

1716 W. Adams
Phoenix, AZ 85007

Phone:
(602) 926-5491
Fax:
(602) 926-5416



www.azleg.gov/jlbc.htm

“The performance of the Individual Income tax category remains uncertain until at least the middle of May.”

Summary

March General Fund revenue collections totaled \$590.5 million. Base revenues, which exclude one-time adjustments, were 19.9% above March 2013. The year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

The significant increase in March collections was mostly due to the Individual Income Tax, which posted an increase of 80% compared to March 2013. However, in the middle of tax filing season it is difficult to draw conclusions about this result, given that return processing and the timing of taxpayer filings can cause significant fluctuations in collections in any given week. While next month’s results for April may yield more information, the performance of the Individual Income tax category remains uncertain until at least the middle of May, at which time most taxpayer returns have been processed.

In terms of the state’s other main revenue categories, Sales and Corporate Income taxes showed increases over the prior year, with those revenues categories coming in at \$13.6 million and \$11.5 million above the budget forecast, respectively.

Overall March General Fund collections were \$55.6 million above the January forecast assumed in the April enacted budget. Year-to-date, overall collections are \$39.0 million above the January forecast, while base revenues are 4.3% higher than last year. In comparison to revenue of \$590.5 million, March 2014 spending was \$478.2 million, which is an increase of \$114.5 million from the prior year.

Fiscal year-to-date, General Fund revenues of \$5.96 billion have been offset by \$7.07 billion of expenditures.

The state’s fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance is at \$2.0 billion as of mid-April 2014. In addition, the state’s Budget Stabilization Fund has a balance of \$454.1 million.

April FAC Summary

The Finance Advisory Committee (FAC) met on April 10, 2014 to update its 4-sector revenue forecast. The FAC is a 15 member panel of private and public section 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 models.

The FAC heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. The JLBC Staff provided members with revised [FY 2014 - FY 2017 fiscal estimates](#) based on the updated 4-sector revenue forecast and the spending plan outlined in the Conference budget approved by the Legislature on April 7, 2014. That plan was slightly altered by the Governor’s vetoes on April 11, 2014.

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Summary (Continued)

During the meeting, FAC panelists generally outlined a slowly improving economy, with moderate growth predicted for the next several years.

In comparison to the January forecast, the April 4-sector projection reduced the FY 2015 base revenue growth rate from 5.3% to 5.0%. The FY 2016 and FY 2017 estimates were virtually unchanged. (See Table 1) Given the current year-to-date FY 2014 performance of 4.3%, the long-term budget projections retained the January FY 2014 forecast of 4.3%.

	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>
January 4-Sector	5.3%	5.2%	5.6%
April 4-Sector	5.0%	5.3%	5.6%

The net result of the April 4-sector forecast is to reduce the level of projected revenues by \$(33) million in FY 2015 and by \$(69) million in FY 2017, compared to the enacted budget just approved by the Governor and Legislature (which used the January 4-sector estimates).

As a result, the enacted budget’s projected FY 2015 ending balance would fall from \$139 million to \$106 million. Under the 3-year spending plan, the enacted budget had a projected FY 2017 shortfall of \$(469) million. The April forecast would increase that shortfall to \$(538) million.

Medicaid Expansion Enrollment

On January 1, 2014, Medicaid coverage was expanded to adults from 100-133% of the federal poverty level (FPL) and restored to childless adults from 0-100% FPL. From July 2011 through December 2013, the childless adult program did not allow new participants. As of April 1, expansion has resulted in 14,000 new adult enrollees while restoration has increased the childless adult program by 112,923 enrollees. The FY 2015 budget assumes that, by June 2014, expansion would result in 24,000 adult expansion enrollees and a 78,540 increase in childless adult enrollees. It is assumed that the phase-in of new enrollees will continue through December 2014.

Monthly Report on Child Safety Staff - Pursuant to Laws 2014, Chapter 4, DCSFS has submitted the February and March reports on its progress in hiring child safety staff. Laws 2014, Chapter 4 appropriated \$6.9 million and 192 FTE Positions to hire new child safety staff. With these added positions, total budgeted child safety staff is 2,667 FTE Positions.

Compared to the 192 new authorized positions, net filled child safety staff increased by 34 positions in February and March. Table 2 provides details on the staffing increase.

	<u>Change since January</u>	<u>Total in March</u>
Caseworkers	23	1,006
Hotline Staff	6	76
Staff in Training	14	151
Non-Caseworkers	(9)	1,085
Total	34	2,318

1/ Excludes 20 temporary staff

Classroom Site Fund Report – The JLBC Staff is required to annually determine by March 30 of each year the estimated K-12 Classroom Site Fund (CSF) per pupil amount for the upcoming budget year. The CSF is funded from the Proposition 301 0.6¢ sales tax and from K-12 trust land endowment earnings.

Under these parameters, public schools will receive \$295 per weighted pupil from the CSF for FY 2015. The \$295 per pupil amount would be slightly lower than the \$310 per pupil amount anticipated for FY 2014 because of higher School Facilities Board debt service costs, the loss of one-time State Land Department revenues, and growing student enrollments.

Those factors are expected to more than offset growth in Proposition 301 sales tax revenues and Treasurer’s endowment earnings for FY 2015.

March Revenues

	<u>FY 2014 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2013</u>
March	\$ 590.5	\$ 55.6	\$ 25.5
Year-to-Date	\$ 5,955.6	\$ 39.0	\$ (358.3)

Sales Tax collections of \$326.0 million were 9.3% above March 2013 and \$13.6 million above the forecast for the month. The year-over-year change amounts exclude the temporary 1-cent sales tax which expired at the end of May 2013.

For the first 9 months of the fiscal year, sales tax collections are 5.9% above the prior year and are \$2.5 million above the January forecast.

Table 4 displays the March growth rates for the largest sales tax categories.

Retail and contracting together account for about 60% of all sales tax revenues. March retail, which reflects February sales, increased by 6.6%. Year-to-date, retail sales are up 8.7%.

Contracting collections have generally been much more volatile than retail. However, contracting has shown double digit increases every month during the current fiscal year.

	<u>March</u>	<u>YTD</u>
Retail	6.6%	8.7%
Contracting	13.5%	15.4%
Use	11.7%	(12.9)%
Restaurant & Bar	9.3%	4.2%

Individual Income Tax net revenues were \$118.4 million in March, which was \$52.6 million above the prior year. Collections were \$31.8 million above the forecast for the month. Year-to-date, revenue has grown 5.3% over the prior year, and is \$24.0 million above the January forecast.

As indicated in Table 5, withholding increased by 9.6% for the month. The March increase brings withholding tax collections for the fiscal year to 3.5% over the prior year. This amount is approximately equal to the January forecast.

March estimated and final payments were 8.2% above last year. Year-to-date, payments are up 5.2% compared to the prior year, and are \$7.4 million above the enacted budget forecast.

March refunds were (7.0)% below last year, and were \$22.6 million below forecast. Refunds totaled \$(261.8) million in March, which is \$19.8 million less than last year. The decline in refunds during March 2014 may be more a function of the timing of processing and taxpayer filing rather than a change in taxpayer liability.

Year-to-date, refunds are (1.0)% less than the prior year.

	<u>March</u>	<u>YTD</u>
Withholding	9.6%	3.5%
Estimated + Final Payments	8.2%	5.2%
Refunds	(7.0)%	(1.0)%

Corporate Income Tax net collections were \$78.4 million in March, which is \$3.0 million greater than March of the prior year. Year-to-date, collections are down (10.6)% compared to the prior year, and are \$9.4 million above the January forecast.

The **Lottery Commission** reports that March ticket sales were \$69.1 million, which is \$(0.8) million, or (1.2)%, below sales in the prior year. Year-to-date ticket sales are \$545.5 million, which is 7.9% above last year's sales.

March lottery revenues were \$7.0 million above forecast, largely due to a technical timing issue relating to the processing of Lottery Commission profits.

Highway User Revenue Fund (HURF) revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees. HURF collections of \$103.1 million in March were up \$2.8 million, or 2.8%, compared to March of last year. Year-to-date revenues are 2.7% above collections in the prior year, and are \$15.4 million above forecast.

Table 6

General Fund Revenue: Change from Previous Year and January Baseline Forecast March 2014

	Current Month					FY 2014 YTD (Nine Months)				
	Actual March 2014	Change From March 2013		January Forecast		Actual March 2014	Change from March 2013		January Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$325,993,542	\$27,868,076	9.3 %	\$13,558,054	4.3 %	\$2,993,457,227	\$167,532,663	5.9 %	\$2,543,644	0.1 %
Income - Individual	118,392,715	52,602,636	80.0	31,829,111	36.8	2,440,446,629	122,434,343	5.3	24,032,721	1.0
- Corporate	78,408,428	3,007,999	4.0	11,515,228	17.2	361,474,492	(43,001,918)	(10.6)	9,380,040	2.7
Property	638,691	23,020	3.7	338,691	112.9	11,641,684	2,559,310	28.2	998,255	9.4
Luxury - Tobacco	1,928,754	(1,420,976)	(42.4)	(1,171,246)	(37.8)	19,301,309	(56,611)	(0.3)	492,586	2.6
- Liquor	2,311,496	(674,557)	(22.6)	(788,504)	(25.4)	24,264,678	177,319	0.7	151,685	0.6
Insurance Premium	90,260,498	22,549,089	33.3	(2,672,502)	(2.9)	248,694,988	28,109,031	12.7	(2,597,098)	(1.0)
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	41,869	(1,021,344)	(96.1)	(942,799)	(95.7)	384,839	(1,025,052)	(72.7)	(990,161)	(72.0)
Sub-Total Taxes	\$617,975,993	\$102,933,943	20.0 %	\$51,666,033	9.1 %	\$6,099,665,847	\$276,729,086	4.8 %	\$34,011,673	0.6 %
Other Revenue										
Lottery	12,485,250	7,466,210	148.8	6,985,250	127.0	39,206,868	7,577,908	24.0	7,920,000	25.3
License, Fees and Permits	2,199,312	34,572	1.6	(400,688)	(15.4)	21,196,868	(616,181)	(2.8)	(1,421,474)	(6.3)
Interest	(12,978)	(15,539)	--	(12,978)	--	3,239	(4,905,989)	(99.9)	(2,008,602)	(99.8)
Sales and Services	2,066,187	(117,815)	(5.4)	916,187	79.7	21,947,536	605,028	2.8	(20,020)	(0.1)
Other Miscellaneous	2,164,888	(1,726,072)	(44.4)	(1,835,112)	(45.9)	10,028,605	(11,664,243)	(53.8)	(3,435,211)	(25.5)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	289,077	(2,719,240)	(90.4)	(1,710,923)	(85.5)	16,123,375	(9,199,491)	(36.3)	(11,025,379)	(40.6)
Sub-Total Other Revenue	\$19,191,737	\$2,922,117	18.0 %	\$3,941,737	25.8 %	\$108,506,491	(\$18,202,967)	(14.4) %	(\$9,990,685)	(8.4) %
TOTAL BASE REVENUE	\$637,167,730	\$105,856,060	19.9 %	\$55,607,770	9.6 %	\$6,208,172,339	\$258,526,120	4.3 %	\$24,020,989	0.4 %
Other Adjustments										
Urban Revenue Sharing	(46,709,330)	(3,910,660)	9.1	0	0.0	(420,873,203)	(35,685,173)	9.3	0	0.0
One-Time Transfers	0	0	--	0	--	165,646,297	129,646,297	360.1	14,954,736	9.9
Sales Tax - 1¢ Increase	0	(76,430,417)	(100.0)	0	--	2,611,367	(710,740,385)	(99.6)	0	0.0
Sub-Total Other Adjustments	(46,709,330)	(80,341,077)	-- %	0	0.0 %	(252,615,539)	(616,779,261)	-- %	14,954,736	(5.6) %
TOTAL GENERAL FUND REVENUE	\$590,458,400	\$25,514,983	4.5 %	\$55,607,770	10.4 %	\$5,955,556,800	(\$358,253,142)	(5.7) %	\$38,975,725	0.7 %
Non-General Funds										
Highway User Revenue Fund	\$103,083,992	\$2,823,529	2.8 %	\$1,820,924	1.8 %	\$920,679,024	\$24,362,277	2.7 %	\$15,399,110	1.7 %

Recent Economic Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 2.6% in the fourth quarter of 2013. This estimate was a deceleration from the 4.1% growth in the third quarter. The slowdown was primarily due to decreases in federal government spending, residential investment and inventory accumulation. The quarterly decrease in residential investment (housing) was the first since the third quarter of 2010.

“The [U.S. Consumer Confidence] index now stands at its highest mark since January 2008.”

The Conference Board’s **U.S. Consumer Confidence Index** increased 5.1% in March and 33% since March 2013. At 82.3, the index now stands at its highest mark since January 2008. Improvement in the index’s component that measures consumer outlook on future economic well-being more than offset a decrease in the component measuring confidence in present circumstances.

The Conference Board’s **U.S. Leading Economic Index** increased by 0.5% in February and 4.7% since February 2013. While 6 of the index’s 10 components decreased during the month, growth in the remaining 4 generated the strong overall increase. Improvement in measures of financial market performance and in building permit creation led the rise.

Consumer prices, as measured by the U.S. **Consumer Price Index (CPI)**, increased 0.2% in March and 1.5% above March 2013 levels. During the month, core inflation (all items except food and energy) rose 0.2%, energy prices fell (0.1)% and food prices rose 0.4%. Annual inflation measured by the index in the future is expected to strongly influence the pace the Federal Reserve Bank reduces their monetary stimulus to the economy.

ARIZONA

The Federal Reserve Bank of Philadelphia’s **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

In February, 38 out of 50 states had increases in their coincident indexes. Arizona’s coincident

index increased by 0.2% compared to the prior month. Year-over-year, the Arizona index is 2.3% above last year, which is the 35th highest growth rate in the country. While this is a significant improvement, Arizona’s index is still (8.2)% below its peak, which occurred in August 2007. *See Appendix A – Tracking Arizona’s Recovery* for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that forecasts economic conditions for the next 6 months. In addition to the coincident index, Arizona’s leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national manufacturing delivery times, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona’s leading index projects that state GDP will grow at an annualized rate of 3.4% over the next 6 months. This is higher than the revised 3.3% growth projection in January and higher than the 2.7% projection in February 2013.

Housing

The number of Maricopa County **pending foreclosures** decreased from 5,424 in February to 4,983 in March. The March total is significantly below the peak in December 2009 (51,466). *See Appendix A – Tracking Arizona’s Recovery.*

The total housing inventory in the Greater Phoenix area increased from 20,729 in March 2013 to 29,939 in March 2014, a 44.4% increase.

In the Metropolitan Phoenix area, the **median price of a single family home** was \$195,000 in February. This represents a (1.0)% decrease from January, and a 14.7% increase from February of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through February, an average of 1,339 **single-family building permits** had been issued statewide, a 14.1% increase from last year. While permitting activity has seen gains, the current level of permitting remains far below a more normal 3-month average of 3,000 to 4,000 permits. *See Appendix A – Tracking Arizona’s Recovery.*

Recent Economic Indicators (Continued)

Employment

The state gained a total of 15,600 **nonfarm jobs** between February and March. The private sector added a net of 17,100 jobs in March whereas the government sector lost (1,500) jobs. The largest contributions to March's month-over-month net job gain came from the following 2 sectors: professional and business services (+7,300) and leisure and hospitality (+5,400).

Compared to March 2013, **nonfarm employment** was up by 1.9%, or 47,400 jobs. This was the second month of year-over-year growth below 2% following January's job gain of 2.3%. The largest year-over-year net job gains came from the following industries: education and health services (+11,900), trade, transportation and utilities (+11,400), and financial activities (+8,900). Notably, the construction industry's year-over-year net job increase of 2,900 was the smallest since February 2012.

The state's seasonally adjusted **unemployment rate** remained unchanged at 7.3% in March. Compared to same month last year, the jobless rate has decreased by (0.7)%. The U.S. unemployment rate was 6.7% in both February and March.

State Agency Data

At the beginning of April, total **AHCCCS** caseloads increased to 1.38 million members. Overall, AHCCCS caseloads are currently 8.5% above April 2013 levels.

The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, grew by 26,891 to a level of 903,802. This level represents an increase of 3.1% since last month and 2.0% since last year. This growth, in part, may be related to the federal health care expansion. When applying for Affordable Care Act coverage, households may have discovered that they were instead eligible for the traditional Medicaid program.

From July 2011 through December 2013, the childless adult program did not allow new participants. As part of Medicaid expansion and restoration that began January 1, 2014, the program again allowed new participants. Since the December MFH, the population has increased by 112,923 to reach a level of 180,693. As a whole, the Proposition 204

program has increased 9.5% compared to the prior month, and 45.8% from the prior year. Medicaid expansion also resulted in the creation of a new member population consisting of adults from 100% to 133% of the Federal Poverty Level (FPL). At the beginning of April, 14,000 individuals had enrolled under this new population.

KidsCare I provides coverage for 2,098 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment in the program has declined (72.5)% from the prior year, though a portion of that decrease is the result of transferring 3,300 children that became eligible for the Traditional acute care program on January 1, 2014.

There were 30,815 **TANF recipients** in the state in February, a monthly caseload decrease of (2.7)%. Year-over-year, the number of TANF recipients has declined by (18.1)%. The statutory lifetime limit on cash assistance is 24 months.

The appropriation for TANF cash assistance in the FY 2014 budget funds an average monthly caseload of approximately 34,346 recipients in FY 2014.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In February, there were a total 1.04 million food stamp recipients in the state, a (1.0)% decrease over the prior month. Compared to the same month last year, food stamp participation was down by (6.0)%. The number of SNAP recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range. Total SNAP participation peaked in October 2011, when 1.14 million persons were receiving benefits. Since then, participation has declined as economic conditions have improved.

The 3-month average count of the **Department of Corrections (ADC) inmate population** increased to 41,371 inmates in March 2014. Relative to the prior 3-month period, the population has increased by 114 inmates. Compared to a year ago, the population has increased by 1,286 inmates, an increase of 3.2%.

“Compared to the same month last year, food stamp participation was down by (6.0)%.”

Recent Economic Indicators (Continued)

Table 7

ECONOMIC INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate (SA)	February	7.3%	(0.2) %	(0.7)%
- Initial Unemployment Insurance Claims	March	20,574	16.5%	11.1%
- Unemployment Insurance Recipients	March	35,748	3.1%	(3.3)%
- Non-Farm Employment - Total	March	2.57 million	0.6%	1.9%
Manufacturing	March	154,400	0.5%	(0.5)%
Construction	March	122,900	0.5%	2.4%
- Average Weekly Hours, Manufacturing	February	40.3	2.3%	(0.7)%
- Contracting Tax Receipts (3-month average)	Jan-Mar	\$37.6 million	(3.7)%	13.9%*
- Retail Sales Tax Receipts (3-month average)	Jan-Mar	\$187.8 million	(1.6)%	10.4%*
- Residential Building Permits (3-month moving average)				
Single-family	Dec-Feb	1,339	7.7%	14.1%
Multi-unit	Dec-Feb	1,006	52.3%	33.7%
- Greater Phoenix Home Sales				
Single-Family	February	5,398	0.8%	(26.6)%
Townhouse/Condominium	February	963	6.5%	(20.8)%
- Greater Phoenix Median Home Price				
Single-Family	February	\$195,000	(1.0)%	14.7%
Townhouse/Condominium	February	\$121,900	3.1%	12.9%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	January	144.18	(0.2)%	13.8%
- Foreclosure Activity, Maricopa County	March	4,983	(8.1)%	(51.1)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	March	29,939	0.9%	44.4%
- Phoenix Sky Harbor Air Passengers	February	3.15 million	(6.4)%	2.9%
- Revenue Per Available Hotel Room	February	\$84.77	36.3%	10.2%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	January	\$5.09	(0.2)%	14.9%
- Arizona Consumer Confidence Index (1985 = 100)	1st Quarter 2014	68.9	3.0%	N/A
- Arizona Coincident Index (July 1992 = 100)	February	185.16	0.2%	2.3%
- Arizona Leading Index -- 6 month projected growth rate	Dec-Feb	3.4%	0.2%	0.7%
- Arizona Personal Income	4th Quarter 2013	\$247.0 billion	0.7%	1.4%
- Arizona Population	July 1, 2013	6.63 million	N/A	1.2%
- AHCCCS Recipients	April	1,377,653	5.7%	8.5%
Acute Care Traditional		903,802	3.1%	2.0%
Prop 204 Childless Adults		180,693	15.7%	128.6%
Other Prop 204		150,249	4.7%	1.6%
Adult Expansion		14,000	141.1%	-
Kids Care I		2,098	(2.1)%	(72.5)%
Long-Term Care – Elderly & DD		54,922	0.4%	3.1%
Emergency Services		71,889	11.3%	8.9%
- TANF Recipients	February	30,815	(2.7)%	(18.1)%
- SNAP (Food Stamps) Recipients	February	1,035,519	(1.0)%	(6.0)%
- ADC Inmate Growth (3-month average)	Jan-Mar	41,371	114 inmates	1,286 inmates
- Probation Caseload				
Non-Maricopa	January	17,517	17,517	17,517
Maricopa County	January	24,932	24,932	24,932
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	4 th Quarter 2013 (Third Estimate)	\$15.9 trillion	2.6%	2.6%
- Consumer Confidence Index (1985 = 100)	March	82.3	5.1%	33.0%
- Leading Indicators Index (2004 = 100)	February	99.8	0.5%	4.7%
- U.S. Semiconductor Billings (3-month moving average)	Dec.-Feb.	\$5.3 billion	(5.6)%	18.0%
- Consumer Price Index, SA (1982-84 = 100)	March	235.6	0.2%	1.5%

* Excludes the temporary 1¢ increase that expired at the end of May 2013.

JLBC Meeting

At its April 10, 2014 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – Review of Emergency Telecommunication Services Revolving Fund (ETSF) Expenditure Plan – The Committee gave a favorable review of the \$5.7 million wireless portion of the ETFS expenditure plan. The proposal would assist local governments which have yet to meet Geographic Information System Standards and subsequently have not been deployed into Phase II.

Phase I requires local public safety answering facilities to be able to identify the phone number of the caller whereas Phase II additionally requires the public safety answering facilities to identify the specific location of a 911 caller.

Arizona Department of Administration – Consider Approval of Employer Sanctions Enforcement Distributions – The Committee approved the Department of Administration's (ADOA) request to distribute \$300,500 of the \$513,200 FY 2014 appropriation for the enforcement of immigration-related employer sanctions. The approval included the following provisions:

- 1) If a county attorney or sheriff not currently scheduled to receive any monies subsequently requests FY 2014 funding, ADOA may provide those funds.
- 2) Any unused funds revert back to the General Fund.

The FY 2014 General Appropriation Act appropriated \$1.2 million to ADOA for County Attorney Immigration Enforcement Special Line Item with a footnote specifying that of the \$1.2 million amount, \$700,000 shall be allocated to Maricopa County. The remaining amount is to be distributed by ADOA to all other county sheriffs and county attorneys for enforcement of immigration-related employer sanctions.

Arizona Department of Economic Security – Review of Contingency Funding Expenditure Plan – The Committee gave a favorable review of the Department of Economic Security's (DES) spending plan for the expenditure of monies from the Contingency Funding line item.

Through a footnote in the FY 2014 General Appropriation Act, \$10.5 million in the Contingency Funding line item is designated for unanticipated shortfalls in Child Protective Services (CPS). The department plans to use the Contingency Funding for CPS Emergency and Residential Placement to address a portion of DES' projected \$14.7 million shortfall for these placements.

Arizona Department of Economic Security – Review of Intensive Family Services Implementation – The Committee acknowledged reviewing the department's expenditure plan for the current fiscal year with the provision that the department report by June 1, 2014 on how it plans to

expend the Intensive Family Services funds in FY 2015. With input from the House and Senate as well as the Child Protective Services Reform Workgroup, the Committee would then provide further guidance on whether the FY 2015 appropriation is to be expended for a new program or integrated into existing services.

The FY 2014 General Appropriation Act appropriated \$5 million from the General Fund to a new Intensive Family Services line item.

Arizona Department of Education – Review of Sunnyside Unified Payments – The Committee gave a favorable review to the Department of Education's plan to provide the Sunnyside Unified School District in Pima County with \$1.9 million in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by the Raytheon Company.

Arizona Department of Environmental Quality – Review of Vehicle Emissions Contract Modifications – The Committee gave a favorable review of modifications to the Vehicle Emissions Inspection (VEI) contract with private vendor Gordon Darby Arizona Testing, Inc. Based on the vendor experience over the past year, the department and the vendor propose operation process and testing requirement changes relating to the following items: Gas Cap Replacement, Catalyst Efficiency Test, Special Vehicle Test Lane, Station Signage, Repair Industry Effectiveness, Liquid Leak Inspections, Diesel Testing in the Tucson Metro area and Wavier/Referee technicians and inspectors.

AHCCCS/Department of Health Services – Review of Revised Capitation Rate Changes for Acute Care and Behavioral Health Services – The Committee gave a favorable review of capitation rates associated with the integration of Acute and Behavioral Health Care for the Seriously Mentally Ill residing in Maricopa County effective April 1, 2014, with the following provisions:

- 1) DHS report to the Committee by May 1, 2014 on the reasons for not using a reinsurance program.
- 2) AHCCCS report to the Committee on the status of its discussions with the federal government concerning childless adult cost sharing provisions.

JCCR Meeting

At its April 8 and 10, 2014 meetings, the Joint Committee on Capital Review considered the following issues:

University of Arizona – Review of Phase 1 of McKale Memorial Center Improvements – The Committee gave a favorable review to the University of Arizona’s \$12.5 million bond issuance to fund Phase 1 of the McKale Memorial Center Improvements with the standard university financing provisions. The total project cost is \$25 million, with \$12.5 million being paid in cash and the other \$12.5 million being paid with a system revenue bond, which will be paid from gift revenues raised by the athletic department.

Northern Arizona University – Review of Aquatics and Tennis Project and Code and Safety Renovations – The Committee gave a favorable review to NAU’s \$57 million revenue bond issuance. Of that amount, \$44.5 million will fund construction of a new aquatics and tennis facility with the remaining \$12.5 million going to fund code and safety renovations on the NAU Flagstaff campus. The renovations will impact 24 buildings and include upgrades to sprinklers, new smoke detectors and strobe compliance for alarm systems. The favorable review includes the standard university financing provisions along with a provision that the aquatic center retain the name ‘Douglas J. Wall Aquatics Center’.

Arizona State University – Review of Center for Law and Society Project and Psychology Building Renovations – The Committee gave a favorable review of ASU’s \$136.7 million system revenue bond issuance to fund the construction of a new Center for Law and Society at the ASU Downtown Phoenix Campus and renovations to the Psychology building at the ASU Tempe Campus. The total cost for the Center for Law and Society will be \$129 million with \$114 million funded with system revenue bonds and \$15 million paid in gift proceeds. The Psychology Building renovations are expected to cost \$22.7 million, to be paid entirely from system revenue bond proceeds. The Committee gave a favorable review of the project with the standard university financing provisions along with an additional provision that ASU shall provide a report to JCCR by December 31, 2014 on the projected fund sources for the law school debt service for each fiscal year through FY 2020.

Arizona Department of Transportation – Review of De-Icer Building Project – The Committee gave a favorable review of ADOT’s \$2.3 million expenditure plan for 5 de-icer buildings with the provision that ADOT report any project reallocations above \$100,000 to the Committee. The buildings will house chemicals, bulk sand and cinders to be used during winter months to de-ice highways. The 5 de-icer buildings will be located in Alpine, Fort Rock, Oak Creek, Payson and Safford.

Arizona State Lottery Commission – Review of FY 2014 Building Renewal Allocation Plan – The Committee gave a favorable review of the State Lottery Commission’s expenditure plan of \$90,300 from the State Lottery Fund to fund building renewal of the Commission’s Phoenix facility with the provision that the agency subsequently provides its specific expenditure plan to the JLBC staff. The renewal plan consists of repairs to fix existing rain water leaks, potential water damage and floor repairs.

Arizona Department of Administration – Consider Recommending FY 2014 Partial Rent Exemption – The Committee recommended a technical rent exemption for the State Real Estate Department.

School Facilities Board (SFB) – Review of Lease-Purchasing Refinancing – The Committee gave a favorable review to the School Facilities Board’s proposal to use existing statutory authority (Laws 2013, 1st Special Session, Chapter 3) for a second refinancing proposal with additional debt service savings of \$8.4 million. The favorable review included the provision that SFB submit a final debt service schedule associated with the refinancing agreement. The Committee had already reviewed a refinancing proposal by SFB in October 2013 to reduce its debt service payments by \$5.2 million

Summary of Recent Agency Reports

Arizona Department of Administration – Report on State Expenditures for the National Public Safety Broadband Network Initiative - Following September 11, 2001, the National 9/11 Commission recommended the establishment of a nationwide, interoperable public safety communications network to provide solutions to communications challenges facing first responders. In response, Congress passed legislation in 2012 creating the National Public Safety Broadband Network (NPSBN) initiative in an effort to build a nationwide, standards-based, high-speed data network by reserving a part of the electromagnetic spectrum specifically for public safety, the 700 MHz broadband spectrum, or the “D Block.”

More than \$7 billion has been allocated for the NPSBN initiative, with a majority of funding being raised through the sale of rights to transmit signals over specific bands of the electromagnetic spectrum that were surrendered by television broadcasters during the transition from analog to digital television. Part of the \$7 billion allocated for this initiative includes a grant program for state and local governments, the State and Local Implementation Grant Program (SLIGP). Approximately \$118 million in formula-based grants were available to assist regional, state, local, and tribal government entities in preparing for the implementation of the NPSBN initiative.

Arizona was awarded \$3.0 million through the SLIGP formula in August 2013, however sequestration delayed the distribution of funds until November 2013. The \$3.0 million grant will be spent in 2 phases, each about \$1.5 million. The first phase will be dedicated to education and outreach, while the second phase will be devoted to gathering relevant data. One requirement of the grant is that Arizona and local governments additionally contribute at least \$745,200 in in-kind contributions to the project.

The Arizona Department of Administration (ADOA) has reported that the \$3.0 million grant includes \$2.2 million for 6 FTE Positions, including 3 FTE Positions for program contract staff, and an additional 3 FTE Positions working part-time as vendors and contractors for the project. In addition, \$449,000 would be spent on travel, \$213,000 would be spent on program support services and web development, and \$104,000 would be spent on equipment and supplies.

At its October 29, 2013 meeting, the JLBC required ADOA to provide quarterly reports on the progress of SLIGP expenditures. ADOA has reported that \$105,200 has been spent as of December 31, 2013. This amount was used to identify 850 first responder agencies in more than 1,400 locations in the state, in addition to various secondary agencies that support first responders, such as transportation, public works, and public health agencies.

Funds were additionally used to make presentations to Arizona’s regional wireless cooperatives, and to begin planning 145 meetings for education and outreach to other stakeholders, including:

- 15 county meetings
- 78 local meetings
- 22 tribal meetings
- 30 association and other meetings

(Ben Henderson)

AHCCCS, DES, & DHS – Report on Preliminary Actuarial Estimates for FY 2015 Capitation Rate Changes –

Pursuant to FY 2014 General Appropriation Act footnotes, AHCCCS has submitted a report on preliminary Medicaid capitation rate increases for contract year (CY) 2015. Their submission includes information for AHCCCS, the Department of Economic Security (DES), and the Department of Health Services (DHS).

In their report, AHCCCS provided information on components of potential CY 2015 capitation rate changes. With one exception, the enacted FY 2015 budget provides funding for these issues:

- Average increases of 2-3% based on medical expense trends, utilization trends, and reinsurance changes. AHCCCS’ actuaries though, did not update estimates for trends occurring since fall of 2013.
- A federally mandated increase in primary care provider rates through December 31, 2014 to comply with the Affordable Care Act (ACA) and a legislatively mandated 9% increase in ground ambulance rates.
- An approximate 1.3% increase for a nationwide health insurer fee included in the ACA.

The enacted FY 2015 budget included 2% capitation rate funding growth for the developmentally disabled population served by DES. The budget specified this growth would include a 2% provider rate increase. The 2% capitation adjustment, however, may be insufficient to fund both the provider rate increase and higher utilization trends. (Jon Stall)

Attorney General – Report on Incarceration Costs Offset by Monetary Judgments – Pursuant to A.R.S. § 31-238, the Office of the Attorney General (OAG) is required to report semiannually on the use of monetary judgments awarded to inmates to offset the costs of incarceration. From June 30, 2013 to January 1, 2014, the state did not exercise its right to offset the costs of incarcerating inmates under this statute, since no monetary judgments were awarded during this time period. The agency

Summary of Recent Agency Reports (Continued)

does, however, indicate that it believes the existing statute results in reduced negotiated settlement amounts, and also discourages the filing of frivolous lawsuits. (Matt Gress)

Auditor General - Report on Transportation Services for Foster Care Clients - The FY 2014 Health and Welfare Budget Reconciliation Bill instructs the Auditor General to submit a report addressing expenditures for transportation as part of Children Support Services, including the types of funded services provided along with cost details for those services. In FY 2013, the Department of Economic Security (DES) paid \$14.6 million to vendors that provided transportation services to child protective services (CPS) clients, or 84% more than FY 2011. In comparison, children in out-of-home care increased by 32% from FY 2011 to FY 2013.

In order to evaluate transportation services and ensure that this system provides the necessary data to evaluate the appropriateness and cost-effectiveness of contracting for these services, the Auditor General recommends that DES develop and implement a performance measurement system. For example, DES' transportation contracts include performance expectations regarding the timeliness of pickups, acceptance of referrals, and driver no shows. DES, however, does not require providers to report whether these performance expectations have been met. DES has agreed to implement the Auditor General's recommendation to implement a performance measurement system for transportation services.

The Auditor General also recommends additional internal controls to ensure proper payments to transportation providers, such as written policies and procedures, prepayment review, and supervisory review. DES disagrees with the Auditor General's recommendation of implementing prepayment and supervisory reviews; instead, DES proposes to increase the number of post-payment reviews for transportation services.

The largest category of transportation expenditures was contracted taxis and shuttle services (\$13.5 million) followed by ambulances (\$774,000), bus passes (\$261,500), reimbursements to non-contracted providers and foster care parents (\$97,000), and car seats (\$3,900).

The Auditor General contacted the other CPS agencies in the western states and asked how they provided transportation services to CPS clients. Of the 5 states that responded, Nevada, New Mexico, Texas, and Utah indicated that they do not contract for transportation services for their CPS clients. The fifth state, Washington, stated that it contracts with individuals to supervise parent-child visitation, and these contracts include reimbursement for transporting clients to and from visits.

This is the second of 3 audits on Children Support Services. The final report on emergency and residential placement will be published in October 2014. (Ben Beutler)

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2014. In that report, ADE estimates that it will experience a \$(51.8) million net funding shortfall for formula programs for FY 2014. The estimated shortfall includes a \$(62.2) million Basic State Aid shortfall and \$10.4 million Homeowner's Rebate surplus. The current report does not yet reflect a \$4.8 million increase in State Equalization Tax Rate (SETR) revenues that are anticipated for FY 2014, which would reduce the reported shortfall to \$47.0 million. The recently enacted budget appropriated \$47.0 million in supplemental funding to ADE to address this projected shortfall. ADE's final formula costs for FY 2014 will not be known until later in the year due to ongoing data updates and corrections. (Steve Schimpp)

March Spending

March 2014 General Fund spending of \$478.2 million was \$114.5 million greater than March 2013. Year-to-date, spending is \$7.1 billion, or \$181.5 million above last year.

(See Tables 8 & 9).

- Year-to-date, the Department of Education has spent \$291.2 million more than the prior year due to increased enrollment, increased per-pupil costs, and school district charter conversions.
- Department of Economic Security expenditures are \$61.0 million greater through March due to increased funding levels for the agency in FY 2014.

	<u>Mar 14</u>	<u>Change From Mar 13</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 13</u>
Agency				
AHCCCS	86.2	(42.3)	987.6	(47.4)
Corrections	68.7	(0.7)	693.4	22.6
Economic Security	3.3	(1.5)	591.8	61.0
Education	217.8	144.1	2,954.6	291.2
Health Services	13.8	(0.6)	498.7	(39.3)
Public Safety	1.7	0.5	23.7	2.3
School Facilities Board	0.1	(0.0)	188.4	15.8
Universities	43.7	4.3	604.5	20.8
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>42.9</u>	<u>10.7</u>	<u>441.9</u>	<u>54.5</u>
Total	478.2	114.5	7,068.7	381.5
Budget Stabilization Fund Deposit	0.0	0.0	0.0	(200.0)
Grand Total	478.2	114.5	7,068.7	181.5

General Fund Spending				
(\$ in Thousands)				
Agency	Mar 14	Change from Mar 13	Year-to-Date	YTD Change from FY 13
Dept. of Admin./Automation Projects Fund	4,209.9	3,626.6	33,342.6	12,409.5
ADOA – Sale/Leaseback Debt Service	-	-	84,119.8	-
Office of Administrative Hearings	56.0	27.3	637.5	24.9
Department of Agriculture	546.5	23.0	5,713.2	167.3
AHCCCS	86,199.8	(42,274.6)	987,606.8	(47,425.1)
Attorney General	1,470.4	(188.8)	15,155.0	(908.1)
AZ Capital Post Conviction Public Defender	-	-	-	(4.4)
State Board of Charter Schools	40.6	(11.6)	613.6	53.4
AZ Commerce Authority	2,625.0	-	23,625.0	-
Community Colleges	1,841.6	1,765.1	52,719.5	1,330.0
Corporation Commission	36.3	(22.4)	352.9	(83.3)
Department of Corrections	68,664.5	(664.3)	693,384.8	22,605.2
County Funding	-	-	7,150.5	7,150.5
AZ State Schools for the Deaf & Blind	932.6	499.5	16,326.5	352.4
Department of Economic Security	3,325.0	(1,519.8)	591,797.0	61,018.1
Department of Education	217,757.8	144,147.5	2,954,613.6	291,249.7
DEMA	1,354.4	708.8	5,778.9	(266.1)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	1.0	1.0	139.5	84.0
State Board of Equalization	20.9	0.8	410.6	13.8
Board of Executive Clemency	78.8	15.1	612.2	22.6
Department of Financial Institutions	234.8	(40.9)	2,156.2	63.2
Department of Fire, Bldg and Life Safety	157.4	112.9	1,475.9	200.2
State Forester	193.4	(109.7)	2,433.2	(1,851.1)
Arizona Geological Survey	268.4	257.4	729.6	84.8
Governor/OSPB	346.8	(245.2)	6,895.3	521.5
Department of Health Services	13,788.1	(612.0)	498,726.2	(39,261.2)
Arizona Historical Society	198.7	21.4	2,395.2	26.1
Prescott Historical Society of AZ	51.8	5.0	511.5	8.2
Independent Redistricting Comm.	59.7	(473.7)	1,014.6	(610.2)
Commission of Indian Affairs	3.3	(0.7)	39.8	2.0
Department of Insurance	361.4	18.0	3,885.2	303.3
Judiciary				
Supreme/Superior Court	9,794.4	(157.0)	68,398.2	955.3
Court of Appeals	1,039.9	35.3	10,211.3	296.3
Department of Juvenile Corrections	3,066.7	67.2	28,770.7	(1,534.3)

Table 9 (Continued)

Agency	Mar 14	Change from Mar 13	Year-to-Date	YTD Change from FY 13
State Land Department	901.1	852.6	8,374.1	7,621.9
Law Enforcement Merit System	-	(5.8)	-	(49.4)
Legislature				
Auditor General	1,414.1	51.9	13,860.8	1,171.3
House of Representatives	1,049.0	33.2	9,114.9	666.6
Joint Legislative Budget Comm.	147.8	7.2	1,493.0	99.9
Legislative Council	383.6	18.2	5,013.7	(401.1)
Senate	697.2	(0.7)	6,072.9	301.9
Mine Inspector	87.3	3.3	877.4	62.7
Nav. Streams & Adjudication	26.9	18.5	113.7	25.2
Occupational Safety and Health Review	-	-	2.3	2.3
Phoenix Convention Center	-	-	20,449.0	14,854.0
Pioneers' Home	(0.3)	(214.5)	1,179.7	308.1
Comm. for Postsecondary Ed.	-	-	1,396.8	0.1
Department of Public Safety	1,673.9	494.4	23,682.1	2,280.1
Public Safety Personnel Retirement System	-	-	5,000.0	5,000.0
Arizona Department of Racing	-	(3.2)	1,875.9	(1.4)
Radiation Regulatory Agency	48.8	(1.0)	1,076.2	5.8
Real Estate Department	139.2	(75.6)	1,821.3	84.3
Department of Revenue	4,842.1	1,962.7	37,262.1	7,186.4
School Facilities Board	97.9	(7.0)	188,386.3	15,843.5
Secretary of State	747.8	75.7	8,787.3	(4,707.5)
Tax Appeals Board	18.3	0.5	199.7	6.1
Office of Tourism	2,068.5	1,870.5	6,336.2	2,844.3
Department of Transportation	1.4	1.3	5.1	(14.4)
Commission on Uniform State Laws	-	-	56.7	56.7
Universities				
Board of Regents	897.6	720.6	19,317.9	(11,804.0)
Arizona State University	19,640.4	2,259.2	267,339.2	20,332.9
Northern Arizona University	6,562.5	638.3	89,557.4	5,744.9
University of Arizona	16,596.4	725.6	228,297.2	6,530.6
Department of Veteran Services	370.1	30.3	3,732.6	(213.1)
Department of Water Resources	877.6	79.0	7,702.5	876.3
Department of Weights & Measures	93.7	(3.4)	871.9	(123.1)
Other - JP Salaries Distribution	114.9	61.1	691.7	(18.7)
Other	4.0	(63.8)	11.4	(56.4)
Total	478,227.2	114,540.2	7,068,701.3	381,515.6
Budget Stabilization Fund Deposit	-	-	-	(200,000.0)
Grand Total	478,227.2	114,540.2	7,068,701.3	181,515.6

Tracking Arizona's Recovery

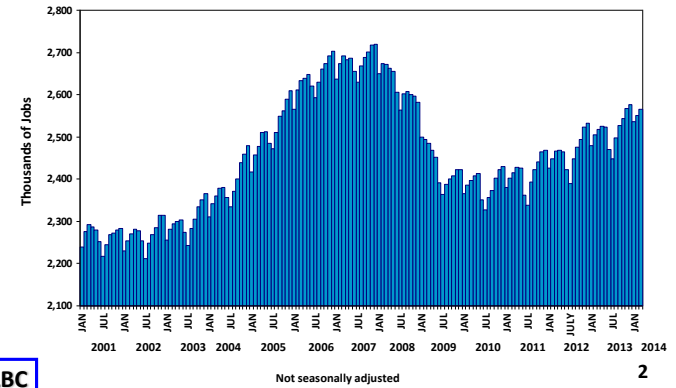
April 2014
Appendix A

Slide:

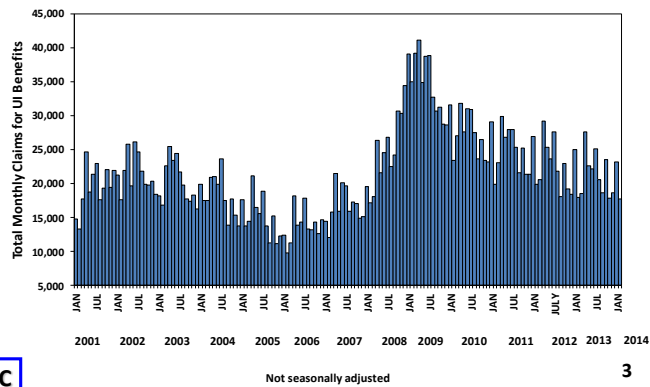
- 2.....Total Non-Farm Employment
- 3.....Initial Claims for Unemployment Insurance
- 4.....State Sales Tax Collections – Retail Category
- 5.....State Sales Tax Collections – Contracting Category
- 6.....Single Family Building Permits
- 7.....Maricopa County Pending Foreclosures
- 8.....Coincident Index

JLBC

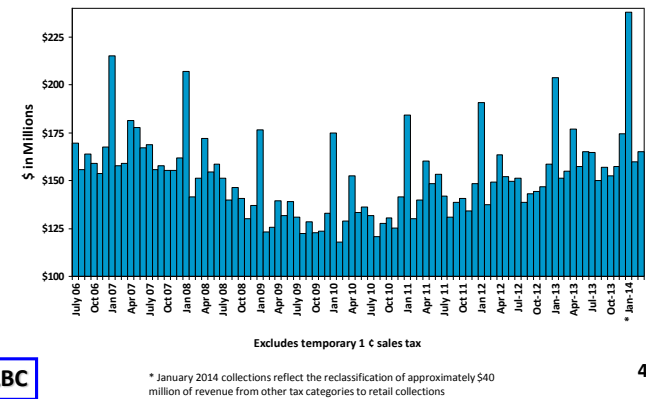
Total Non-Farm Employment



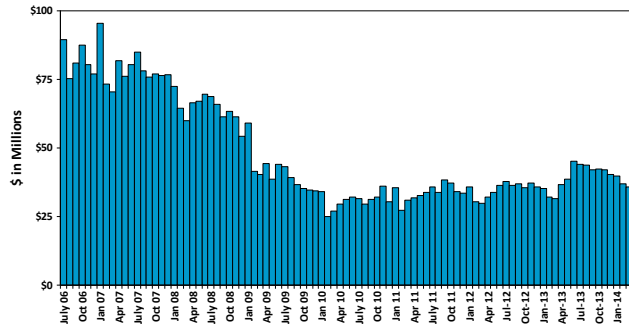
Initial Claims for Unemployment Insurance



State Sales Tax Collections – Retail Category



State Sales Tax Collections – Contracting Category

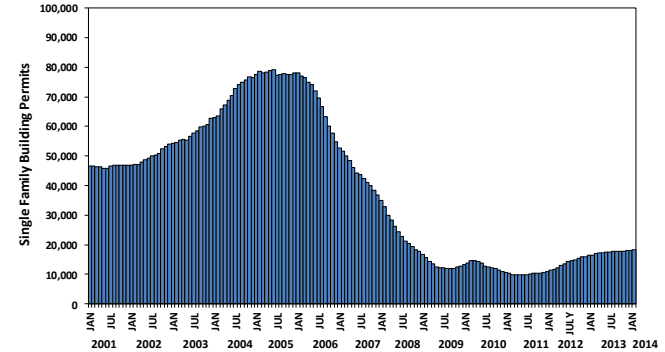


Excludes temporary 1 ¢ sales tax

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Single Family Building Permits

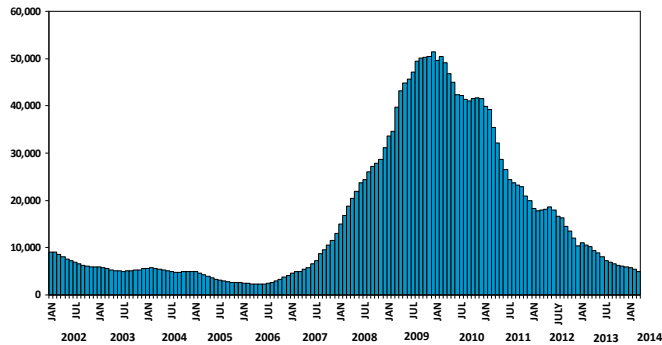


12-Month Moving Sum

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Maricopa County Pending Foreclosures

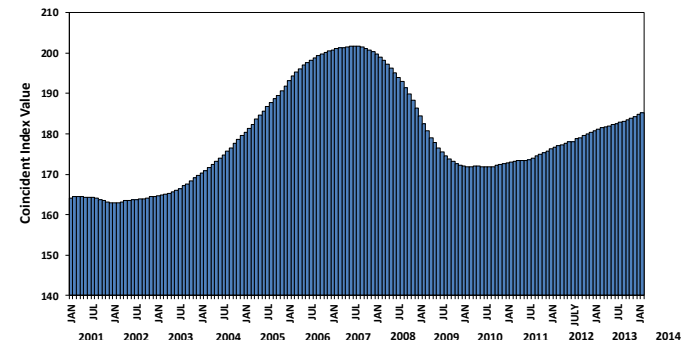


An initial notice of trustee sale has been recorded but final sale has not yet occurred

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7

Economic Activity Index



Source: Coincident Index – Federal Reserve Bank of Philadelphia. Combines four state-level indicators (employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements) to summarize current economic conditions.

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