12 broadband connectivity projects. ADE certified \$11 million of state matching contributions to draw down approximately \$130 million in federal monies to fund projects in FY 2018 and FY 2019. The favorable review included reporting requirements.

Universities – Review of FY 2020 Tuition Revenues – The Committee gave a favorable review of the Arizona Board of Regents' FY 2020 expenditure plan for all projected tuition and fee revenues by expenditure category. The gross FY 2020 tuition and fee collections are projected to be \$3.29 billion, or \$217.6 million higher than FY 2019. The universities estimate \$(851.1) million in tuition waivers and awards in FY 2020, resulting in \$2.44 billion of net tuition.

Consent Agenda

Department of Child Safety – Review of FY 2019 Fourth Quarter Benchmarks – The Committee gave a favorable review of the department's FY 2019 fourth quarter benchmark report for assessing progress made in increasing the department's number of FTE Positions, meeting caseload standards of caseworkers, reducing the number of backlog cases and open reports, and reducing the number of children in out-of-home care.

Arizona Department of Corrections – Review of FY 2019 Bed Capacity Report – The Committee gave a favorable review of ADC's bed capacity report. At the end of FY 2019, ADC has a permanent bed shortfall of (3,440), but including temporary beds has an overall surplus of 2,779. ADC does not plan to add any permanent or temporary beds in FY 2020. Instead, ADC expects to reallocate existing beds between custody levels to address population needs.

Arizona State Parks Board – Review of FY 2020 Arizona Trail Expenditure Plan – The Committee gave a favorable review of the department's FY 2020 expenditure plan including 8 maintenance projects covering a total of 80 miles of the Arizona Trail. ASPB is using the \$250,000 appropriation from FY 2020 and \$225,000 in local and community funding for total funding of \$475,000.

Department of Public Safety – Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount – The Committee gave a favorable review for the expenditure plan of \$1.1 million of the \$2.4 million appropriation for Border Security and Law Enforcement Grants as proposed by the department. Six County Sheriffs will receive funding from the program, which is down from the 7 that were funded last year.

Department of Veteran's Services – Review of Veterans' Suicide Prevention Program – The Committee gave a favorable review of the expenditure report relating to the Veteran's Suicide Prevention line item as well as the status of non-state matching funds. The favorable review included reporting requirements.

JCCR Summary

At its September 25, 2019 meeting, the Joint Committee on Capital Review considered the following issues:

Regular Agenda

Arizona Department of Corrections – Review of FY 2020 Building Renewal Allocation Plan – The Committee gave a favorable review to ADC's \$6.9 million plan for 13 building renewal projects at 7 state prison facilities. These monies were appropriated from the Department of Corrections Building Renewal Fund. Reviewed projects include: locking systems, air conditioning and duct work, electrical infrastructure, roof replacements, well motor/pump projects, and gas line replacements. The favorable review included provisions with reporting requirements.

Arizona State University – Review of Downtown Phoenix Residence Hall and Entrepreneurial Center – The Committee gave a favorable review of ASU's plan for a 0.82-acre ground lease and \$116.1 million residence hall and entrepreneurial center at the Downtown Phoenix Campus. Of the \$116.1 million, the vendor would fund \$66.5 million for 532 beds (and be repaid with dorm fees). ASU would issue \$49.6 million in system revenue bonds for the entrepreneurial space. The review included the standard university financing provisions.

Arizona State University – Review of Downtown Phoenix Thunderbird School of Global Management Building – The Committee gave a favorable review of \$37.0 million in system revenue bond issuances to fund construction of the Thunderbird School of Global Management's building on the Downtown Phoenix Campus. Total project costs are \$67.0 million, of which \$37.0 million would be funded by system revenue bonds and \$30.0 million from campus sale proceeds. The favorable review included the standard university financing provisions.

Arizona State University – Consider Approval of Interdisciplinary Science and Technology Building (ISTB) 7 Financing Project – The Committee approved a \$17.0 million increase in the bond issuance for construction of the Interdisciplinary Science and Technology Building (ISTB) 7. At its September 2018 meeting, the Committee approved Arizona State University's request of a \$175.0 million bond issuance for construction of ISTB 7, making the total project cost \$192.0 million. ISTB will include lab space for biological sciences, computing and engineering. Debt service will be paid

with 50% tuition and 50% with Capital Infrastructure Fund appropriations. The approval included the standard university financing provisions.

Northern Arizona University – Review of Student Athlete High Performance Center Indirect Financing Project – The Committee gave a favorable review of a \$46.0 million indirect financing project for construction of a 70,000 square foot Student Athlete High Performance Center (SAHPC). The SAHPC will be focused on providing wellness and development for Northern Arizona University (NAU) student athletes and educational opportunities for NAU students. The debt service will be paid through student athletic fee revenue, gifts, and general university funds. The favorable review included the standard university financing provisions.

Consent Agenda

Department of Emergency and Military Affairs – Review of West Valley Readiness Center – The Committee gave a favorable review of \$15.5 million for construction of a West Valley Readiness Center. These monies include \$3.9 million from the General Fund and \$11.6 million from Federal Funds. The favorable review included provisions with reporting requirements.

Arizona Game and Fish Department – Review of FY 2020 Building Renewal Allocation Plan and FY 2020 Capital Projects – The Committee gave a favorable review of \$1.4 million for 25 items in the department's FY 2020 building renewal allocation plan, \$300,000 for fish hatchery property maintenance, \$150,000 for dam maintenance, \$400,000 for hatchery maintenance, and \$525,000 for 2 non-appropriated capital improvement projects. The favorable review included provisions with reporting requirements and a provision restating a statutory requirement for spending from the Headquarters Major Maintenance Fund.

Northern Arizona University – Review of FY 2020 Capital Improvement Plan for One-Time Appropriation – The Committee gave a favorable review of \$5.0 million for capital improvement projects. These monies are part of a \$6.65 million one-time appropriation to NAU in FY 2020. The monies will be used for 2 projects: \$1.0 million for underground utility infrastructure improvements and \$4.0 million for academic building improvements. The favorable review included a standard university financing provision.

JCCR Summary (Continued)

Pima Community College District – Review of Pima Aviation Technology Center Expansion – The Committee gave a favorable review of a \$19.3 million project to expand the Pima Aviation Technology Center (ATC). These monies include \$15.0 million from the General Fund and \$4.3 million in Pima Community College District revenues. The favorable review included provisions with reporting requirements.

Department of Public Safety – Review of Radio Communications Tower Project – The Committee gave a favorable review of \$309,000 for the construction of a radio communications tower along the South Mountain Loop 202 extension. These monies were appropriated from the Board of Fingerprinting Fund in FY 2020.

Arizona Department of Transportation – Review of FY 2020 Building Renewal Allocation Plan – The Committee gave a favorable review of \$13.3 million for the Arizona Department of Transportation's (ADOT) FY 2020 building renewal allocation plan. These monies included \$13.0 million from the State Highway Fund and \$281,700 from the State Aviation Fund. Reviewed projects include: remodeling, safety improvements, compliance and roofing replacements. The favorable review included provisions with reporting requirements.

JLBC/JCCR Meeting Follow-Up

Arizona Department of Corrections – Report on ADC Fire Watch and Prison HVAC Needs – Pursuant to Committee provisions from the June 2019 JCCR meeting, the Department of Corrections (ADC) submitted a report detailing the costs of using a 24-hour fire watch due to inoperable fire systems. The report also included a list of the state prisons that currently use direct evaporative cooling and the cost to upgrade to indirect evaporative cooling.

According to ADC, the department does not incur any additional costs from the 24-hour fire watch since existing correctional officers on post have taken on the responsibility in addition to their normal duties. Additionally, ADC reports that all 10 prisons have some level of inoperable fire systems, ranging from 50% to 95% of the complex. ADC estimates the cost to replace the inoperable fire systems would be \$95.7 million.

ADC also reports that all 10 state prison facilities have direct evaporative cooling. ADC estimates the cost to replace the systems with indirect evaporative cooling would be \$114.9 million. (Geoffrey Paulsen)

Department of Education – Achievement Testing – Pursuant to a provision from the September 2018 JLBC meeting, the Arizona Department of Education (ADE) has reported on the status of all contracts for the statewide assessment and menu of assessments, including exam vendors, pricing agreements, and an estimate of the number of students taking each exam in FY 2020. *Table 6* below provides this information for each test, which ADE estimates will have costs totaling to \$12.6 million in FY 2020. The \$12.6 million is in addition to the cost of the statewide assessment (AzMERIT), which ADE previously reported to the Committee at its June 2019 meeting would cost \$12.9 million in FY 2020, bringing total achievement testing costs to \$25.5 million for FY 2020. (Patrick Moran)

Table 6

<u>Test</u>	<u>Vendor</u>	<u>Number of Test</u>		<u>Cost per Student</u>	<u>Total Cost</u>
		<u>Takers</u>			
Menu of Assessments	ACT	65,000		\$38.00	\$2,470,000
AIMS Science	Pearson	265,000		\$7.93	\$2,101,700
AZELLA	Pearson	125,000		\$48.63	\$6,078,700
MSAA	Cognia	6,800		\$250.00	\$1,700,000
AIMS A Science	In-House	3,000		\$66.67	\$200,000

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Investment Yield Restriction – Pursuant to A.R.S. 41-707, the Arizona Department of Administration (ADOA) is required to annually report by October 1 of each year any costs associated with the Investment Yield Restriction requirement for the tax-exempt deficit financing used to solve the FY 2010 budget shortfall. This restriction limits the investment return on the state's operating balance to the interest rate paid on the outstanding tax-exempt financing. The state is required to restrict the yield on investments with a value equal to the current level of outstanding financing.

ADOA reported that during FY 2019 there were no costs associated with meeting the Investment Yield Restriction requirements. ADOA stated the requirements have not reduced the yield of investments and there have been no penalties paid to the federal government. (Josh Hope)

Arizona Department of Administration – Report on the Telecommunications Program Office - Pursuant to A.R.S. § 41-712, the Arizona Department of Administration (ADOA) submitted its annual report on the Telecommunication Program Office (TPO), including the current rate structure of telecommunications charges, and payments made by all AZNet 2 participants for FY 2019 and FY 2020. AZNet 2 participants pay a variety of fees for different purposes, including a third-party vendor to operate and maintain the system, a separate third-party vendor who aggregates an agency's bills and manages expenses, as well as an amount paid to TPO for their administration of the system as a whole. In FY 2019, total charges paid by all entities were \$37.9 million. In FY 2020, the estimated total charges paid by all entities is \$43.6 million.

Pursuant to A.R.S. § 41-713, ADOA additionally submitted their annual report on the Telecommunication Fund, which includes the sources and uses of received monies, for FY 2019, as well as estimates for FY 2020. The Telecommunication Fund primarily consists of monies paid by agencies, as well as other AZNet 2 participants, to TPO to administer the system as a whole. In FY 2019, the Telecommunication Fund received \$1.8 million from AZNet 2 participants to administer the system. In FY 2019, the Telecommunication Fund is also estimated to receive \$1.8 million from AZNet 2 participants to administer the system, although ADOA is appropriated \$1.6 million from the fund in FY 2020 to administer the program. (Rebecca Perrera)

AHCCCS – Report on Title XIX Reimbursement Rates to Behavioral Health Providers – Pursuant to A.R.S. § 36-3403, AHCCCS must contract with an independent consulting firm to report on the adequacy of Title XIX reimbursement rates to behavioral health providers on or before October 1 of each year.

The report concludes that behavioral health provider reimbursement rates are "marginally adequate" in the State of Arizona, as most providers who responded to the survey indicated they are accepting new AHCCCS patients with a 2-week wait period. However, the report proposes an increase of 23.1% for Fee-For-Service (FFS) behavioral health outpatient service rates. This is based on the finding that MCOs often reimburse providers at a higher rate than the FFS fee schedule for behavioral health outpatient services. For reference, 6 of the 7 contracted MCOs pay at or above FFS fee schedule rates, with 3 paying above fee schedule rates for all categories. As a result, AHCCCS will not update the capitation rates paid to its contracted health plans to reflect adjustments to the FFS schedule. (Maggie Rocker)

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

AHCCCS, in conjunction with the Department of Economic Security (DES), performed 22,463 verifications of immigration status in FY 2019. During this period, AHCCCS and DES referred 20 individuals (18 citizens, 2 non-citizens) for prosecution for fraudulent schemes, prohibited acts, theft, or forgery. AHCCCS and DES identified one fraudulent immigration case using the SAVE program during FY 2019. (Maggie Rocker)

Auditor General – Report on Foster Home Recruitment and Retention – Pursuant to the FY 2018 Human Services Budget Reconciliation Bill (Laws 2017, Chapter 311), the Auditor General reported on the Department of Child Safety's (DCS) practices for recruiting, licensing, using and retaining foster parents. The Auditor General made the following findings:

- DCS' licensing standards for foster homes are generally consistent with model standards from the U.S. Department of Health and Human Services.

Summary of Recent Agency Reports (Continued)

- The department placed children in non-relative foster homes at lower rates than the national average, but exceeded the national average for placement rates with relatives. State law establishes a preference for placement with relatives.
- DCS uses data to estimate its foster home recruitment needs, which is consistent with best practices, but still needs additional homes for specific groups, such as teenagers and large sibling groups.
- Foster parents have consistently reported that customer service and lack of information about children in their care are areas where there is room for improvement.
- Inadequate handling of inquiries by the department and its contractors from prospective foster parents, particularly for Spanish-speaking parents, may hinder foster home recruitment efforts.

The report recommended that DCS adopt a customer service model, provide foster parents with complete information packets, and implement procedures to ensure contractors and the department adequately handle intake in English and Spanish, among other recommendations. DCS agreed to the auditors' recommendations. (Patrick Moran)

Office of Economic Opportunity – Report on Revenues, Expenditures, and Program Activity – Pursuant to A.R.S. § 41-5356(B), the Arizona Industrial Development Authority (AZIDA), operating under the Arizona Finance Authority, submitted its annual report on its financial activity from the previous fiscal year. The agency reported \$14.1 million in revenue, of which \$6.2 million was from bond financing fees and \$7.9 million was from single family mortgage lending fees. Expenses totaled \$6.1 million, leaving net operating income at \$8.0 million for FY 2019.

It used revenues to provide \$45.3 million in down payment assistance via 0% interest loans that are forgivable after 3 years. Additionally, AZIDA issued a total of \$1.4 billion in bonds for a total of 26 projects for FY 2019. The bonds were utilized to finance 16 education projects, 6 multifamily housing projects, 2 health care projects, and 2 infrastructure projects. (Elliot Chau)

Department of Economic Security – Report on Reimbursement Rates for Developmental Disabilities Programs – Pursuant to A.R.S. § 36-2959, the Department of Economic Security (DES) reported on its annual study performed by an independent consulting firm of the adequacy and appropriateness of Medicaid reimbursement rates for service providers

that contract with the Division of Developmental Disabilities (DDD). The main findings of the report were as follows:

- The number of service providers increased from 548 in FY 2018 to 566 in FY 2019, a 3% increase.
- The average number of services used per user decreased by (2.0)% between FY 2018 and 2019.
- Total payments to providers for all providers increased by approximately 5.0% in FY 2019 compared to FY 2018.
- The consultant concludes that providers are facing challenges in retaining quality employees due to Proposition 206 and Proposition 414 minimum wage increases, citing wage compression and increased labor and benefits costs as sources of pressure for providers.
- The report also analyzed "unassigned service authorizations" or cases where a service has been recommended for a DD member but a provider has yet to be identified. The services with the most unassigned authorizations were therapies (960), respite (264), and habilitation (216). (Elizabeth Dagle)

Department of Economic Security – Report on Annual Child Care Expenditures – A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The FY 2019 report shows that the average number of children served increased to 30,487, or 2.0% above FY 2018; the number of families served increased by 3.1%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) increased by 18.1%, child welfare-related placements decreased by (11.4)%, the number of Temporary Assistance for Needy Families-related children decreased by (12.8)%, and the number of children receiving transitional child care decreased by (9.1)%. The wait list for child care subsidies decreased from 6,745 at the beginning of FY 2018 to 738 at the beginning of FY 2019. Currently, all eligible families are able to receive child care services immediately.

The amount spent by DES on child care subsidies increased to \$142.5 million, an increase of 6.2% from FY 2018. The average monthly subsidy paid per child increased 4.1% to \$389.53. The total amount of co-payments collected increased by 23.5% from FY 2018 to \$7.5 million. (Elizabeth Dagle)

Department of Education – Override Report – Pursuant to A.R.S. § 15-249.04, the Arizona Department of Education (ADE) has reported FY 2020 data on school district budget overrides. Overrides permit school

Summary of Recent Agency Reports (Continued)

districts to generate and spend additional monies from local property taxes if approved by voters.

The ADE report for FY 2020 indicates that 93 districts have Maintenance and Operation (M&O) overrides pursuant to A.R.S. § 15-481 and 27 have “District Additional Assistance” overrides pursuant to A.R.S. § 15-481 for the current fiscal year. The total amounts budgeted for overrides for FY 2020 include \$554.9 million for M&O overrides (up \$24.2 million from FY 2019) and \$88.9 million for District Additional Assistance overrides (up \$3 million from FY 2019). (Steve Schimpp)

JLBC Staff – County Flexible Revenue Report – The FY 2020 Revenue Budget Reconciliation Bill (BRB) (Laws 2019, Chapter 272) permits counties with a population under 250,000 persons according to the 2010 Census to use any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2020, but limits this authority to no more than \$1,250,000 used for purposes other than the purpose of the revenue source. The FY 2020 Revenue BRB requires counties to report on their use of this provision.

Of the 12 eligible counties, 4 reported using the flexibility:

- Apache County: \$1.25 million from the Community College District, Library District, Flood District, and Public Health District to the General Fund and Jail District for law enforcement and Jail District operations. Apache County utilized \$1.25 million last year.
- Coconino County: \$1.25 million from the Jail District to the General Fund to pay down the Public Safety Personnel Retirement System (PSPRS) debt and pay for information technology needs for the Sheriff’s Department. Coconino County did not utilize the flexibility last year.
- La Paz County: \$1.25 million from the Vehicle License Tax to the General Fund to pay down PSPRS debt and pay for general operating expenses. La Paz County did not utilize the flexibility last year.
- Navajo County: \$1.0 million from the Flood Control District and Library District to the General Fund for operating expenses. Navajo County utilized \$1.25 million last year.

Last year, 2 eligible counties reported utilizing a total of \$2.5 million of flexibility.

The following 5 counties indicated that they are not utilizing this provision: Gila, Graham, Mohave, Santa Cruz, and Yavapai. The following 3 counties did not respond: Cochise, Greenlee, and Yuma. (Josh Hope)

Department of Revenue/Department of Insurance – Report on Tax Credits

DOR – Income Tax Credits

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

The agency reported that just over 1.7 million credit claims, totaling \$520.8 million, were claimed against the individual income tax in FY 2019. This is a dollar impact growth of 10.0% over the prior year. Of the total, the “income taxes paid to other states” credit accounted for \$186.5 million, school tuition organization credits accounted for \$126.3 million, the charitable and foster care contributions credits accounted for \$93.2 million, and the public school extracurricular activity fee credit accounted for \$45.3 million. Use of other credits, including the Proposition 301 Sales Tax Credit, totaled \$69.5 million. The number of claims and dollar impact of credits are listed in *Table 7* below.

Credits:	# of Claims	Annual Cost
Income Taxes Paid to Other States	80,087	\$186.5
School Tuition Organizations	151,005	126.3
Contributions to Charitable and Foster Care Organizations	205,379	93.2
Public School Contributions	165,817	45.3
Prop 301 Sales Tax Credit	548,638	26.3
Other Credits	<u>570,897</u>	<u>43.2</u>
Total Value of Credits	1,721,823	\$520.8

The Department of Revenue reported that taxpayers used a total of \$99.0 million in corporate income tax credits in FY 2019, a dollar impact decline of (22.9)% from the prior year. Of the total amount used, \$46.4 million was for research and development credits and \$20.6 million was for school tuition organization credits. Use of other credits, including credits for renewable energy production, totaled \$21.6 million in FY 2019. The number of claims and dollar impacts of credits are listed in *Table 8* below.

Summary of Recent Agency Reports (Continued)

Table 8

FY 2019 Corporate Income Tax Credits (\$ in millions)

Credits:	# of Claims	Annual Cost
Research and Development ^{1/}	428	\$46.4
School Tuition Organizations	106	20.6
New Employment	34	10.4
Other Credits	38	21.6
Total Value of Credits	606	\$99.0

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

DOI – Insurance Premium Tax Credits

Pursuant to A.R.S. § 20-224I, the Department of Insurance submitted its annual report on the amounts of insurance premium tax credits used in the previous fiscal year. The agency reports that a total of \$40.9 million in insurance premium tax credits were used in FY 2019. Of this amount, \$30.4 million consists of credits earned for donations made by insurance companies to private school tuition organizations that provide scholarships to children of low-income families or to children with disabilities. The dollar impacts of the specific credits are listed in *Table 9* below.

Table 9

FY 2019 Insurance Premium Tax Credits (\$ in millions)

Credits:	Annual Cost
Private School Tuition Organization - Low Income Students ^{1/}	\$26.9
New Employment	4.8
Health Insurance Premium ^{2/}	3.8
Private School Tuition Organization - Disabled/Displaced Students ^{3/}	3.5
Insurance Guaranty Fund	1.9
Total Value of Credits	\$40.9

^{1/} Credit was capped at \$89.2 million in FY 2019 between corporate and insurance premium taxpayers.

^{2/} Credit is capped at \$5.0 million annually.

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

(Elliot Chau/Jeremy Gunderson)

Department of Revenue – Report on Annual

Enforcement Goals – Pursuant to 2 General Appropriation Act footnotes, the Department of Revenue (DOR) is required to report on their FY 2020 revenue enforcement goals, provide an annual progress report to the JLBC on the effectiveness of the department's overall enforcement and collections program for FY 2019, and to report on the amount of Transaction Privilege Tax (TPT) delinquent accounts.

In FY 2019, DOR's total enforcement goal was \$650.5 million but they actually collected \$743.5 million. DOR's FY 2020 goal for enforcement collections is \$670.0 million.

Compared to actual FY 2019 total enforcement revenue, DOR's FY 2020 goals consist of:

- A decrease in audit revenue of \$(54.9) million, or (37.6)%.
- A decrease in accounts receivables revenue of \$(25.5) million, or (10.4)%.
- An increase in collections revenue of \$6.8 million, or 1.9%.

Audit enforcement revenue includes revenue due to DOR's auditing of taxpayer returns, and finding and licensing unlicensed businesses. Accounts Receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR's collectors to work on other accounts. After certain periods of time, unpaid taxpayer accounts are moved from Accounts Receivable to DOR's Collections section.

The above figures represent total enforcement revenues, which include state, county and municipal (city/town) taxes. The FY 2020 General Appropriation Act required DOR to separately delineate enforcement revenue for these types of taxes. DOR reported estimates for these categories, which allocates the \$743.5 million in total enforcement revenue as follows:

- \$467.8 million in General Fund tax revenue
- \$145.1 million in municipal taxes
- \$36.3 million in county taxes
- \$55.6 million in state-shared revenue
- \$38.7 million in other state revenue

At the end of FY 2019, there were 500,991 delinquent TPT accounts, totaling \$534.5 million, of which 31.5% of these cases had been delinquent for more than 2 years. Additionally, DOR reports that \$15.7 million in delinquent accounts were written off as uncollectible in FY 2019. (Jeremy Gunderson)

Summary of Recent Agency Reports (Continued)

Arizona Department of Transportation/Arizona Department of Administration – State Motor Vehicle Fleet Transition Report – Pursuant to Laws 2019, Chapter 267, the Arizona Department of Transportation (ADOT) and the Arizona Department of Administration (ADOA) reported on the suggested legislative changes required to fully implement the transition of the state fleet operations and infrastructure from ADOA to ADOT. The agencies recommend that 3 statutes be repealed and redrafted into a new motor vehicle fleet article. The agencies also recommend conforming changes to 3 additional statutes. ADOT and ADOA further recommend session law to authorize one-time transfers of personal and real property, provide for rules, and add a retroactive effective date of July 1, 2020. Laws 2019, Chapter 627 required a report on the transitioning of operations of the state fleet from ADOA to ADOT. The report did not provide details on progress the agencies have made transitioning the operations. (Jordan Johnston)

Universities – Report on University Centers – In conjunction with an ongoing appropriation, the FY 2019 General Appropriations Act requires Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) to operate Center's and report on each of the Center's 1) total funding; 2) faculty and courses; 3) student enrollment; and 4) community events, initiatives, and publications.

Arizona State University – The FY 2020 General Appropriation Act appropriated \$3.0 million to ASU to operate the School of Civic and Economic Thought and Leadership (SCETL). The SCETL reports total available funds of \$7.6 million in FY 2020. This includes the \$3.0 million FY 2020 General Fund appropriation, a \$3.9 million carryover from FY19, \$500,000 from the President's strategic initiative Fund, and \$277,000 from donor support. ASU reports that operation costs for the school in FY 2020 are \$900,000, including a \$426,000 renovation of space dedicated to the school.

During FY 2019, the SCETL had 11 faculty members who were collectively responsible for teaching 40 courses. The SCETL reports 351 students enrolled in courses taught by the school or who are enrolled in a major/minor offered by the school in FY 2019.

In FY 2019, the SCETL supported internships in Africa, Belize, Israel, and India; along with Global Intensive Experience (GIE) courses in India and Israel for students. The school's proposal for a M.A. degree in Classical Education and Leadership is currently under review by faculty committees and the College and University Senates. Provisional courses are being offered during the spring 2019 and 2020 semesters for

the program. The SCETL also coordinates the Civic Discourse Project, presenting forums, lectures, and panel discussions. The 2019-2020 series is focused on Citizenship and Civic Leadership in America.

Northern Arizona University – The FY 2020 General Appropriation Act appropriated \$500,000 to NAU to operate the Alliance Bank Economic Policy Institute (EPI) in the College of Business. The Institute reports receiving a total of \$784,100 in funding for the Economic Policy Institute since October 2018, including the FY 2020 \$500,000 General Fund appropriation and \$284,100 from Coconino County, U.S. Department of Commerce, U.S. Department of Interior, Arizona Office of Tourism, and the Arizona Snowbowl. The EPI is staffed by a Director, 2 affiliated faculty, 1 research assistant, and 3 undergraduate student workers. NAU reports no formal student enrollment, as the EPI does not offer any courses as a part of its structure.

Current EPI research includes the contribution of the Flagstaff Snow Park to the local economy, Arizona Snowbowl's economic contribution to the Flagstaff and regional economy, and the Navajo Generating Station and Kayenta Mine Complex Project. In addition, EPI hosts conferences and workshops such as the Economic Outlook Conference, Tribal Entrepreneurship Trainings, Seventh Generation Money Management Workshop and Tribal Business Plan Competitions.

University of Arizona – The FY 2020 General Appropriation Act appropriated \$2.5 million to UA to operate the Center for the Philosophy of Freedom. The Center reports receiving a total of \$2.7 million in funding for the Center in FY 2020, including the \$2.5 million General Fund appropriation and \$242,900 in donations from foundations and other private donors.

During FY 2019, the Center had 7 faculty members who were collectively responsible for teaching 56 graduate and undergraduate courses. These courses had total enrollment of 2,124 undergraduate students and 52 graduate students. The center has a total of 12 graduate students currently enrolled. In addition to teaching, the Center reports that its students and faculty have contributed to the publication of 10 books and academic articles in 2018 and 10 books and academic articles in 2019.

The Center reports community events such as large public lectures and local Freedom Talks. Other initiatives include collaboration with the UA Center for Ethics, Markets, and Law, the Early University Program at UA Global, and high school entrepreneurship classes; in addition to the Take Charge Initiative,

Summary of Recent Agency Reports (Continued)

expanding educational offerings in Europe, and the World Bank Development Workshop in 2020. (Alexis Pagel)

Arizona Board of Regents – Report on University Retention and Graduation Rates – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents (ABOR) is required to submit an annual report on retention and graduation rates at each university campus.

ABOR reports retention and graduation rates based on the federal government's definitions, which track the outcomes of first-time, full-time, degree-seeking students after 1 year for retention rates and after 6 years for graduation rates. The standard federal definitions of retention and graduation rates exclude community college and transfer students.

- Fall 2018 retention rates reflect the percentage of first-time, full-time, degree-seeking students who initially enrolled in fall 2017 and who re-enrolled in the same university in fall 2018.
 - Arizona State University (ASU) 85.5%; Northern Arizona University (NAU) 73.5%; and the University of Arizona (UA) 81.2%.
- Six-year graduation rates reflect the percentage of first-time, full-time, degree-seeking students who received their degree within 6 years of their initial fall enrollment at the same university. The report shows the percentage of students who enrolled in fall 2012 who graduated from the same university within 6 years (by spring 2019).
 - ASU 67.7%; NAU 52.4%; UA 64.5%.

ABOR also uses a 4-year community college transfer graduation rate to monitor student progress, citing student mobility as a significant factor in postsecondary education.

- The 4-year community college transfer graduation rates for students who transfer to an ABOR university from community college and graduate within 4 years.
 - ASU 70.9%; NAU 64.9%; UA 68.0%

(Alexis Pagel)

Department of Water Resources – Report on Interstate Water Banking – Pursuant to A.R.S. § 45-2473, the Department of Water Resources and the Arizona Water Banking Authority (AWBA) submitted a report accounting for all monies received through the Interstate Water Banking Agreement with the Southern Nevada Water Authority (SNWA).

The AWBA budget operates on a calendar year basis. During CY 2018, AWBA reported the storage of 13,500

acre-feet of the State of Nevada's unused Colorado River allocation. The initial costs for this storage was estimated to be \$3,280,100. Storage payments must be adjusted for actual costs incurred, and the actual costs for CY 2018 totaled \$3,268,300, slightly less than estimated.

In addition to the cost of storage, a charge is applied for water delivered. This rate-charge is dependent on Central Arizona Water Conservation District's year-end reconciliation costs. The rate decreased from \$49.00 per acre-foot to \$33.34 per acre-foot, a decline of \$15.66 per acre-foot. As a result, the SNWA was owed \$211,400 (13,500 acre-feet x \$15.66 per acre-foot) plus accrued interest, resulting in a total reimbursement of \$224,600.

Over time, Nevada and Arizona have amended the Interstate Water Banking Agreement in consideration of each state's water planning needs and the hydrologic conditions of the Colorado River. The original agreement entered into in 2001 by the states to support the storage of Colorado River water was last modified in 2013.

Previously, Arizona agreed to guarantee the acquisition and storage of 1.25 million acre-feet of water at a cost of \$330 million. The amended agreement in 2013 ended this requirement and both parties agreed that the \$122.7 million that Arizona received from Nevada through 2013 covered the obligation for the current 600,651 acre-feet of stored water. With the modified agreement, Arizona and Nevada agreed that new deliveries and storage would be on a "pay as you go" basis and Nevada would be billed directly for these costs. (Elliot Chau)

September Spending

September 2019 General Fund spending was \$670.5 million, which is an decrease of \$(28.0) million below September 2018.

Year-to-date, General Fund spending of \$4.14 billion is an increase of \$136.2 million above the prior year. (See Tables 10 & 11).

- Year-to-date, Department of Economic Security (DES) spending has decreased by \$(238.2) million compared to the prior year. This decline is related to the technical timing of Medicaid spending.

- State spending has increased due to the deposit of General Fund monies into the Budget Stabilization Fund (BSF). The enacted budget authorized 2 deposits from the state General Fund to the Budget Stabilization Fund: \$271 million in FY 2019 (which was made in June 2019) and \$271 million in FY 2020. As of mid-August the entire FY 2020 deposit was completed.

Table 10

Agency	General Fund Spending (\$ in Millions)			YTD Change from FY 19
	<u>September 19</u>	<u>Change From September 18</u>	<u>Year-to-Date</u>	
AHCCCS	150.9	16.1	444.0	(30.2)
Corrections	87.8	21.7	391.2	16.2
Child Safety	17.6	3.2	76.2	(8.9)
Economic Security	3.4	(4.5)	269.8	(237.4)
Education	311.1	(56.1)	1,913.9	13.1
Health Services	6.9	0.3	28.0	0.8
Public Safety	3.9	1.8	32.9	(3.6)
School Facilities Board	0.2	(9.6)	185.2	15.4
Universities	62.7	2.1	188.4	9.7
Leaseback Debt Service	0.0	0.0	77.7	(6.4)
Budget Stabilization Fund Deposit	0.0	0.0	271.1	271.1
Other	<u>26.0</u>	<u>(3.0)</u>	<u>260.6</u>	<u>96.4</u>
Total	670.5	(28.0)	4,139.0	136.2

General Fund Spending				
(\$ in Thousands)				
Agency	September 19	Change from September 18	Year-to-Date	YTD Change from FY 19
Dept. of Admin./Automation Projects Fund	494.8	(92.6)	15,643.4	8,384.6
ADOA – Sale/Leaseback Debt Service	-	-	77,709.3	(6,402.7)
Office of Administrative Hearings	57.9	9.6	251.3	16.8
Commission of African-American Affairs	17.4	9.7	36.6	8.1
Department of Agriculture	728.6	(444.7)	2,966.2	(202.8)
AHCCCS	150,855.6	16,091.1	444,031.1	(30,218.0)
Arts, AZ Commission on the	200.0	200.0	700.0	700.0
Attorney General	1,494.8	(1,957.0)	7,503.8	88.2
State Board of Charter Schools	312.0	237.8	480.5	157.1
Department of Child Safety	17,633.8	3,167.8	76,175.8	(8,875.3)
AZ Commerce Authority	1,291.7	-	4,000.1	125.0
Community Colleges	11.0	(129.9)	22,842.5	9,661.2
Corporation Commission	47.3	15.6	165.2	(791.2)
Department of Corrections	87,826.5	21,670.6	391,205.1	16,154.3
County Funding	-	-	-	-
AZ State Schools for the Deaf & Blind	1,711.9	541.5	7,186.2	1,938.4
Office of Economic Opportunity	33.3	(9.9)	249.9	131.1
Department of Economic Security	3,374.5	(4,500.9)	269,810.8	(237,414.9)
State Board of Education	59.0	16.3	351.0	177.7
Department of Education	311,068.0	(56,139.4)	1,913,850.9	13,075.2
DEMA	421.6	219.2	5,154.0	3,431.3
DEQ – WQARF	-	-	-	-
Office of Equal Opportunity	-	-	-	-
State Board of Equalization	17.9	(13.0)	219.6	118.5
Board of Executive Clemency	68.8	(108.0)	238.4	(101.7)
Department of Financial Institutions	111.1	9.6	654.6	366.3
Department of Forestry and Fire Management	723.3	191.4	2,593.0	42.8
Department of Gaming	-	-	2,509.5	730.0
Governor/OSPB	756.8	(492.0)	2,944.6	(121.6)
Department of Health Services	6,861.0	272.9	27,997.4	823.3
Arizona Historical Society	163.0	(9.4)	1,067.2	414.9
Prescott Historical Society of AZ	59.2	(4.7)	261.2	33.4
Department of Housing	-	-	3,750.0	3,750.0
Independent Redistricting Comm.	-	-	-	-
Department of Insurance	499.2	(140.0)	1,623.8	(75.8)
Judiciary				
Supreme/Superior Court	2,550.2	451.1	29,688.9	3,559.1
Court of Appeals	1,628.8	7.5	4,332.2	(102.0)
Department of Juvenile Corrections	3,168.3	2,926.1	10,378.0	3,480.2

Table 11 (Continued)

Agency	September 19	Change from September 18	Year-to-Date	YTD Change from FY 19
State Land Department	674.1	10.5	2,729.9	(233.8)
Legislature				
Auditor General	1,696.5	55.2	5,878.0	407.8
House of Representatives	1,075.7	39.5	3,921.2	269.4
Joint Legislative Budget Comm.	181.9	(3.2)	616.4	(37.2)
Legislative Council	476.4	(15.9)	1,797.9	290.7
Senate	753.7	68.3	2,614.7	93.3
Mine Inspector	184.6	23.0	368.9	5.8
Nav. Streams & Adjudication	8.0	4.2	28.7	(7.9)
Phoenix Convention Center	-	-	23,500.0	503.7
Comm. for Postsecondary Ed.	-	(141.7)	833.6	10.2
Department of Public Safety	3,949.1	1,824.8	32,897.2	(3,605.9)
Public Safety Personnel Retirement System	-	-	6,000.0	(1,000.0)
Radiation Regulatory Agency	-	-	-	-
Real Estate Department	179.1	(178.2)	769.0	(30.7)
Department of Revenue	1,557.2	(3,140.9)	9,516.5	905.2
Rio Nuevo Distribution	-	-	-	-
School Facilities Board	170.0	(9,573.2)	185,166.7	15,404.8
Secretary of State	750.3	(581.9)	2,625.8	(1,685.9)
Tax Appeals Board	-	(18.1)	82.1	17.9
Office of Tourism	-	-	1,778.0	(355.6)
Department of Transportation	54.1	(907.4)	29,030.2	26,179.0
Governor's Office on Tribal Relations	2.4	(0.7)	19.4	1.3
Universities				
Board of Regents	0.4	(47.8)	424.5	(14.3)
Arizona State University	29,702.0	1,256.2	85,479.2	4,571.5
Northern Arizona University	9,406.7	430.2	29,312.7	1,397.5
University of Arizona	23,542.1	509.5	73,176.7	3,709.4
Department of Veteran Services	373.6	0.6	1,650.9	116.9
Department of Water Resources	1,517.7	429.0	38,874.9	35,179.1
Department of Weights & Measures	-	-	-	-
Other - State Treasurer/JP Salaries	4.5	0.0	239.2	(101.1)
Other - Budget Stabilization Fund Deposit	-	-	271,107.0	271,107.0
Other	-	-	-	-
Total	670,507.2	(27,961.5)	4,139,011.2	136,159.4

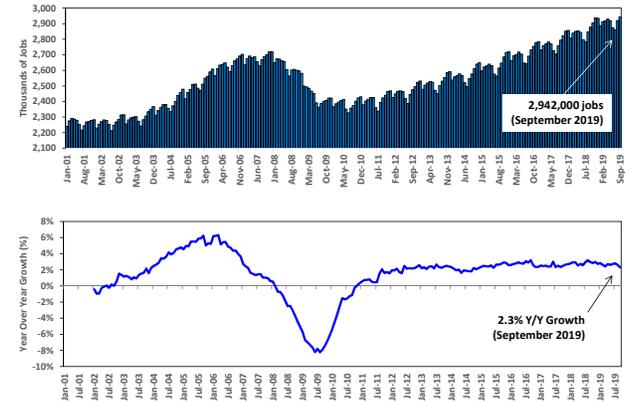
Arizona Economic Trends

October 2019
Appendix A

Page:

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

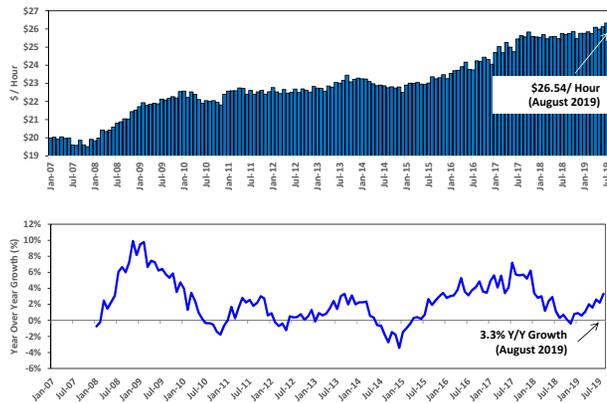
Total Non-Farm Employment



JLBC

2

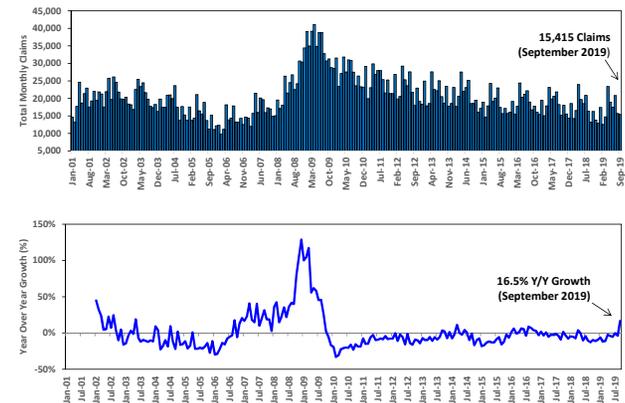
Average Hourly Earnings – Private Sector



JLBC

3

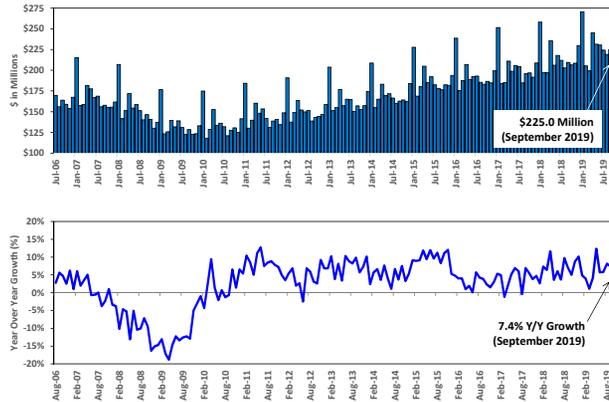
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



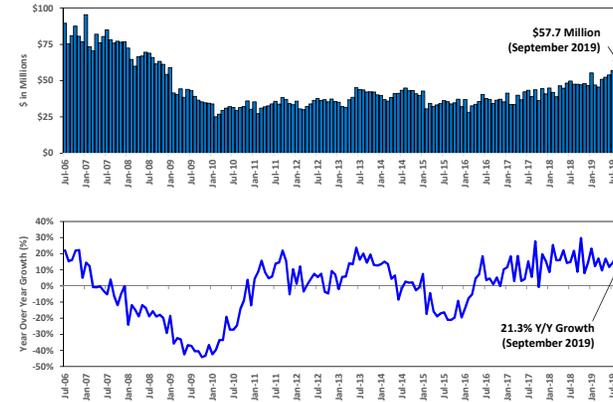
JLBC

Excludes temporary 1-cent sales tax

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

5

State Sales Tax Collections – Contracting Category

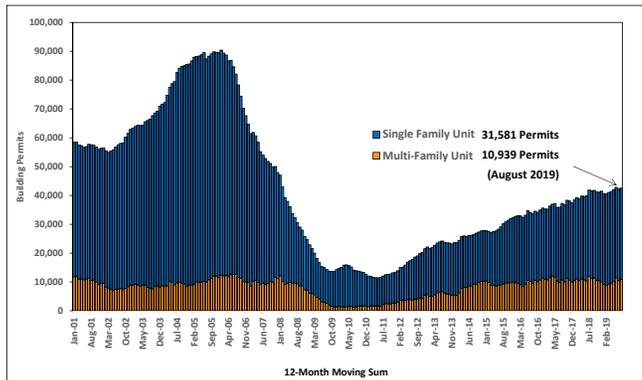


JLBC

Excludes temporary 1-cent sales tax

6

Residential Building Permits



JLBC

7