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*“Year-to-date, base General Fund revenues are 4.6% above the prior year and are \$(60.7) million below the enacted budget forecast.”*

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on January 20, 2015.

## Summary

Prior to December, state revenue collections had fallen below the enacted budget forecast for 8 consecutive months. December’s revenue results ended that pattern, as this month’s collections were \$31.9 million above the forecast.

December General Fund revenues were \$886.4 million, which is an increase of 13.9% above December 2013. The significant increase was driven by the growth in Corporate Income Tax collections, which were 47.5% greater than the prior year. This is the highest monthly growth rate for the category since April 2011.

Year-to-date, base General Fund revenues are 4.6% above the prior year and are \$(60.7) million below the enacted budget forecast. Excluding Corporate Income Tax collections, revenues are 3.6% above the prior year and are \$(73.4) million below the enacted budget forecast. These amounts exclude Urban Revenue Sharing and one-time adjustments.

In comparison to revenue of \$886.4 million, December 2014 spending was \$621.6 million which is an increase of \$88.6 million from the prior year.

Fiscal year-to-date, General Fund revenues of \$4.36 billion have been offset by \$5.82 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 as of mid-January 2015 is \$1.5 billion. In addition, the state’s Budget Stabilization Fund has a balance of \$456.0 million.

### JLBC Baseline Summary

On January 16, the JLBC released its [FY 2016 Baseline budget](#). The Baseline reflects a consensus economic forecast and statutory funding formula requirements. In summary:

- Given forecasted FY 2015 General Fund revenues of \$9.21 billion and spending of \$9.36 billion, the budget has a projected FY 2015 shortfall of \$(148) million. With the K-12 inflation “reset” ruling, the shortfall would be \$(480) million.
- In terms of FY 2016, with General Fund revenues of \$8.77 billion and spending of \$9.45 billion, the budget has a projected FY 2016 shortfall of \$(678) million. Including the “reset” ruling, the shortfall would be \$(1.02) billion.
- Under the 3-year budget projections, there would be a shortfall of \$(690) million in FY 2017 and \$(581) million in FY 2018. With the “reset” ruling, the shortfall would be \$(1.03) billion in FY 2017 and \$(928) million in FY 2018.
- The ending balance projections exclude the state’s projected Budget Stabilization Fund reserve of \$464 million.

In addition, the JLBC Staff has also published a comparison of the [Baseline with the Executive Budget](#).

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## December Revenues

	<u>FY 2015 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2014</u>
December	\$ 886.4	\$ 31.9	\$ 108.3
Year-to-Date	\$ 4,360.4	\$ (60.0)	\$ 95.0

**Sales Tax** collections of \$344.3 million were 5.2% above December of last year and \$0.8 million above the forecast for the month. Year-to-date, collections have increased by a relatively slow 3.4% and are \$(30.9) million below forecast.

Table 2 below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections. As indicated in Table 2, the retail category, which makes up roughly half of sales tax collections, grew by 5.4% in December compared to the same month in the prior year. The December collection amount reflects November sales and therefore does not capture most holiday sales.

Collections from contracting activity and sales of utility services (electricity, natural gas, and water) continued to remain weak in December, with growth rates of (0.6)% and 1.3% respectively. The strongest growth in December occurred in the restaurant and bar category, which increased by 18.5% over the prior year.

	<u>December</u>	<u>YTD</u>
Retail	5.4%	4.5%
Contracting	(0.6)%	0.4%
Use	18.5%	4.7%
Restaurant & Bar	13.4%	8.9%
Utilities	1.3%	0.0%

**Individual Income Tax** net revenues were \$421.3 million in December, which was 9.6%, or \$37.0 million more than the prior year. Collections were \$3.9 million (0.9%) above the forecast for the month. Year-to-date, revenue has grown 3.2% over the prior year, and is \$(36.6) million or (1.8)% below the budget forecast.

As indicated in Table 3, withholding grew 6.3% in December. The December collections bring withholding tax collections for the fiscal year to a sluggish 2.8% over the prior year. This amount is \$(35.4) million below the budget forecast.

December estimated and final payments were 19.1% above last year, and were \$7.1 million above the forecast. The significance of December payments is difficult to determine as these calendar year-end payments are spread between both December and January.

In the past, strong growth of payments in both December and January has often been followed by strong payment growth during April tax filing. Year-to-date, payments are \$10.5 million above the forecast.

December refunds were (124.5)% below last year and \$4.3 million less than the forecast. Year-to-date, refunds are \$(11.6) million greater than the forecast.

	<u>December</u>	<u>YTD</u>
Withholding	6.3%	2.8%
Estimated + Final Payments	19.1%	5.2%
Refunds	(124.5)%	2.8%

**Corporate Income Tax** net collections were \$125.0 million in December, which was 47.5%, or \$40.3 million more than December 2013. Collections for the month were \$27.5 million above the budgeted forecast. Year-to-date, net collections are up 21.4% compared to the prior year, and are \$12.8 million above the budgeted forecast. As a result, December 2014 marks the first month in FY 2015 where Corporate Income Tax collections exceeded both prior year actuals and budgeted forecast estimates.

While Corporate Income Tax collections have grown significantly so far during FY 2015, these gains follow unexpected losses seen during FY 2014, when Corporate Income Tax collections fell by (13.1)%

**Insurance Premium Tax** collections were \$11.7 million in December, which was (4.4)%, or \$(530,600) below the prior year. Collections for December were \$(12.2) million below forecast. Year-to-date collections are \$(13.7) million below the budget forecast.

The **Lottery Commission** reports that December ticket sales were \$62.3 million, which is \$(9.1) million, or (12.7)%, below sales in the prior year. Year-to-date ticket sales are \$338.6 million, which is (3.1)% below last year's sales. In terms of General Fund collections, year-to-date lottery revenues have increased by 10.4% compared to the prior year and are \$(5.7) million below the budget forecast.

**Highway User Revenue Fund (HURF)** collections of \$105.9 million in December were up \$3.8 million, or 3.7% compared to December of last year. Collections for the month were \$1.7 million above forecast. Year-to-date collections are 2.9% above FY 2014.

Table 4

## General Fund Revenue: Change from Previous Year and Budget Forecast December 2014

	Current Month					FY 2015 YTD (Six Months)				
	Actual December 2014	Change From December 2013		Budget Forecast		Actual December 2014	Change from December 2013		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$344,265,049	\$17,155,236	5.2 %	\$799,746	0.2 %	\$2,053,413,790	\$67,990,832	3.4 %	(\$30,851,587)	(1.5) %
Income - Individual	421,259,858	37,049,850	9.6	3,920,079	0.9	1,981,345,348	61,701,134	3.2	(36,594,593)	(1.8)
- Corporate	125,000,545	40,258,232	47.5	27,453,021	28.1	305,487,324	53,845,772	21.4	12,779,063	4.4
Property	12,623,332	9,866,457	357.9	10,623,332	531.2	18,661,909	8,918,480	91.5	10,481,909	128.1
Luxury - Tobacco	1,954,940	721,148	58.4	(109,056)	(5.3)	11,902,817	(1,005,904)	(7.8)	(422,464)	(3.4)
- Liquor	2,972,453	1,017,848	52.1	(170,292)	(5.4)	15,727,143	314,146	2.0	(215,638)	(1.4)
Insurance Premium	11,650,040	(530,561)	(4.4)	(12,150,200)	(51.1)	142,087,728	10,808,342	8.2	(13,670,434)	(8.8)
Other Taxes	381,925	25,934	7.3	246,925	182.9	2,828,655	1,540,788	119.6	2,018,655	249.2
<b>Sub-Total Taxes</b>	<b>\$920,108,142</b>	<b>\$105,564,144</b>	<b>13.0 %</b>	<b>\$30,613,555</b>	<b>3.4 %</b>	<b>\$4,531,454,713</b>	<b>\$202,500,414</b>	<b>4.7 %</b>	<b>(\$56,475,089)</b>	<b>(1.2) %</b>
<b>Other Revenue</b>										
Lottery	4,662,000	4,662,000	--	(338,000)	(6.8)	15,326,600	1,443,000	10.4	(5,673,400)	(27.0)
License, Fees and Permits	3,281,636	1,035,158	46.1	781,636	31.3	15,532,505	814,163	5.5	(467,495)	(2.9)
Interest	4,396	2,861	186.4	4,396	--	17,328	5,487	46.3	17,328	--
Sales and Services	1,396,170	320,966	29.9	(103,830)	(6.9)	8,465,856	648,299	8.3	(1,034,144)	(10.9)
Other Miscellaneous	2,767,869	(2,102,496)	(43.2)	(1,232,131)	(30.8)	13,741,123	4,693,853	51.9	(1,258,877)	(8.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,918,672	3,419,571	228.1	2,168,672	78.9	25,841,401	(8,457,767)	(24.7)	4,241,401	19.6
<b>Sub-Total Other Revenue</b>	<b>\$17,030,742</b>	<b>\$7,338,059</b>	<b>75.7 %</b>	<b>\$1,280,742</b>	<b>8.1 %</b>	<b>\$78,924,813</b>	<b>(\$852,965)</b>	<b>(1.1) %</b>	<b>(\$4,175,187)</b>	<b>(5.0) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$937,138,884</b>	<b>\$112,902,203</b>	<b>13.7 %</b>	<b>\$31,894,297</b>	<b>3.5 %</b>	<b>\$4,610,379,527</b>	<b>\$201,647,450</b>	<b>4.6 %</b>	<b>(\$60,650,275)</b>	<b>(1.3) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(50,744,642)	(4,035,312)	8.6	0	0.0	(304,467,854)	(23,722,641)	8.4	0	0.0
One-Time Transfers	0	0	--	0	--	53,900,000	(77,641,148)	(59.0)	0	0.0
Sales Tax - 1¢ Increase	0	(528,413)	(100.0)	0	--	619,724	(5,272,793)	(89.5)	619,724	--
<b>Sub-Total Other Adjustments</b>	<b>(50,744,642)</b>	<b>(4,563,725)</b>	<b>9.9 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(249,948,130)</b>	<b>(106,636,582)</b>	<b>74.4 %</b>	<b>619,724</b>	<b>(0.2) %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$886,394,242</b>	<b>\$108,338,478</b>	<b>13.9 %</b>	<b>\$31,894,297</b>	<b>3.7 %</b>	<b>\$4,360,431,397</b>	<b>\$95,010,868</b>	<b>2.2 %</b>	<b>(\$60,030,551)</b>	<b>(1.4) %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$105,850,382	\$3,788,606	3.7 %	\$1,747,370	1.7 %	\$624,028,202	\$17,331,988	2.9 %	\$5,198,064	0.8 %

## Monthly 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 5.0% in the third quarter of 2014. This represents an up revision from a prior third quarter estimate and an acceleration from growth of 4.6% seen in the second quarter. The increase relative to second quarter growth was primarily due to a decrease in imports and acceleration in federal spending and consumption. These impacts were partly offset by slowdowns in inventory, exports, fixed investments, and local government spending.

The Conference Board's **U.S. Consumer Confidence Index** increased by 1.8% in December, rebounding from the decrease seen in November. Improvement in the short-term outlook components drove the monthly increase. Economists think lower gas prices and positive employment reports significantly contributed to this recent uptick in optimism.

The Conference Board's **U.S. Leading Economic Index** increased by 0.6% in November and 6.1% since November 2013. This month marked the tenth consecutive period in which the index grew or remained unchanged. Of the index's 10 components, 8 improved while 2 decreased. Stock market performance and movement in interest rates were the largest positive contributors to the index while worse performance in initial unemployment claims and building permits acted as a drag.

Consumer prices, as measured by the U.S. **Consumer Price Index (CPI)**, decreased (0.4)% in December, the largest monthly drop since December 2008. Energy prices decreased (4.7)% during the month, driven by a (9.1)% drop in gasoline prices. This was the sixth consecutive month that energy prices have fallen. Core inflation (all items less food and energy) remained flat during the month. Year-over-year growth in the index also fell to 0.7%, which is down from 1.3% in November and represents the lowest rate since October 2009. Year-over-year growth was (10.8)% in energy prices and 1.6% in all items less food and energy.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** decreased by (0.2)% in November from the prior month, the first monthly decrease since April 2013. As the core index remained flat, the monthly decrease is a result of lower prices for food and energy. The index's annual growth has fallen to 1.2%, down from annual growth of 1.7% in May. The PCEPI is the Federal Reserve Bank's preferred inflation measure for determining the pace at which monetary stimulus to the economy is reduced. The Bank generally aims to maintain annual inflation of 2% over the medium

term. The Federal Reserve ended its purchase of bonds to stimulate the economy in October, but continues to issue short-term loans at nearly 0% interest rates.

### 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.

Arizona's coincident index increased by 2.9% compared to November 2013. Over the same time period, the U.S. coincident index increased by 3.2%. Currently, Arizona's rate of annual coincident index growth is 33<sup>rd</sup> in the nation. Last year at this time, Arizona's rate was also 33<sup>rd</sup> highest among states. *See Appendix A – Tracking Arizona's Recovery* for additional historical information.

#### Housing

The **median price of a single family home** was \$203,900 in December, a (1.0)% decrease from November. The price is 11.6% higher than December of last year.

Single family housing construction continues to weaken, while multi-family construction continues to expand. Arizona's 12-month total of **single-family building permits** is 17,451, or (1.4)% less than a year ago. The comparable single-family permit growth rate for the entire U.S. is 0.4% above last year. *See Appendix A – Tracking Arizona's Recovery* for historical information.

In contrast, the 12-month total of multi-family building permits has increased significantly since last year. Arizona's total of 10,229 **multi-family building permits** is 86.7% above 2013. Arizona's rate of increase is greater than the comparable multi-family permit growth for the U.S. as a whole which is 10.1% above 2013.

#### Employment

In November, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.7 hours. This workload is 0.6% above the November 2013 level. The **Average Hourly Earnings** received by these private sector workers was \$22.85, which is (1.6)% below the average in November 2013.

The U.S. Department of Commerce Bureau of Economic Analysis quarterly releases estimates of annual **Personal Income** received in each state. This measure includes wages and salaries, proprietors' income, dividends, interest, rent, and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. Personal income in Arizona

## Monthly Indicators (Continued)

in the third quarter of 2014 was \$256.4 billion, an increase of 1.3% over the prior quarter. Compared to the same quarter last year, Arizona personal income is up by 4.0%.

### Population

According to the U.S. Census Bureau, Arizona's **population** reached an estimated 6,731,500 in July 2014. This was an increase of 1.5%, or 96,500 persons, over the same month in the prior year. This was also the largest population increase since 2008. Arizona's 1.5% population increase was the seventh fastest in the nation.

Of the net increase of 96,500 residents in 2014, 58% (or 56,200) was attributable to international and domestic net migration. The remaining net increase essentially resulted from "natural increase" (the number of births minus the number of deaths).

The Arizona Department of Administration (ADOA) is also releasing its own population estimates independent of the Census Bureau. ADOA estimates that Arizona added 86,200 new residents from July 2013 to July 2014, which is an increase of 1.3%.

### Tourism

National Park Service visitations were 930,900 in October 2014, which was 425,400 more than October 2013. This significant increase in visitations is the result of the Federal Government shutdown of all National Parks that occurred from October 1-16, 2013.

### State Agency Data

At the beginning of January 2015, the total **AHCCCS** caseload was 1.6 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 336,000 members. The enacted budget assumed the AHCCCS population would grow by 373,000 members through January 2015.

Total monthly enrollment decreased (0.1)% in January. New enrollment following the January 1, 2014 expansion of coverage appears to have phased down significantly and should limit future monthly caseload increases.

The overall monthly decrease was largely due to enrollment of the Traditional AHCCCS population of lower income children and their parents. Enrollment in this population fell (8,000) in January to a level of 962,100 (versus a budgeted caseload of 1,023,300). The January level represents a decrease of (0.8)% since last month and a 12.6% increase since last year. This population also accounts for much of the enrollment shortfall from forecast.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In January 2015, the childless adult population increased by 2,500, or 0.9%. Since January 2014, the childless adult population has increased by 211,300 to reach a level of 279,100. This is compared to a budgeted level of 239,300 for January. The state share of the Proposition 204 cost is paid through a hospital assessment and not the General Fund.

The state also opted to expand adult Medicaid coverage to 133% of FPL. The 100% - 133% enrollment increased by 3,800 in January and now totals 36,400 individuals enrolled since January 2014 (versus a budgeted caseload of 58,200). The federal government is currently paying 100% of this cost.

As of October 2014, the Department of Child Safety received 48,003 **reports of child maltreatment** in the last 12 months, which was an increase of 10.4% over the prior year. There were 17,184 **children in out-of-home care** in October 2014, or 1.1 % more children than in September 2014. Year-over-year, the number of out-of-home children grew by 13.4%.

**Arizona Department of Corrections** reported a population of 42,183 inmates at the end of December 2014. This was a 2.7% increase since the past December. The inmate population increased 0.2% since November.

The Department of Economic Security (DES) reported that there were 29,232 **TANF recipients** in the state in November, representing a monthly caseload decrease of (2.9)% from October. The year-over-year number of TANF recipients has declined by (15.4)%. 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 November, there were a total of 1.0 million food stamp recipients in the state, a (0.7)% decrease over the prior month. Compared to October caseloads last year, the level of food stamp participation has declined by (3.2)%.



Table 5

## MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	November	6.8%	0.0%	(1.0)%
- Total Unemployment Rate (discouraged/underemployed)	3 <sup>rd</sup> Q 2014	15.1%	(0.8)%	(0.9)%
- Initial Unemployment Insurance Claims	November	16,036	(17.8)%	(9.7)%
- Unemployment Insurance Recipients	October	34,708	(9.4)%	(9.1)%
- Non-Farm Employment - Total	November	2.63 million	0.9%	2.6%
Manufacturing	November	155,000	(0.1)%	0.2%
Construction	November	120,300	(0.7)%	(3.5)%
- Average Weekly Hours, Private Sector	November	34.7	1.8%	0.6%
- Average Hourly Earnings, Private Sector	November	\$22.85	0.4%	(1.6)%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	October	\$833.2 million	(10.7)%	7.5%
Furniture/Home Furnishings	October	\$320.0 million	16.7%	10.0%
Building Material/Lawn & Garden	October	\$288.1 million	6.4%	3.7%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	November	17,451	0.0%	(1.4)%
Multi-family	November	10,229	4.0%	86.7%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	December	3,567	(16.0)%	(7.5)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	December	\$203,900	(1.0)%	11.6%
- Phoenix S&P/C Home Price Index (2000 = 100)	October	147.54	0.1%	2.1%
- Maricopa Pending Foreclosures	November	5,844	(4.1)%	(33.3)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	November	27,422	(0.6)%	2.1%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	November	3.42 million	14.0%	6.1%
- National Park Visitors	October	930,912	(25.1)%	84.1%
- State Park Visitors	August	162,081	(18.9)%	(8.2)%
- Revenue Per Available Hotel Room	November	\$60.62	(10.7)%	8.6%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	3 <sup>rd</sup> Q 2014	71.6	(4.7)%	(1.2)%
- Arizona Coincident Index (July 1992 = 100)	November	190.99	0.3%	2.9%
- Arizona Leading Index -- 6 month projected growth	November	4.3%	(0.3)%	1.6%
- Arizona Personal Income	3 <sup>rd</sup> Q 2014	\$256.4 billion	1.3%	4.0%
- Arizona Population	July 2014	6.73 million	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	Dec 09/July 10	AA- / Aa3	N/A	N/A
Outlook	Nov 13	Positive	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	January	1,593,974	(0.1)%	26.6%
Acute Care Traditional		970,259	(0.2)%	10.3%
Prop 204 Childless Adults		279,097	0.9%	188.2%
Other Prop 204		165,198	(1.0)%	14.7%
Adult Expansion		36,373	11.6%	-
Kids Care I		1,872	(1.4)%	(66.5)%
Kids Care II		0	0.0%	(100.0)%
Long-Term Care – Elderly & DD		56,523	0.1%	3.6%
Emergency Services		92,763	2.8%	42.9%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	October	48,003	1.3%	10.4%
DCS Out-of-Home Children	October	17,184	1.1%	13.4%
Filled Caseworkers (1406 Budgeted)	December	1,397	(11)	157
- ADC Inmate Growth	December	42,183	0.2%	2.7%
- Department of Economic Security				
- TANF Recipients	November	29,232	(2.9)%	(15.4)%
- SNAP (Food Stamps) Recipients	November	1,049,687	(0.7)%	(3.2)%
- Judiciary Probation Caseload				
Non-Maricopa	October	17,972	169	340
Maricopa County	October	26,100	160	1,075
<b>United States</b>				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	3 <sup>rd</sup> Q, 2014	\$16.2 trillion	2.7%	5.0%
- Consumer Confidence Index (1985 = 100)	December	92.6	1.8%	19.5%
- Leading Indicators Index (2004 = 100)	November	105.5	0.6%	6.1%
- Consumer Price Index, SA (1982-84 = 100)	December	236.1	(0.4)%	0.7%
- Personal Consumption Price Index (2009 = 100)	November	109.0	(0.2)%	1.2%

## Summary of Recent Agency Reports

**Department of Administration and Arizona Historical Society – Report on the Arizona Mining and Mineral Museum** - The FY 2015 General Appropriation Act contained a footnote requiring the Arizona Historical Society (AHS) and the Arizona Department of Administration (ADOA) to submit a joint report before November 28, 2014 to the Joint Legislative Budget Committee (JLBC) with options and a recommendation for use of the vacant building. The report raised 4 options for the former Arizona Mining and Mineral Museum.

- 1) Re-open the Arizona Mining and Mineral Museum: Cost of \$2.1 million related to significant building system upgrades and space reconfiguration.
- 2) Convert the space into offices: Cost of \$3.1 million for renovations, upgrades to building systems, and relocation of memorabilia and equipment. This would result in a building containing approximately 123 workstations, including primarily cubicle space.
- 3) Sell the facility: One-time revenue (savings) of \$2.9 million. If the buyer were to convert the space to non-museum use, ADOA would incur costs related to relocating mining related memorabilia and equipment.
- 4) Keep the facility closed: No cost compared to JLBC Baseline. However, AHS would still continue to pay ADOA rent of \$360,700 per year.

ADOA and AHS have both mutually selected Option 4 as the preferred option for the former Arizona Mining and Mineral Museum. The agencies note that while Options 2 and 3 may repurpose the museum, the state would still face costs associated with relocating and storing the current mineral collections. (Josh Hope)

**AHCCCS – Report on Interstate Agreement with Hawaii** – Pursuant to A.R.S. § 36-2925H, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the status of an Interstate Agreement with the State of Hawaii.

This report summarizes the continued activities associated with the agreement between AHCCCS and Hawaii for Medicaid data processing. In FY 2014, Arizona received \$7.0 million in revenues from Hawaii, of which \$57,600 was transferred to the General Fund and \$32,000 was deposited into 2 funds with a combined balance of \$2.1 million. (Andrew Smith)

**AHCCCS/Department of Health Services - Report on Reconciliation Payments** - Pursuant to the FY 2015 General Appropriation Act (Laws 2014, Chapter 18), the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) submitted their reports on reconciliation payments and penalties received and deposited during the first 6 months of FY 2015. AHCCCS reports that during that 6-month period they deposited \$6.0 million into the General Fund and used \$12.5 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions. DHS reports that \$1.1 million from the General Fund and \$2.1 million from Federal Medicaid Authority in payments will be returned from penalties/sanctions.

AHCCCS and DHS limit financial risks and profits for health plans and Regional Behavioral Health Authorities (RBHAs) for most Medicaid populations (the maximum percentage of loss and profit varies by Medicaid population). Reconciliation payments are made to health plans/RBHAs or the agency if losses or profits exceed the set level. A penalty, or sanction, may be assessed against health plans/RBHAs for the failure to demonstrate compliance with their contractual responsibilities.

Pursuant to A.R.S. § 35-142.01, AHCCCS and DHS are required to deposit monies received for reconciliation payments and penalties received into the General Fund or the fund from which the appropriation was originally made. (Andrew Smith)

**Department of Child Safety (DCS) - Monthly Report on Hiring** - Pursuant to Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, DCS has submitted the January report on its progress in hiring child safety staff.

*Direct Line Child Safety Staff* - In the last month, the number of direct line child safety staff (caseworkers, caseworkers in training, and hotline staff) decreased by (11) to 1,397. This latter number includes individuals who have accepted a position, but have not yet started employment. Since January 2014, the number of direct line child safety staff has increased by 207 FTE Positions. The level of 1,026 case-carrying caseworkers in December is 43 staff higher than in January. The number of staff in training has increased by 158.

*Non-Direct Line Child Safety Staff* - Since January 2014, non-direct line child safety staff has increased by 237 to 1,298. In December, staffing increased by 13 FTE Positions. (Ben Beutler)

## Summary of Recent Agency Reports (Continued)

**Table 6**  
Change in the Department of Child Safety Staff since January 2014

	January	December	Change since January
<b>Direct Line Staff</b>			
Caseworkers	983	1,026	43
Hotline Staff <sup>1/</sup>	70	76	6
Staff in Training	<u>137</u>	<u>295</u>	<u>158</u>
<b>Subtotal - Direct Line</b>	<b>1,190</b>	<b>1,397</b>	<b>207</b>
<b>Non-Direct Line Staff</b>			
Ast. Program Managers	36	36	0
Unit Supervisors	168	219	51
Case Aides	211	298	87
OCWI	33	57	24
Other Non-Direct Line Staff <sup>2/</sup>	<u>613</u>	<u>688</u>	<u>75</u>
<b>Subtotal - Non-Direct Line</b>	<b>1,061</b>	<b>1,298</b>	<b>237</b>
<b>Grand Total</b>	<b>2,251</b>	<b>2,695</b>	<b>444</b>

<sup>1/</sup> Excludes 20 temporary staff.  
<sup>2/</sup> There are an estimated 180 unit secretaries included in this figure.

**Arizona Criminal Justice Commission – Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund** – Pursuant to A.R.S. § 41-2409E, the Arizona Criminal Justice Commission (ACJC) is required to report on expenditures for the prior fiscal year from the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund by January 8 of each year.

In FY 2014, the State Aid to County Attorneys Fund received revenues totaling \$973,600 and had an ending balance of \$1.6 million. ACJC did not distribute State Aid to Indigent Defense Fund revenues to counties in FY 2014, as they were appropriated for other non-Indigent Defense areas.

ACJC reports that county attorneys reported expenditures of \$1.3 million in FY 2014. Of that total, \$1.2 million was spent on salary and benefits, \$24,200 on equipment, \$22,200 on other expenditures, \$17,000 for contractual services, \$16,800 on case management software, and \$100 on travel.

ACJC reports that counties used the monies in 3 main areas: additional staffing, technological purchases, and training and travel expenses. Training and travel expenses funded witness travel and staff attendance at educational seminars and conferences.

ACJC also states that no prosecuting agencies reported case processing times that met the Supreme Court guidelines. (Krista MacGahan)

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

**Universities** - At the 3 universities, 153,150 students registered for the fall 2014 semester. Of the total students registered, the universities were able to verify the legal immigration status of 141,136 students. Additionally, the universities reported that 15,155 of these students did not require verification because they have neither requested nor received in-state tuition or state supported financial aid. The universities reported that a total of 16 students were unverifiable due to their inability to provide the requisite documentation.

**Department of Economic Security** - The department reported that 7,619 applications were received for child care assistance during the reporting period of June 1, 2014 to December 31, 2014. Of this number, 11 were denied because criteria for citizenship or legal residency were not met.

**Community Colleges** - Statewide, the Community Colleges reported a total of 230,501 students classified as in-state for the fall 2014 semester. They reported 448 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 68,277 students applied for financial aid. Of those who applied, the community colleges reported that 63 were not entitled to any aid because they were not lawfully present in the United States.

**Department of Education** – The department reported that 12,011 people applied for instruction in Arizona Adult Education during the reporting period of June 1, 2014 to December 1, 2014. Of this amount, 604 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. The Arizona Adult Education program is funded with a combination of state and Federal Funds. (Krista MacGahan)

**Judiciary – Supreme Court – Report on Criminal Case Proceedings, Enforcement of Court Orders, and State Aid to Courts Fund Expenditures** – Pursuant to A.R.S. § 12-102.01D, the Supreme Court is required to report annually to the JLBC on the progress of criminal case processing projects and the enforcement of court orders including the collection of court ordered fees, fines, penalties, sanctions and forfeitures. Additionally, pursuant to A.R.S. § 12-102.02D, the Supreme Court is required to report annually to the JLBC on the



## Summary of Recent Agency Reports (Continued)

expenditure of monies from the State Aid to the Courts Fund for the prior fiscal year and the progress made in improving criminal case processing.

Since 2003, the Supreme Court has contracted with an outside vendor to increase compliance with court orders, resulting in total collections of \$44.2 million from backlogged cases in FY 2014, or 1.8% above FY 2013. Additionally, the Supreme Court utilizes a debt setoff program to match outstanding criminal fines or fees to outstanding tax and governmental liabilities. Tax and lottery interceptions in the debt setoff program were \$15.8 million in FY 2014, or 0.6% above FY 2013.

Expenditures from the State Aid to the Courts Fund were \$2.3 million in FY 2014. These monies were disbursed to Superior and Justice Courts for the processing of criminal cases.

The Supreme Court reported that criminal case processing was enhanced across counties through the utilization of State Aid to the Courts Fund monies for early resolution and deferred incarceration programs, staff training, presentence investigators, judges, probation and domestic violence staff, clerks, court commissioners, administrative positions, supplemental funding to driving under the influence (DUI) and drug courts, and the enhancement of electronic data sharing. (Eric Billings)

**State Mine Inspector – Report on Abandoned Mines Safety Fund Expenditures and Contributions** – The State Mine Inspector is required by A.R.S. § 27-131 to establish a program to address public safety hazards at abandoned mines. A.R.S. § 27-131 created the Abandoned Mines Safety Fund (AMSF) to fund the program. The Mine Inspector must submit an annual report to JLBC on or before December 1 detailing the contributions to the AMSF, and the expenditures by the fund during the preceding fiscal year.

For FY 2014, the State Mine Inspector reports that the AMSF received \$966 in new revenue in the form of a donation to be utilized for the education and training for abandoned mine safety. The State Mine Inspector secured 19 mine sites during FY 2014, at a total cost of \$9,700. The Mine Inspector has completed preliminary planning for an additional 21 mine sites in FY 2015, with an estimated cost of \$43,100. The Mine Inspector financed these activities through the fund's carry-forward balance. (Krista MacGahan)

**Arizona Board of Regents/Arizona Community Colleges – Report on Articulation** – Pursuant to A.R.S. § 15-1824, the Arizona Board of Regents (ABOR) and the community colleges are required to submit an annual report by December 15 of their progress on both articulation and meeting statewide postsecondary education needs.

This year's progress in implementing the transfer model and support systems include:

- During the 2013-2014 academic year, 10,375 community college students transferred to the public university system. This is an increase of 15.6% from the 2008-2009 academic year.
- 54.3% of new transfer students had 60 or more credit hours transferred to a university in 2013-2014 versus 42.5% in 2008-2009.
- 53.8% of transfer students completed an associate's degree prior to transfer in 2012-2013 versus 43.7% in 2008-2009.
- Ethnic minorities accounted for 41% of new community college transfers in 2013-2014.

(Tom Ritland)

**Arizona Board of Regents – Report on University System's Financial Aid** – Pursuant to A.R.S. § 15-1650, the Arizona Board of Regents is required to submit an annual report on financial aid. Highlights from the FY 2014 report include:

- Approximately \$2.0 billion in total financial aid was provided to students.
- Of this amount, \$923.3 million (45.9%) came from federal sources, \$669.5 million (33.3%) came from tuition and other sources, \$414.9 million (20.6%) came from private/other sources (including \$19.0 million from the Arizona Financial Aid Trust made up of both state general fund and institutional monies), and \$1.9 million (0.1%) came from state scholarships, grants and loans.
- A total of 127,338 students received aid, including 104,115 undergraduate students and 23,223 graduate students.
- Of the undergraduate students receiving aid, 24,729 received non-need-based gift aid, 58,788 received need-based gift aid, and 49,720 were awarded miscellaneous types of non-gift aid (i.e. work study). Some students received multiple types of aid.
- The average aid package was \$11,494, which includes both need and non-need-based aid.
- 60.7% of undergraduate students and 55.2% of graduate students have debt. Upon graduation, the average undergraduate student debt was \$22,903, while the average graduate student debt was \$48,214.

(Micaela Larkin)

## December Spending

December 2015 General Fund spending of \$621.6 million was \$88.6 million greater than December 2013. Year-to-date, spending is \$5.82 billion, or \$356.1 million above last year. (See Tables 7 & 8).

- Beginning with this month's *Monthly Fiscal Highlights*, Department of Economic Security and Department of Child Safety expenditures are displayed separately.
- Year-to-date, the Department of Education has spent \$106.4 million more than the prior year.
- Year-to-date, Department of Health Services spending has increased by \$56.5 million compared to the prior year. This increase is in part due to the restoration of childless adult Medicaid coverage, which is entirely paid for with General Fund monies in the Department of Health Services.

Agency	Change From			YTD Change from FY 14
	<u>Dec 14</u>	<u>Dec 13</u>	<u>Year-to-Date</u>	
AHCCCS	171.3	46.3	700.5	14.5
Corrections	73.2	(0.3)	490.5	21.1
Child Safety	78.7	78.7	78.7	78.7
Economic Security	(69.6)	(79.2)	520.0	9.7
Education	276.9	47.0	2,401.1	106.4
Health Services	11.6	(2.4)	517.0	56.5
Public Safety	1.1	0.3	38.4	21.1
School Facilities Board	0.1	0.0	156.0	(1.6)
Universities	45.9	2.0	489.2	20.0
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>32.4</u>	<u>(3.8)</u>	<u>347.6</u>	<u>29.7</u>
<b>Total</b>	<b>621.6</b>	<b>88.6</b>	<b>5,823.1</b>	<b>356.1</b>

Table 8

Agency	General Fund Spending (\$ in Thousands)			
	Dec 14	Change from Dec 13	Year-to-Date	YTD Change from FY 14
Dept. of Admin./Automation Projects Fund	3,824.9	(1,791.7)	39,462.1	14,945.2
ADOA – Sale/Leaseback Debt Service	-	-	84,123.7	3.9
Office of Administrative Hearings	41.6	(14.3)	447.4	(0.9)
Department of Agriculture	476.7	(32.6)	4,278.5	(23.4)
AHCCCS	171,311.7	46,302.6	700,461.7	14,500.6
Attorney General	1,016.8	302.7	10,067.6	(469.9)
State Board of Charter Schools	64.8	33.7	457.0	24.8
Department of Child Safety	78,686.8	78,686.8	78,686.8	78,686.8
AZ Commerce Authority	2,775.0	150.0	16,800.0	150.0
Community Colleges	1,956.6	1,738.9	36,367.3	3,435.3
Corporation Commission	43.0	7.4	301.0	56.5
Department of Corrections	73,232.8	(337.3)	490,485.9	21,054.5
County Funding	-	-	7,650.5	500.0
AZ State Schools for the Deaf & Blind	582.4	(136.8)	11,386.1	(179.6)
Dept. of Econ. Security/Dept. of Child Safety	(69,624.2)	(79,202.1)	519,959.0	9,657.9
Department of Education	276,945.5	47,026.6	2,401,104.8	106,405.5
DEMA	816.6	17.8	3,000.0	(463.5)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	12.7	3.0	74.3	(23.7)
State Board of Equalization	24.7	20.8	321.8	(6.4)
Board of Executive Clemency	56.4	11.9	494.9	76.0
Department of Financial Institutions	212.5	(10.3)	1,552.0	67.9
Department of Fire, Bldg and Life Safety	101.3	(40.1)	1,075.9	22.5
State Forester	243.2	46.2	1,761.2	168.2
Arizona Geological Survey	48.4	2.8	475.6	119.9
Governor/OSPB	1,152.8	482.9	5,795.1	446.9
Department of Health Services	11,619.9	(2,439.7)	516,958.0	56,455.7
Arizona Historical Society	184.6	1.5	1,801.9	48.3
Prescott Historical Society of AZ	52.7	(7.4)	345.4	(15.6)
Independent Redistricting Comm.	103.6	(3.8)	550.6	(253.9)
Commission of Indian Affairs	6.9	5.2	29.3	(0.4)
Department of Insurance	313.5	(79.9)	2,718.8	(70.3)
Judiciary				
Supreme/Superior Court	1,580.1	(185.5)	46,804.1	776.8
Court of Appeals	988.0	75.1	7,043.5	109.5
Department of Juvenile Corrections	2,831.8	(59.9)	20,068.0	300.1

**Table 8 (Continued)**

<b>Agency</b>	<b>Dec 14</b>	<b>Change from Dec 13</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 14</b>
State Land Department	729.1	(105.3)	6,406.6	377.8
Legislature				
Auditor General	1,592.7	60.0	10,164.1	652.7
House of Representatives	1,038.4	112.9	6,099.1	183.8
Joint Legislative Budget Comm.	168.7	16.2	1,125.6	129.5
Legislative Council	912.1	481.3	5,030.6	1,358.4
Senate	685.8	93.2	4,024.7	87.4
Mine Inspector	73.4	(3.9)	608.1	(9.7)
Nav. Streams & Adjudication	10.9	2.9	89.5	29.8
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	8.5	(362.3)	832.2	20.8
Comm. for Postsecondary Ed.	-	-	698.4	-
Department of Public Safety	1,076.2	322.8	38,353.5	21,077.8
Public Safety Personnel Retirement System	-	(5,000.0)	6,000.0	1,000.0
Arizona Department of Racing	-	-	1,789.7	(0.2)
Radiation Regulatory Agency	0.9	1.3	750.4	2.7
Real Estate Department	186.2	38.5	1,367.2	46.5
Department of Revenue	5,458.5	922.4	29,970.2	428.9
School Facilities Board	98.4	0.8	155,975.3	(1,584.5)
Secretary of State	671.9	1.9	7,492.9	792.5
Tax Appeals Board	18.3	1.2	146.6	2.0
Office of Tourism	-	(485.3)	6,972.6	4,046.8
Universities				
Board of Regents	400.0	(775.8)	15,938.5	3,560.2
Arizona State University	21,559.2	1,918.8	219,930.6	11,512.7
Northern Arizona University	7,315.5	753.0	74,388.0	4,518.1
University of Arizona	16,666.4	70.0	178,928.1	420.1
Department of Veteran Services	337.6	(43.1)	2,320.4	(274.3)
Department of Water Resources	799.1	38.2	5,235.1	94.7
Water Infrastructure Finance Authority	-	-	1,000.0	1,000.0
Department of Weights & Measures	98.1	14.5	672.5	80.4
Other - JP Salaries Distribution	-	-	421.4	49.5
Other	-	-	4.0	3.5
<b>Total</b>	<b>621,589.8</b>	<b>88,646.3</b>	<b>5,823,095.3</b>	<b>356,055.0</b>

## Tracking Arizona's Recovery

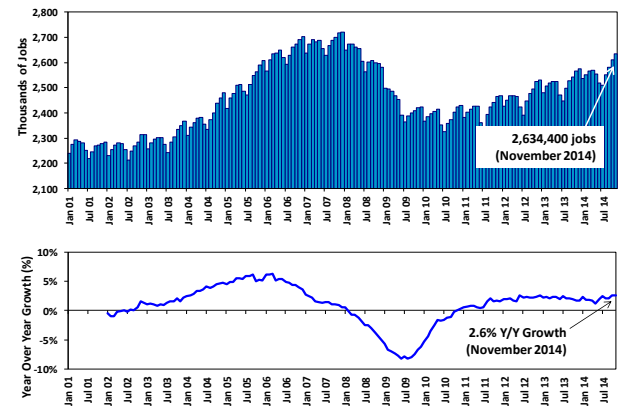
January 2015  
Appendix A

Slide:

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

JLBC

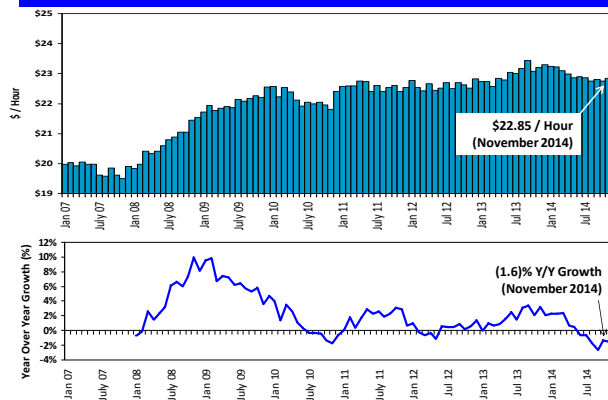
## Total Non-Farm Employment



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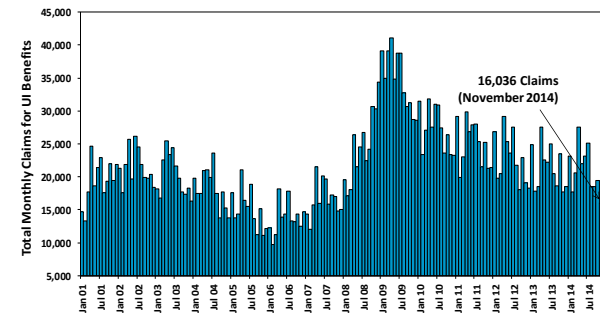
## Average Hourly Earnings – Private Sector



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## Initial Claims for Unemployment Insurance



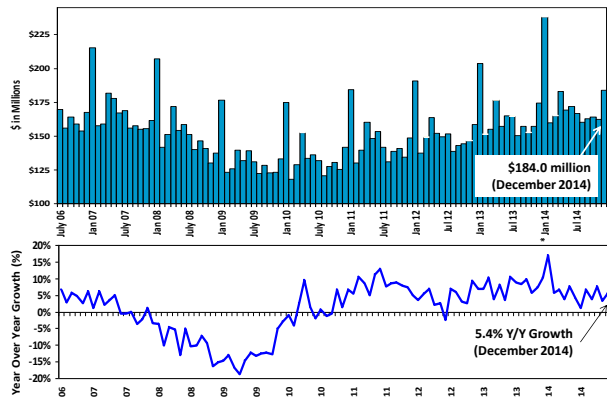
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Not seasonally adjusted

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## State Sales Tax Collections – Retail Category

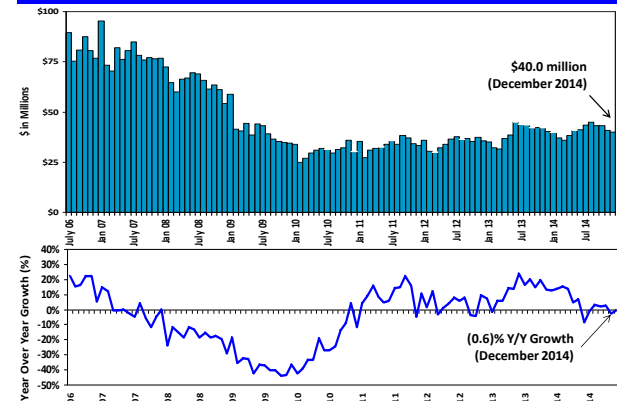


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Excludes temporary 1 c sales tax \* January 2014 collections reflect the reclassification of approximately \$40 million of revenue from other tax categories to retail collections

5

## State Sales Tax Collections – Contracting Category

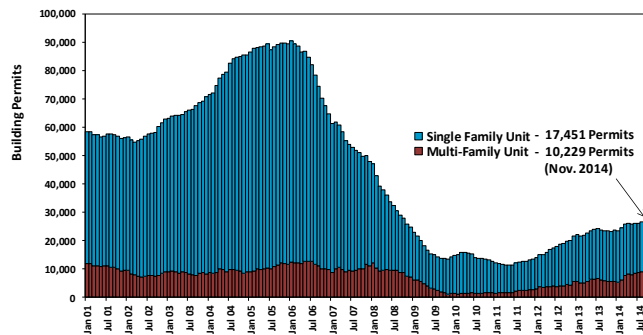


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Excludes temporary 1 c sales tax

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## Residential Building Permits

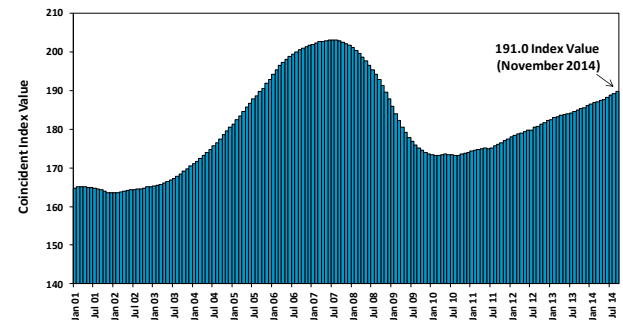


JLBC

12-Month Moving Sum

7

## Economic Activity Index



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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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