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*“Year-to-date,
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Summary

August 2018 General Fund revenues totaled \$801.6 million, which is an increase of 13.2% over the prior year. The significant revenue growth for the month was spread across the state's main revenue categories.

August was another strong month for the Sales Tax category, which grew by 8.6% and was \$17.8 million above forecast. The Sales Tax performance suggests broad positive economic trends – the retail and restaurant/bar components of Sales Tax grew by over 8% during August, while contracting Sales Tax posted its 7th consecutive month of double-digit growth.

Individual Income Tax grew by 9.4% during the month and was \$16.3 million above forecast. August was another month of large growth in withholding collections, along with smaller gains in Individual Income Tax payments.

The state also saw gains in the Corporate Income Tax category, with collections coming in \$18.4 million above forecast. The month of August usually sees significant fluctuations in Corporate Income Tax (CIT) revenues, as is typical for smaller CIT collection months.

Bottom-line revenue collections also continue to be helped by enacted budget transfers. During August \$12.7 million of these transfers were deposited into the General Fund.

In terms of overall forecast gain, the August revenue results exceeded the enacted

budget forecast by \$43.4 million. Year-to-date, General Fund revenues are \$85.6 million above forecast.

Beyond the underlying growth in revenues, there are additional reasons for the large forecast gain.

Due to the strong revenue performance during FY 2018, the state only needs very modest revenue growth to meet the enacted FY 2019 forecast. This factor should allow the state's forecast gain to grow throughout the remainder of the calendar year.

In comparison to August revenue collections of \$801.6 million, August 2018 spending was \$651.4 million, which is a decrease of \$(134.5) million below the prior year. The spending decrease in August was expected, as General Fund spending in July was artificially increased due to technical timing issues.

Fiscal year-to-date, General Fund revenues of \$1.72 billion have been offset by \$3.28 billion of expenditures.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-August 2018 is \$1.36 billion.

In addition, the state Budget Stabilization Fund (BSF) has a balance of \$435.5 million. This amount has declined by approximately \$(12.5) million from the prior month, due to the Department of Public Safety's additional usage of BSF bridge loan authority. This bridge loan was authorized by the FY 2019 budget.

Table of Contents

Summary	
August Revenues	2
Monthly Indicators	4
Summary of Recent Agency Reports	
• ADOA – Health Insurance Trust Fund	7
• ADOA – Telecommunications Office.....	7
• Atty. Gen. – Internet Crimes Enforcement.....	7
• Atty. Gen. – Legal Settlements Report	7
• DCS – Foster Care Medicaid Report.....	8
• ACJC – Anti-Racketeering Revolving Fund...	8
• County Attorneys – Deferred Prosecution	8
• DES – TANF Diversion Program	9
• DEQ – Water Quality Revolving Fund	9
• Homeland Security – Funding Report	9
• DPS – Border Task Force Local Grants	10
• DOR – Report on Data Center Upgrade	10
• Sec. of State – Special Election Costs	10
• Supreme Court – Automation Report	10
• ADOT – Report on MVD Wait Times	11
August Spending	12
Arizona Economic Trends	Appendix A

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

August Revenues

	FY 2019 <u>Collections</u>	Difference From <u>Budget Forecast</u>	Difference <u>From FY 2018</u>
August	\$ 801.6	\$ 43.4	\$ 93.6
Year-to-Date	\$ 1,716.8	\$ 85.6	\$ 229.7

Sales Tax collections of \$406.0 million were 8.6% above August of last year and \$17.8 million above the forecast for the month. Sales tax collections by category for August 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 noted in *Table 2* below, with the exception of the utilities category, all the major sales tax categories performed strongly in August. The retail class increased, year-over-year, by 9.8% in August, which is the second strongest growth rate for this category in the last 33 months.

As in the past several months, the prime contracting category continued to outperform other categories with a growth rate of 21.7% in August. As reported last month, the continued strong tax revenue growth in the prime contracting category is due to increased construction activity in the state.

	<u>August</u>	<u>YTD</u>
Retail	9.8%	6.6%
Contracting	21.7%	18.1%
Use	15.5%	1.2%
Restaurant & Bar	8.3%	8.2%
Utilities	(4.1)%	(1.5)%

Individual Income Tax net revenues of \$366.3 million in August were \$16.3 million above the forecast for the month.

As indicated in *Table 3*, August withholding revenues increased by 8.6% from last year and were \$13.0 million above forecast. The strong YTD growth in the withholding category of 8.2% has been helped by accelerating job and wage growth – combined job and wage growth has trended upward since the beginning of the year and has been above 5% in recent months.

August estimated and final payments of \$24.5 million were 15.6% above last year and \$3.7 million above the forecast.

August Individual Income Tax refunds totaled \$(16.7) million, which was equivalent to the prior year. With a forecasted refund level of \$(16.4) million, the higher level of refunds produced a forecast loss of \$(300,000).

	<u>August</u>	<u>YTD</u>
Withholding	8.6%	8.2%
Estimated/Final Payments	15.6%	18.1%
Refunds	0%	12.5%

Corporate Income Tax net collections were \$14.1 million in August, which was \$21.3 million more than the prior year (refunds exceeded payments in August 2017). Revenues during August were \$18.4 million above the forecast. Collections are often volatile in small collection months.

Insurance Premium Tax net collections were \$44.5 million in August, a decline of \$(6.1) million, or (12.0%), from a year prior. This was \$(11.5) million below forecast.

For August, **Tobacco Tax** and **Liquor Tax** revenue amounts were not available at the time of publication. Due to the delay in receiving this data, August collections are reported at forecast.

The **Lottery Commission** reports that August ticket sales were \$76.9 million, which is \$(17.0) million, or (18.1)% below sales in August 2017. The year-over-year decrease is mostly attributable to a previous spike in Powerball ticket sales during August 2017. Year-to-date sales are (3.5)% below the prior year.

Highway User Revenue Fund (HURF) collections of \$120.7 million in August were up 5.6% compared to August of last year and were \$(422,400) below the forecast.

License, Fees and Permits revenues in August decreased by \$(552,100), or (16.1)% compared to August 2017. The decrease can be explained by a reclassification of how License, Fees and Permits revenue is recorded. In FY 2018, this category included certain Vehicle License Tax (VLT) revenues collected by the Department of Transportation. However, the VLT revenue is now classified under the Other Taxes revenue category.

One-Time Transfers revenue, which reflects enacted fund transfers to the General Fund, were \$12.7 million in August 2018, compared to August 2017 where no fund transfers occurred.

Table 4

General Fund Revenue: Change from Previous Year and Budget Forecast August 2018

	Current Month					FY 2019 YTD (Two Months)				
	Actual August 2018	Change From August 2017		Budget Forecast		Actual August 2018	Change from August 2017		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$406,026,864	\$32,062,456	8.6 %	\$17,750,623	4.6 %	\$816,851,854	\$51,116,123	6.7 %	\$23,449,192	3.0 %
Income - Individual	366,290,813	31,549,246	9.4	16,338,146	4.7	762,350,627	60,204,804	8.6	35,503,363	4.9
- Corporate	14,135,585	21,260,675	--	18,412,487	--	42,877,065	26,163,316	156.5	29,428,317	218.8
Property	138,515	52,367	60.8	(12,012)	(8.0)	1,253,155	868,341	225.7	753,967	151.0
Luxury - Tobacco	1,919,403	57,594	3.1	0	--	3,878,993	(92,385)	(2.3)	170,117	4.6
- Liquor	2,126,022	(1,069,776)	(33.5)	0	--	5,209,474	(63,726)	(1.2)	(131,687)	(2.5)
Insurance Premium	44,496,524	(6,065,982)	(12.0)	(11,532,399)	(20.6)	86,470,176	(6,646,199)	(7.1)	(5,644,712)	(6.1)
Other Taxes	759,343	726,071	--	693,175	--	1,602,968	1,510,464	--	1,463,039	--
Sub-Total Taxes	\$835,893,068	\$78,572,651	10.4 %	\$41,650,020	5.2 %	\$1,720,494,311	\$133,060,738	8.4 %	\$84,991,595	5.2 %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	2,875,376	(552,087)	(16.1)	(892,349)	(23.7)	6,382,300	(1,677,576)	(20.8)	(433,861)	(6.4)
Interest	1,343,106	1,337,802	--	1,343,748	--	1,551,943	1,344,784	649.2	1,448,593	--
Sales and Services	1,199,761	(673,641)	(36.0)	(438,575)	(26.8)	2,537,880	(192,736)	(7.1)	(48,477)	(1.9)
Other Miscellaneous	(493,933)	(1,564,224)	--	(1,286,203)	--	(366,387)	479,375	(56.7)	(1,380,106)	(136.1)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,296,734	3,310,346	335.6	3,019,298	236.4	4,524,682	1,570,476	53.2	1,058,172	30.5
Sub-Total Other Revenue	\$9,221,044	\$1,858,196	25.2 %	\$1,745,919	23.4 %	\$14,630,418	\$1,524,324	11.6 %	\$644,321	4.6 %
TOTAL BASE REVENUE	\$845,114,112	\$80,430,847	10.5 %	\$43,395,939	5.4 %	\$1,735,124,730	\$134,585,063	8.4 %	\$85,635,916	5.2 %
Other Adjustments										
Urban Revenue Sharing	(56,233,703)	497,137	(0.9)	(0)	0.0	(112,467,406)	994,274	(0.9)	(0)	0.0
One-Time Transfers	12,705,056	12,705,056	--	0	0.0	94,158,056	94,158,056	--	0	0.0
Sub-Total Other Adjustments	(43,528,647)	13,202,193	(23.3) %	(0)	0.0 %	(18,309,350)	95,152,330	(83.9) %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$801,585,465	\$93,633,041	13.2 %	\$43,395,939	5.7 %	\$1,716,815,380	\$229,737,393	15.4 %	\$85,635,916	5.2 %
Non-General Funds										
Highway User Revenue Fund	120,680,979	6,348,254	5.6 %	(422,396)	(0.3) %	242,136,776	8,649,223	3.7 %	(1,645,186)	(0.7) %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis (BEA), the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 4.2% in the second quarter of 2018. (This figure represents BEA's second estimate of real GDP, which is based on more complete source data than were available for the "advance" estimate issued last month.) The revisions to the prior month's advance real GDP growth rate of 4.1% were small. There was a downward revision to personal consumption expenditure growth and an upward revision to net exports, for a net revision of 0.1% relative to the "advance" estimate.

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, increased by 4.3%, or 5.5 points, from 127.9 in July to 133.4 in August. This was the highest reading since October 2000. The increase in confidence was driven by both consumer views on the present situation, which gained 6.1 points to its highest mark since December 2000 and expectations, which gained 5.2 points. Americans' views on the strength of the current job market are increasingly optimistic, as evidenced by the labor index (calculated as the percentage of respondents who think that jobs are plentiful minus the percentage who think that jobs are difficult to find), which increased by 2.0 points in August to a net value of 30.0, the highest reading since March 2001.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure (PCE) Price Index** increased by 0.1% from June to July. Compared to July 2017, the price index is up by 2.3%. The "core" PCI price index, which excludes food and energy prices, is the Federal Reserve Bank's (Fed) preferred inflation measure and it increased (year over year) by 2.0% in July, which is in line with the Fed's inflation target of 2.0%.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.2% in August and increased 2.7% above August 2017 prices. The main positive contributors for the month were a 1.9% increase in the energy index, headlined by a 3.0% increase in the gasoline index, and a 0.3% increase in the shelter index. Core inflation (all items less food and energy) increased 0.1% for the month, along with increases in the indexes for airline fares and used vehicles. The indexes for apparel, medical care and recreation saw decreases for the month.

The Conference Board's **U.S. Leading Economic Index** increased 0.6% in July to 110.7 and is 6.3% above its July 2017 reading. The average weekly initial claims index made its largest positive contribution of the year. Other main positive contributors include the indexes for credit conditions and interest-rate spread, followed by those for Institute for Supply Management (ISM) new orders, stock prices, and consumer expectations. Of the index's 10 components, 9 made positive contributions for the month. The average workweek of production workers index had a neutral effect on the index.

ARIZONA

Housing

Single-family housing construction is increasing. In July, Arizona's 12-month total of **single-family building permits** was 29,927, or 15.1% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 7.7%.

The 12-month total of multi-family building permits has been up and down. In July, Arizona's total of 11,931 **multi-family building permits** was 20.4% more than in 2017. Nationwide multi-family permits were 5.0% more than in 2017.

Tourism

Revenue per available room was \$60.92 in July, which was 3.9% above the amount in July 2017. **Ridership** through Phoenix Sky Harbor Airport in July increased by 1.2% over the prior month and was up by 2.3% compared to July 2017.

Employment

OEO reported that 20,879 **initial claims for unemployment insurance** were filed in July, a decrease of (4.5)% compared to the same month last year.

According to OEO, the state had a total of 29,661 **claimants receiving unemployment insurance benefits** in July, an increase of 15.2% from June. This figure is (7.4)% below the June 2017 level.

Average Weekly Hours

In July, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 35.6 hours. This was 1.7% above the level during the prior month, and 0.8% above the level in July 2017.

Average Hourly Earnings

The **Average Hourly Earnings** received by private sector workers in July was \$25.71, which was 1.0% above the average in the prior month. Year-over-year growth in earnings decreased from 2.9% in June to 1.1% in July.

Monthly Indicators (Continued)

State Agency Data

At the beginning of September 2018, the total **AHCCCS caseload** was 1.81 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 553,400 members.

Total monthly enrollment increased by 0.2% in September but was (3.2)% lower than a year ago. Parent and child enrollment in the Traditional population was up 0.1% in September but was (3.7)% lower than a year ago.

Through September 1, 2018, enrollment in the KidsCare program was 30,600, an increase of 1.2% from the month prior and 36.5% above last year.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In September 2018, the childless adult population increased by 900, or 0.3%. At 309,100, this population is (2.6)% lower than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (100), or (0.1)%, in September and totals 76,800 individuals. Enrollment is (6.5)% lower than a year ago. The federal share of this population's cost decreased from 95% to 94% in January 2018.

There were 15,042 **TANF recipients** in the state in August, representing a 2.5% monthly caseload increase from July. The year-over-year number of TANF recipients has declined by (16.5)%. 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 August, 851,482 people received food stamp assistance in the state, representing a 0.7% increase over July caseloads. Compared to August caseloads last year, the level of food stamp participation has declined by (7.2)%.

The **inmate population** was 42,209 as of August 31, 2018. This is essentially flat since June, and a (0.1)% decrease since last August.

Based on information the Department of Child Safety provided for July 2018, **reports of child maltreatment** totaled 47,317 over the last 12 months, an increase of 0.2% over the prior year. There were 14,501 **children in out-of-home care** as of June 2018, or (12.8)% less than in June 2017. Compared to the prior month, the number of out-of-home children decreased by (1.0)%.

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				
<i>Employment</i>				
- Regular Unemployment Rate	July	4.6%	(0.1)%	(0.1)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2018	9.1%	(0.2)%	(1.4)%
- Initial Unemployment Insurance Claims	July	20,879	12.9%	(4.5)%
- Unemployment Insurance Recipients	July	29,661	15.2%	(7.4)%
- Non-Farm Employment - Total	July	2,775,000	(0.6)%	2.7%
Manufacturing	July	173,600	0.4%	5.1%
Construction	July	162,500	0.5%	10.0%
- Average Weekly Hours, Private Sector	July	35.6	1.7%	0.8%
- Average Hourly Earnings, Private Sector	July	\$25.71	1.0%	1.1%
<i>Building</i>				
- Residential Building Permits (12-month avg) Single-family	July	29,927	1.5%	15.1%
Multi-family	July	11,931	15.2%	20.4%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	July	5,409	(1.3)%	(2.8)%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	July	\$284,000	0.7%	10.3%
- Phoenix S&P/C Home Price Index (2000 = 100)	June	182.14	0.7%	7.2%
- Maricopa Pending Foreclosures	July	2,611	(3.3)%	(6.2)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	July	19,755	(3.0)%	(8.3)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	July	3,770,453	1.2%	2.3%
- State Park Visitors	June	286,380	5.0%	13.9%
- Revenue Per Available Hotel Room	July	\$60.92	(6.7)%	3.9%
<i>General Measures</i>				
- Arizona Leading Index -- 6 month projected growth	July	3.4%	(1.3)%	(2.3)%
- Arizona Personal Income (SAAR)	1st Q 2018	\$300.2 billion	5.5%	4.3%
- Arizona Population	July 2017	7,016,270	N/A	1.6%
- State Debt Rating				
Standards & Poor's/Moody's Outlook	May	AA / Aa2	N/A	N/A
	May	Stable	N/A	N/A
<i>Agency Measures</i>				
- AHCCCS Recipients	September 1 st	1,811,583	0.2%	(3.2)%
Acute Care Traditional		1,035,537	0.1%	(3.7)%
Prop 204 Childless Adults		309,072	0.3%	(2.6)%
Other Prop 204		184,014	0.4%	(4.6)%
Adult Expansion		76,838	(0.1)%	(6.5)%
Kids Care I		30,569	1.2%	36.5%
Long-Term Care – Elderly & DD		62,821	0.6%	4.3%
Emergency Services		112,732	0.7%	(6.2)%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	July	47,317	0.2%	0.5%
	June	14,501	(1.0)%	(12.8)%
DCS Out-of-Home Children Filled Caseworkers (1406 Budgeted)	July	1,340	8	(17)
- ADC Inmate Growth	August	42,209	0.0%	(0.1)%
- Department of Economic Security				
- TANF Recipients	August	15,042	2.5%	(16.5)%
- SNAP (Food Stamps) Recipients	August	851,482	0.7%	(7.2)%
- Judiciary Probation Caseload				
Non-Maricopa	May	19,249	16	85
Maricopa County	May	28,417	(174)	(227)
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	2 nd Q, 2018 (2nd Estimate)	\$18.5 trillion	4.2%	2.9%
- Consumer Confidence Index (1985 = 100)	August	133.4	4.3%	10.8%
- Leading Indicators Index (2016 = 100)	July	110.7	0.6%	6.3%
- Consumer Price Index, SA (1982-84 = 100)	August	251.9	0.2%	2.7%
- Personal Consumption Expenditure Price Index (2012 = 100)	July	108.3	0.1%	2.3%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on the Financial Status of the Special Employee Health Insurance Trust Fund – Pursuant to A.R.S. § 38-654G, the Arizona Department of Administration (ADOA) submitted their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF). The actuarial assumptions used to develop HITF projections include healthcare trends (cost, utilization, and severity of services), enrollment trends, and revenue projections including legislative fund transfers. ADOA reported that the plan is actuarially sound for Plan Year (PY) 2017 and PY 2018. For PY 2019, however, the preliminary estimates for insurance benefits are not actuarially sound, as ADOA projects a cash-flow liquidity problem and virtually no ending balance for the end of PY 2019. This projection assumes the FY 2019 employer premium increase will not continue in FY 2020. For PY 2018, ADOA assumes a combined medical and pharmaceutical trend of (0.31)%, which consists of medical costs increasing by 1.34% and pharmaceutical costs decreasing by (6.01)%. For PY 2019, ADOA assumes a combined medical and pharmaceutical trend of 4.75% which consists of medical costs increasing by 4.93% and pharmaceutical costs increasing by 4.10%. ADOA expects medical enrollment to increase by 0.6% for PY 2018 and 1.0% for PY 2019. (Rebecca Perrera)

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 2018 and FY 2019. 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 2018, total charges paid by all entities were \$38.3 million. In FY 2019, the estimated total charges paid by all entities is \$35.6 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 2018, as well as estimates for FY 2019. 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 2018, 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 \$1.9 million from the fund to administer the program. (Rebecca Perrera)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures – A.R.S. § 41-199 requires the Attorney General (AG) to report quarterly on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund was created in FY 2015 with an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age-restricted areas. Monies in the fund are utilized to support the ICAC Task Force housed within the Phoenix Police Department which works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the fourth quarter of FY 2018, a total of \$900,000 in lottery revenues were deposited into the ICAC Enforcement Fund. Additionally, a total of \$143,700 was expended in the fourth quarter of FY 2018 to help pay for the operating costs of the ICAC Task Force. These expenditures are in addition to \$503,600 expended in the previous quarters, bringing total FY 2018 expenditures to \$647,200.

The FY 2018 expenditure plan for the ICAC Enforcement Fund allocates monies to fund 4 positions within the Phoenix Police Department; equipment costs including cameras, computers, subscriptions to forensic tools, and other information technology equipment; and law enforcement training.

As of June 30, 2018, the ICAC Enforcement Fund had a fund balance of \$1,772,400 net of encumbrances of \$548,300. (Adam Golden)

Attorney General – Quarterly Reports on Legal Settlements – Statute requires the Attorney General (AG) to report quarterly to the JLBC on the receipts to and disbursements from the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund, the Antitrust Enforcement Revolving Fund, and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.

In the fourth quarter of FY 2018, the AG deposited a total of \$11.1 million into various consumer accounts. Of that amount, \$291,400 was deposited into the CPCF Revolving Fund, \$150,000 into the Antitrust Enforcement Revolving Fund, \$11.0 million into the Consumer Restitution Subaccount, and \$(360,300) was dispersed from the Consumer Remediation

Summary of Recent Agency Reports (Continued)

Subaccount. An additional \$20 million was deposited into the General Fund (see *Volkswagen below*).

Deposits to the CPCF Revolving Fund

The AG deposited \$291,400 in the fourth quarter of FY 2018 into the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by statute. All of these funds came from interest and other revenue sources.

Deposits to Antitrust Enforcement Revolving Fund

The AG deposited \$150,000 in the fourth quarter of FY 2018 into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. All of these funds resulted from small legal settlements under \$250,000 in value.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$11.0 million in the fourth quarter of FY 2018 into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount, \$10.6 million resulted from the settlement with Volkswagen Group of America Inc. The remaining \$383,400 in deposits resulted from small legal settlements and interest income.

Volkswagen

Arizona sued Volkswagen alleging that the company and its subsidiaries had engaged in deceptive practices related to its diesel vehicles operated in Arizona from 2008 to 2015. The settlement from the case awarded \$40 million to the State of Arizona. From the settlement, \$20 million was deposited into the General Fund, \$10.6 million was deposited into the Consumer Restitution Subaccount, and the remaining \$9.4 million was used to pay outside legal fees.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$40,300 in the fourth quarter of FY 2018 into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. All of these funds resulted from interest income. (Adam Golden)

Department of Child Safety – Quarterly Report on Foster Care and Medicaid – Laws 2013, Chapter 220, as amended by Laws 2016, Chapter 273, requires the Department of Child Safety (DCS) to report on foster care and Medicaid eligibility. For the fourth quarter of FY 2018, DCS reported the following data in foster care and Medicaid eligibility:

1. There were 13,870 children eligible for Medicaid in foster care at the end of the fourth quarter, which

represents approximately 96% of all children in out-of-home care.

2. The amount of non-Medicaid expenditures for behavioral health inpatient facilities and behavioral health residential facilities was \$1.1 million.
3. The amount of non-Medicaid behavioral health counseling/psychiatric services expenditures was \$170,300. (Patrick Moran)

Arizona Criminal Justice Commission – Report on Anti-Racketeering Revolving Fund – Pursuant to A.R.S. §13-2314.01 and §13-2314.03, the Arizona Criminal Justice Commission (ACJC) provided its quarterly report on the activities of the Arizona Anti-Racketeering Revolving Fund (ARRF). ACJC is required to compile quarterly expenditures of the Attorney General, department, agency, county attorney, and political subdivision reports into a single comprehensive report of sources and expenditures as well as report on forfeiture orders.

In the fourth quarter of FY 2018, the ARRF received revenues totaling \$9.7 million and had expenditures totaling \$9.1 million. Revenues for investigating and prosecuting agencies were highest in Maricopa County at \$2.9 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total in the quarter with \$4.3 million in ARRF monies spent.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the involved state and local investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited into the fund and used in accordance with state and federal guidelines. Monies in ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (Josh Hope)

County Attorneys – Report on Deferred Prosecution – Pursuant to A.R.S. § 11-362, each county attorney that oversees an established Deferred Prosecution Program shall submit an annual evaluation of their respective program that includes the following metrics:

- The number of persons who were enrolled in deferred prosecution programs during the previous fiscal year.
- The number of persons who successfully completed deferred prosecution programs during the previous fiscal year.

Summary of Recent Agency Reports (Continued)

- If available, the number of persons who were enrolled in deferred prosecution programs during the previous fiscal year and who were subsequently convicted of a new felony offense.

Eleven counties submitted reports. A total of at least 8,269 individuals were placed in a deferred prosecution program in FY 2018. Of these individuals and those already enrolled, 5,939 successfully completed the program during FY 2018. No counties reported participants that were subsequently convicted of a new felony offense.

Deferred prosecution allows individuals who commit non-dangerous, non-serious crimes to avoid prosecution through the completion of a program that may involve restitution, community service, substance abuse treatment, counseling, or other means by which the individual can make amends for their crime. After the completion of the program, the charges are dismissed. (Geoffrey Paulsen)

Department of Economic Security – Report on Temporary Assistance for Needy Families (TANF) Grant Diversion Program – Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) provided the 2018 annual report on the TANF Grant Diversion Program. The program’s purpose is to divert applicants from long-term TANF cash assistance by offering immediate, one-time assistance to resolve a financial crisis. In FY 2018, 7,867 applicant households chose the grant diversion option and were diverted from long-term assistance, a decrease of (1,024) from FY 2017. A total of 5,527 households obtained employment within 90 days of receiving assistance under the diversion program during the 12-month period of April 2017 through March 2018. Through January 2018, the most recent month for which complete data is available, 342 of 5,122 households, or 6.7%, reapplied for long-term assistance within 180 days of their participation in

the diversion program. Complete data for FY 2017 indicates 776 of the total 8,891 households receiving diversion payments, or 8.7%, reapplied within 180 days. (Chris Gustafson)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2018 – Pursuant to an annual General Appropriation Act footnote, the Department of Environmental Quality (DEQ) submitted its September 1 report to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program and is designed to remediate contaminated groundwater at specified sites. The report lists total FY 2018 expenditures at \$15.1 million. Revenues totaled \$20.7 million, including \$13.5 million in appropriations, \$2.1 million in fees, \$2.5 million recovered from responsible parties, and \$2.5 million in other revenues. Unexpended funds at the end of FY 2018 totaled \$11.9 million.

In FY 2019, DEQ plans to spend \$19.4 million on the WQARF Program for 37 sites, including \$13.3 million for registry sites and preliminary investigations; \$5.9 million for administration; and \$189,000 for the Department of Water Resources. (Josh Hope)

Arizona Department of Homeland Security – Report on Homeland Security Funding – Pursuant to A.R.S. § 41-4255, the Arizona Department of Homeland Security submitted its annual report detailing grant allocations and expenditures for Homeland Security grants from Federal Fiscal Year (FFY) 2015 through FFY 2017. The report indicates that 17.1% of the FFY 2017 allocation has been expended. Information for FFY 2015 - FFY 2017 is included in *Table 6* below.

The state was allocated and the Arizona Department of Homeland Security was awarded \$21.8 million in Homeland Security grants for FFY 2017. The

	FFY 2015	FFY 2016	FFY 2017
State Awards	\$2,154,300	\$2,448,400	\$2,057,100
Local Government Awards	<u>19,798,000</u>	<u>19,594,000</u>	<u>19,725,300</u>
Total Awards	\$21,952,300	\$22,042,400	\$21,782,400
State Expenditures	\$2,154,300	\$2,060,900	\$388,600
Local Government Expenditures	<u>19,464,500</u>	<u>16,865,800</u>	<u>3,339,600</u>
Total Expenditures	\$21,618,800	\$18,926,700	\$3,728,200
Percentage of Total Awards Currently Expended	98.5%	85.9%	17.1%

Summary of Recent Agency Reports (Continued)

department reported total expenditures of \$3.7 million, leaving \$18.1 million unexpended. State agencies were awarded \$2.1 million, of which \$388,600 has been expended. Local governments were awarded \$19.7 million, of which \$3.3 million has been expended. The largest local grantee was the Pima County Sheriff's Department (\$1.3 million). The largest state grantee was the Department of Public Safety (\$2.0 million). The largest individual grant of \$1.2 million went to the Pima County Sheriff's Department for overtime and mileage payments while working in support of U.S. Customs and Border Protection border security efforts.

Total combined state and local awards for FFY 2017 represented a decrease from the amounts received in FFY 2015 and FFY 2016. Arizona received \$22.0 million in total combined state and local awards in FFY 2015 and \$22.0 million in FFY 2016. Of the funds received, 98.5% have been expended for FFY 2015 and 85.9% have been expended for FFY 2016. (Josh Hope)

Department of Public Safety – Report on Border Strike Task Force Expenditures – Pursuant to a footnote in the FY 2019 General Appropriation Act, DPS is required to submit an expenditure plan for the Border Strike Task Force Local Support line item. The FY 2019 budget appropriated \$1,261,700 from the General Fund for the Border Strike Task Force Local Support line item. The line item funding consists of \$761,700 to support local law enforcement positions within the task force and \$500,000 for grants to local governments for prosecutorial and jail costs associated with border-related crimes. The FY 2019 expenditure plan is unchanged from the FY 2018 DPS allocations. DPS plans to expend \$761,700 to support 5 deputy positions at the Cochise County Sheriff's Office and 3 deputy positions at the Pima County Sheriff's Department. The \$500,000 for prosecutorial and jail costs will be split equally among Cochise County, Pima County, and Santa Cruz County. (Jordan Johnston)

Arizona Department of Revenue – Report on Data Center Equipment Upgrade – Pursuant to A.R.S. § 18-104A1(g), the Department of Revenue (DOR) submitted a quarterly report from Gartner on the status of the department's data center equipment upgrade project. Gartner reported that of the 24 assessment areas, 8 increased in risk, including the schedule management assessment area. Initially the project was projected to be completed by August 2018. The report now includes a completion goal date of December 2018. DOR must move out of the Adams ADOA data center by the end of December 2018 and any additional delays would endanger that goal. The delay was the result of a vendor contract that omitted required language by the IRS for state agencies to provide Federal tax information (FTI) to third-party vendors, which caused weeks of legal discussions. This issue has since been resolved.

The report also indicates that DOR has changed its plan for the disaster recovery solution from the Scottsdale IO facility to Amazon Web Services and is troubleshooting potential network performance of the state's AZNet system which connects to the data center. Overall, the report noticed that despite the delays, Gartner has confidence that the project can be completed according to the adjusted timeline. (Jeremy Gunderson)

Secretary of State – Report on 8th District Special Election in FY 2018 – Pursuant to Laws 2018, Chapter 2, the Secretary of State was appropriated \$2.5 million to reimburse Maricopa County for documented expenses associated from the 8th Congressional District Special Primary Election on February 27, 2018 and the General Election on April 24, 2018. As required by the legislation, the Secretary of State provided a report on their expenses.

Of the reimbursed \$2.5 million, the Secretary of State reported 49% for the processing of early ballots, 14% for personnel, 11% for official ballots, 10% for postage, 6% for sample ballots, 5% for outreach, 4% for election programming and supplies, an 1% for miscellaneous expenses. The Secretary of State reported reimbursing \$1.3 million for the primary election and \$1.2 million for the election.

The county submitted \$2.7 million in expenditures. For the primary, the County requested \$11.40 per actual voter and received reimbursement of \$11.22 per voter. For the general election day, the county requested \$7.60 per voter and received reimbursement of \$6.46 per voter. The unreimbursed costs of \$231,225 are attributable to the amount requested exceeds the allowable reimbursement under Laws 2018, Chapter 2 and expenditures lacking documentation. (Micaela Larkin)

Supreme Court – Report on Current and Future Automation Projects – Pursuant to an FY 2019 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) provided its FY 2019 report on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2019 will be approximately \$23.4 million. Of this amount, approximately \$2.1 million, or 9%, will be spent on 9 new or continuing projects; \$13.9 million, or 59%, will be spent on shared infrastructure; and \$7.5 million, or 32%, will be spent on ongoing automation support.

New Projects:

- Begin development of automated process for answering the 9 questions in the Public Safety Assessment (PSA) to assist judges in establishing

Summary of Recent Agency Reports (Continued)

release conditions for persons arrested for crimes (\$66,200).

- Replace unsupported devices and software licenses in Pima County (\$46,700).

Continuing Projects:

- Update outdated software within the statewide case management system in limited jurisdiction courts (\$759,100).
- Update the Adult Probation Enterprise Tracking System (APETS) to extend the life of the application (\$160,000).
- Update the Juvenile On-Line Tracking System (JOLTS) in the remaining 4 counties without the update (\$72,900).
- Rollout new e-filing for the general jurisdiction (Superior Court) case management system in rural counties (\$477,700).
- Continue development of redesigned Fines, Fees and Restitution Enforcement (FARE) data warehouse (\$486,500).
- Construct central repository of court case data and documents to ease public access (\$50,000).
- Streamline and standardize the E-Bench program that allows judges to access relevant electronic documents while in court (\$7,500).

The top 3 funding sources for automation projects included in this plan are the Judicial Collection Enhancement Fund (\$8.6 million), the Grants & Other Special Revenues Fund (\$6.3 million), and the General Fund (\$3.4 million). Together these 3 funds comprise 78% of the proposed funding in FY 2019. (Geoffrey Paulsen)

Arizona Department of Transportation – [Annual Report on Motor Vehicle Division Wait Times](#) – Pursuant to an FY 2018 General Appropriation Act footnote, the Arizona Department of Transportation (ADOT) reported to the Legislature on Motor Vehicle Division (MVD) field office customer wait times. Between arrival at an MVD office and departure, the average customer experience time in metropolitan areas decreased from 35.0 minutes in FY 2017 to 24.6 minutes in FY 2018. Average customer experience times in metropolitan areas ranged from 19.9 minutes in the Avondale office to 29.6 minutes in the Scottsdale office in FY 2018. In non-metropolitan areas, the average customer experience time decreased from 30.7 minutes in FY 2017 to 21.4 minutes in FY 2018. In addition to customer experience time, the department is now measuring the percent of customers spending more than 15 minutes waiting in the lobby. This new metric decreased from 45.2% in FY 2017 to 30.2% in FY 2018 in

metropolitan areas and from 46.4% to 21.4% over the same time period in non-metropolitan areas.

The number of customers visiting MVD field offices declined by (8.4)% from 2.86 million customer visits in FY 2017 to 2.62 million in FY 2018. Conversely, kiosk transactions increased by 58% from FY 2017 to FY 2018 and ServiceArizona (the state's vehicle registration renewal website) transactions increased by 10% from FY 2017 to FY 2018.

The average turnaround time for vehicle registration renewal by mail stayed level at 1.2 days in FY 2017 and FY 2018. Renewal by mail transactions decreased (7.2)% from FY 2017 to FY 2018. Beginning in January 2016, vehicle registration renewal by mail has been performed by a private third-party partner. (Ben Murphy)

August Spending

August 2018 General Fund spending was \$651.4 million, which is a decrease of \$(134.5) million below August 2017. (See Tables 7 & 8).

- Department of Education (ADE) spending has increased by \$102.4 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.
- Department of Corrections spending decreased by \$(50.8) million in August 2018. This decrease was expected, as the agency's spending level was artificially increased in July due to technical timing issues.
- August "Other" spending decreased due to the state's debt service payment for the 2010 sale/leaseback financing. This payment occurred in July this fiscal year, compared to August in FY 2018.

	<u>August 18</u>	<u>Change From August 17</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 18</u>
Agency				
AHCCCS	145.5	(7.1)	335.3	(57.5)
Corrections	99.4	(50.8)	308.9	92.8
Child Safety	16.0	(34.4)	56.3	(15.6)
Economic Security	6.8	(6.9)	491.0	30.8
Education	264.2	43.1	1,533.6	102.4
Health Services	9.4	(0.0)	20.6	(0.3)
Public Safety	4.9	(0.2)	34.4	5.2
School Facilities Board	0.2	(0.0)	160.0	(32.1)
Universities	56.4	(1.6)	118.2	5.7
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>48.6</u>	<u>(76.6)</u>	<u>136.6</u>	<u>(3.5)</u>
Total	651.4	(134.5)	3,279.0	127.9

General Fund Spending				
(\$ in Thousands)				
Agency	August 18	Change from August 17	Year-to-Date	YTD Change from FY 18
Dept. of Admin./Automation Projects Fund	1,309.0	(85,479.7)	7,072.7	(8,827.5)
ADOA – Sale/Leaseback Debt Service	-	-	84,112.0	(3.1)
Office of Administrative Hearings	137.0	0.4	186.1	(2.4)
Commission of African-American Affairs	12.6	(0.8)	20.8	(1.5)
Department of Agriculture	1,093.3	31.5	1,995.7	251.4
AHCCCS	145,519.2	(7,134.5)	335,313.4	(57,506.7)
Attorney General	2,414.4	(35.1)	3,963.9	(295.1)
State Board of Charter Schools	182.0	68.9	249.2	65.6
Department of Child Safety	15,979.5	(34,426.9)	56,284.2	(15,629.8)
AZ Commerce Authority	1,791.7	-	3,583.4	-
Community Colleges	144.2	144.2	13,040.5	470.9
Corporation Commission	797.7	716.5	924.6	437.3
Department of Corrections	99,382.5	(50,843.1)	308,895.0	92,824.4
County Funding	-	-	-	-
AZ State Schools for the Deaf & Blind	2,076.6	(1,151.9)	4,077.5	(1,358.3)
Office of Economic Opportunity	43.1	(8.2)	75.5	(26.0)
Department of Economic Security	6,775.4	(6,882.9)	491,045.2	30,792.3
State Board of Education	52.3	(104.1)	130.6	(67.1)
Department of Education	264,183.2	43,072.3	1,533,568.3	102,432.5
DEMA	957.5	(1,986.2)	1,520.3	(1,975.1)
DEQ – WQARF	-	-	-	-
Office of Equal Opportunity	-	(28.5)	-	(48.4)
State Board of Equalization	50.1	(8.1)	70.2	(111.8)
Board of Executive Clemency	97.1	6.7	163.3	27.1
Department of Financial Institutions	130.1	(51.0)	186.7	(105.0)
Department of Forestry and Fire Management	1,568.5	569.0	2,018.3	(829.9)
Department of Gaming	-	-	1,779.5	-
Governor/OSPB	884.3	14.4	1,817.5	157.5
Department of Health Services	9,392.0	(3.9)	20,585.8	(288.8)
Arizona Historical Society	274.1	(0.3)	479.9	(9.7)
Prescott Historical Society of AZ	87.2	(20.0)	163.8	(5.7)
Department of Housing	-	(80.0)	-	(248.9)
Independent Redistricting Comm.	-	(0.1)	-	(0.1)
Department of Insurance	685.6	114.6	1,060.4	106.8
Judiciary				
Supreme/Superior Court	7,018.7	4,277.2	24,030.7	4,377.2
Court of Appeals	1,695.6	176.5	2,812.9	287.4
Department of Juvenile Corrections	4,233.2	847.3	6,655.6	1,458.6

Table 8 (Continued)

Agency	August 18	Change from August 17	Year-to-Date	YTD Change from FY 18
State Land Department	978.3	(468.0)	2,300.1	(269.8)
Legislature				
Auditor General	2,220.8	(194.5)	3,828.9	(101.8)
House of Representatives	1,514.5	(34.2)	2,615.6	112.7
Joint Legislative Budget Comm.	260.3	13.4	468.5	31.2
Legislative Council	612.3	(32.7)	1,014.9	(534.7)
Senate	1,074.7	2.5	1,836.1	116.7
Mine Inspector	101.2	(17.7)	201.5	(7.6)
Nav. Streams & Adjudication	24.5	12.1	32.7	9.5
Phoenix Convention Center	-	-	22,996.3	497.3
Comm. for Postsecondary Ed.	468.7	(140.8)	681.7	(140.8)
Department of Public Safety	4,905.6	(150.2)	34,378.8	5,206.3
Public Safety Personnel Retirement System	7,000.0	6,000.0	7,000.0	1,000.0
Radiation Regulatory Agency	-	(152.9)	-	(255.4)
Real Estate Department	236.9	(29.1)	442.4	(15.9)
Department of Revenue	2,143.5	(554.7)	3,913.2	(515.7)
School Facilities Board	163.0	(26.2)	160,018.7	(32,106.1)
Secretary of State	1,241.7	177.8	2,979.6	849.8
Tax Appeals Board	45.9	19.1	46.2	(33.6)
Office of Tourism	-	-	2,133.6	(355.6)
Department of Transportation	598.8	598.2	1,889.7	1,889.1
Governor's Office on Tribal Relations	8.1	7.3	15.0	9.7
Universities				
Board of Regents	24.1	0.8	390.6	16.7
Arizona State University	24,740.0	(1,733.6)	52,461.9	1,330.1
Northern Arizona University	9,770.4	345.6	18,938.7	1,591.4
University of Arizona	21,898.4	(208.5)	46,434.7	2,747.2
Department of Veteran Services	628.3	(78.6)	1,161.0	42.5
Department of Water Resources	1,605.2	224.2	2,607.2	341.7
Department of Weights & Measures	-	-	-	1.0
Other - State Treasurer/JP Salaries	151.8	115.1	335.8	109.6
Other	-	-	-	-
Total	651,384.4	(134,511.7)	3,279,006.8	127,913.4

Arizona Economic Trends

September 2018

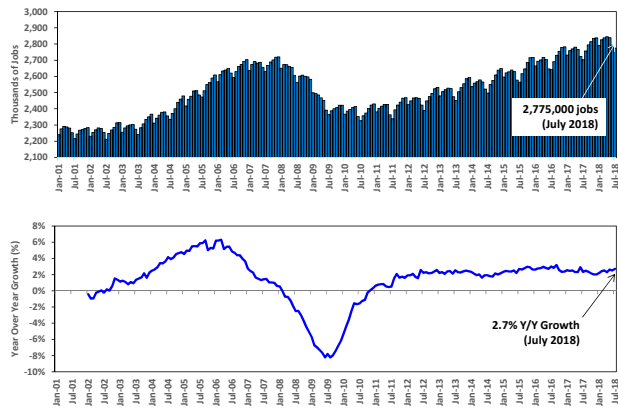
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Contents

Page:

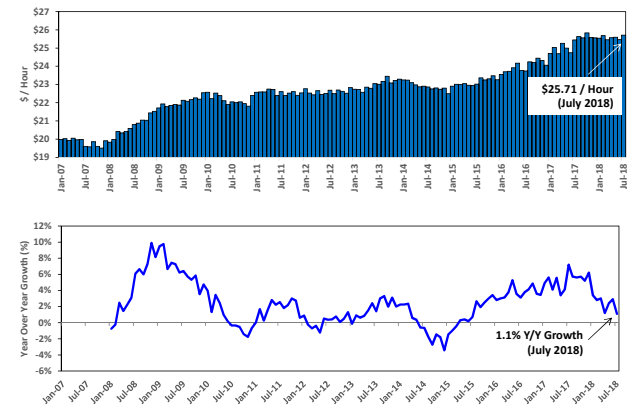
- 3.....Total Non-Farm Employment
- 4.....Average Hourly Earnings – Private Sector
- 5.....Initial Claims for Unemployment Insurance
- 6.....State Sales Tax Collections – Retail Category
- 7.....State Sales Tax Collections – Contracting Category
- 8.....Residential Building Permits

Total Non-Farm Employment



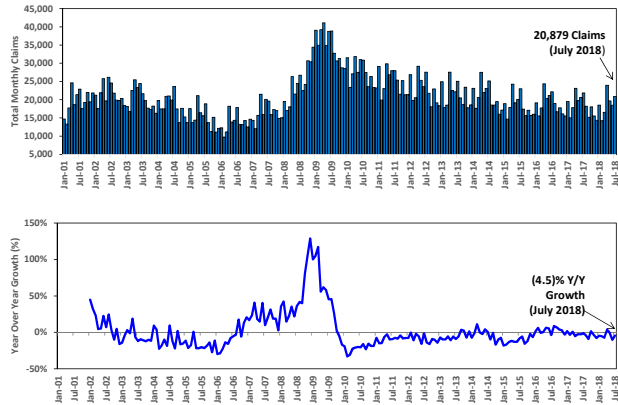
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Average Hourly Earnings – Private Sector



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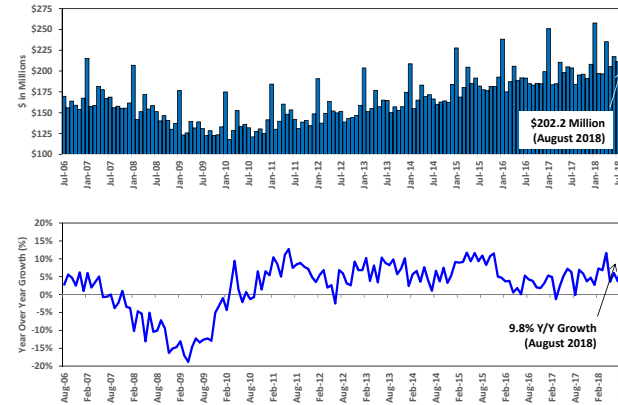
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



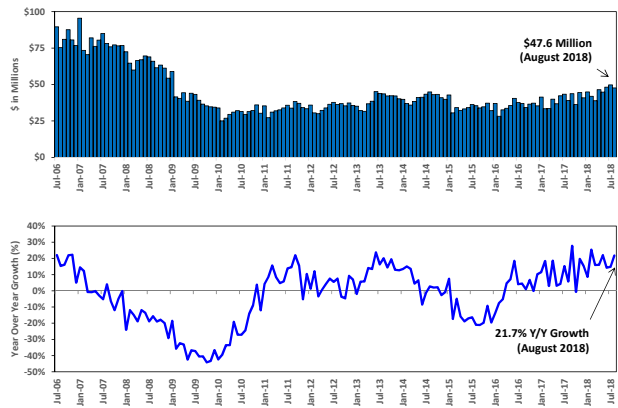
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Excludes temporary 1-cent sales tax

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

6

State Sales Tax Collections – Contracting Category

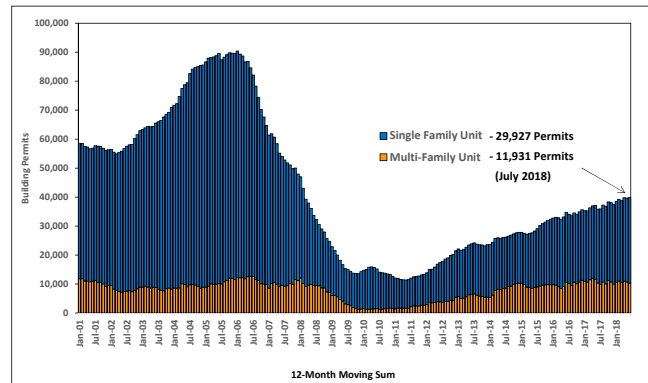


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Excludes temporary 1-cent sales tax

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Residential Building Permits



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8