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*“Year-to-date, General Fund revenues are 4.8% above the prior year and are \$53.0 million above forecast.”*

## Summary

November General Fund revenue collections totaled \$592.8 million. Base revenues, which exclude one-time adjustments, were 4.9% above November 2012 and \$41.0 million above forecast. The year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

In November, Sales tax revenues grew 4.9%, while Individual Income tax receipts increased by 1.4%. Corporate Income tax collections were relatively flat, but had been expected to decline.

Year-to-date, General Fund revenues are 4.8% above the prior year and are \$53.0 million above forecast. The current FY 2014 forecast overage is split evenly between higher than expected base revenue collections and greater one-time revenues.

In comparison to revenue of \$592.8 million, November 2013 spending was \$571.0 million which is an increase of \$30.6 million from the prior year.

Fiscal year-to-date, General Fund revenues of \$3.48 billion have been offset by \$4.93 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 has stayed at a relatively constant level so far during FY 2014, and is currently at a level of \$1.9 billion as of mid-November 2013.

In addition, the state’s Budget Stabilization Fund has a balance of \$453.1 million.

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## November Revenues

	<u>FY 2014 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2013</u>
November	\$ 592.8	\$ 41.0	\$ (51.7)
Year-to-Date	\$ 3,481.4	\$ 53.0	\$ (128.9)

**Sales Tax** collections of \$323.9 million were 4.9% above November 2012 and \$0.4 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 5 months of the fiscal year, sales tax collections are 6.8% above the prior year and are \$16.0 million above forecast.

*Table 2* displays the November growth rates for the largest sales tax categories.

Retail and contracting together account for about 60% of all sales tax revenues. November retail, which reflects October sales, increased by 7.2%. Year-to-date, retail sales continue strong, at almost 8%.

Contracting collections have generally been much more volatile than retail. However, the November increase of 12.9% represents the seventh consecutive month of double-digit increases compared to the prior year.

	<u>November</u>	<u>YTD</u>
Retail	7.2%	7.9%
Contracting	12.9%	16.7%
Use	(3.5)%	8.7%
Restaurant & Bar	5.0%	2.9%

**Individual Income Tax** net revenues were \$281.8 million in November, which was 1.4% greater than the prior year. Collections were \$13.8 million above the forecast for the month. Year-to-date, revenue has grown 6.1% over the prior year, and is \$35.3 million above the budget forecast.

As indicated in *Table 3*, withholding grew by 4.7% for the month. This compares to the (1.9)% decrease in October. The November increase brings withholding tax collections for the fiscal year to a modest 3.8% over the prior year. This amount is \$(37.1) million below the budget forecast.

November estimated and final payments were 12.7% above last year, and were \$(1.5) million below the forecast for the month. Year-to-date, payments are \$18.8 million above the forecast.

November refunds were 218.5% above last year, but were still \$8.3 million below forecast. November refunds last year were extraordinarily low. Year-to-date, refunds are \$53.6 million below forecast.

	<u>November</u>	<u>YTD</u>
Withholding	4.7%	3.8%
Estimated + Final Payments	12.7%	22.9%
Refunds	218.5%	6.1%

**Corporate Income Tax** net collections were \$1.1 million in November, which is \$4.3 million more than November of the prior year. Collections were \$19.5 million above the budget forecast.

Year-to-date, collections are down (16.7)% compared to the prior year, and are \$(21.5) million below the budget forecast.

The **Lottery Commission** reports that November ticket sales were \$53.7 million, which is \$(18.8) million, or (26.0)%, below sales in the prior year. Year-to-date ticket sales are \$278.2 million, which is 2.5% above last year's sales.

**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 \$98.3 million in November were up \$1.9 million, or 2.0%, compared to November of last year. Year-to-date revenues are 3.0% above collections in the prior year, and are \$9.7 million above the budget forecast.

Table 4

## General Fund Revenue: Change from Previous Year and FY 2014 Enacted Budget Forecast November 2013

	Current Month					FY 2014 YTD (Five Months)				
	Actual November 2013	Change From November 2012		Enacted Forecast		Actual November 2013	Change from November 2012		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$323,933,003	\$15,189,181	4.9 %	\$356,315	0.1 %	\$1,658,313,144	\$105,834,695	6.8 %	\$16,008,355	1.0 %
Income - Individual	281,831,479	4,023,473	1.4	13,779,806	5.1	1,535,434,206	88,486,298	6.1	35,310,545	2.4
- Corporate	1,098,666	4,268,245	--	19,513,300	--	166,899,239	(33,407,601)	(16.7)	(21,505,166)	(11.4)
Property	4,527,513	1,711,635	60.8	1,527,513	50.9	6,986,554	1,959,163	39.0	1,586,554	29.4
Luxury - Tobacco	2,050,000	684,828	50.2	0	0.0	11,490,979	1,859,391	19.3	1,170,979	11.3
- Liquor	2,710,000	12,517	0.5	0	0.0	12,674,196	549,597	4.5	(85,804)	(0.7)
Insurance Premium	6,037,600	5,828,775	--	6,037,600	--	119,098,785	3,597,632	3.1	(5,784,515)	(4.6)
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	39,344	(354)	(0.9)	(35,656)	(47.5)	219,030	9,315	4.4	(155,970)	(41.6)
<b>Sub-Total Taxes</b>	<b>\$622,227,605</b>	<b>\$31,718,300</b>	<b>5.4 %</b>	<b>\$41,178,878</b>	<b>7.1 %</b>	<b>\$3,511,116,133</b>	<b>\$168,888,490</b>	<b>5.1 %</b>	<b>\$26,544,978</b>	<b>0.8 %</b>
<b>Other Revenue</b>										
Lottery	3,256,125	532,585	19.6	256,125	8.5	14,003,414	2,579,754	22.6	1,503,414	12.0
License, Fees and Permits	2,915,888	325,072	12.5	415,888	16.6	12,471,864	(185,364)	(1.5)	71,864	0.6
Interest	12,086	9,241	324.8	12,086	--	10,306	(871)	(7.8)	10,306	--
Sales and Services	1,265,787	55,821	4.6	(234,213)	(15.6)	6,742,353	(100,897)	(1.5)	(1,257,647)	(15.7)
Other Miscellaneous	2,237,624	(1,404,767)	(38.6)	(762,376)	(25.4)	4,176,905	(7,492,529)	(64.2)	(4,523,095)	(52.0)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	7,571,540	(1,360,683)	(15.2)	71,540	1.0	13,649,652	(554,320)	(3.9)	1,649,652	13.7
<b>Sub-Total Other Revenue</b>	<b>\$17,259,050</b>	<b>(\$1,842,731)</b>	<b>(9.6) %</b>	<b>(\$240,950)</b>	<b>(1.4) %</b>	<b>\$51,054,495</b>	<b>(\$5,754,226)</b>	<b>(10.1) %</b>	<b>(\$2,545,505)</b>	<b>(4.7) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$639,486,655</b>	<b>\$29,875,569</b>	<b>4.9 %</b>	<b>\$40,937,928</b>	<b>6.8 %</b>	<b>\$3,562,170,627</b>	<b>\$163,134,263</b>	<b>4.8 %</b>	<b>\$23,999,472</b>	<b>0.7 %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(46,709,330)	(3,910,660)	9.1	40,770	(0.1)	(234,035,883)	(20,042,533)	9.4	(285,383)	0.1
One-Time Transfers	0	0	--	0	--	150,691,561	114,691,561	318.6	26,691,561	21.5
Sales Tax - 1¢ Increase	0	(77,630,387)	(100.0)	0	--	2,611,367	(386,655,630)	(99.3)	2,611,367	--
<b>Sub-Total Other Adjustments</b>	<b>(46,709,330)</b>	<b>(81,541,047)</b>	<b>-- %</b>	<b>40,770</b>	<b>(0.1) %</b>	<b>(80,732,955)</b>	<b>(292,006,602)</b>	<b>-- %</b>	<b>29,017,545</b>	<b>(26.4) %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$592,777,325</b>	<b>(\$51,665,478)</b>	<b>(8.0) %</b>	<b>\$40,978,698</b>	<b>7.4 %</b>	<b>\$3,481,437,672</b>	<b>(\$128,872,339)</b>	<b>(3.6) %</b>	<b>\$53,017,017</b>	<b>1.5 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$98,259,509	\$1,912,698	2.0 %	\$949,230	1.0 %	\$504,634,438	\$14,614,748	3.0 %	\$9,714,552	2.0 %

## 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 3.6% in the third quarter of 2013. This represented an unexpected upward revision of the preliminary estimate of 2.8% and an increase from the 2.5% rate of growth in the second quarter. Acceleration in the third quarter was largely due to increases in inventory investment and state and local government spending. Federal government spending was the only major component of GDP that decreased during the quarter.

The Conference Board's **U.S. Consumer Confidence Index** decreased (2.8)% in November and (1.5)% since November 2012. The latest reading marks the third consecutive monthly decline in the index and may not bode well for holiday retail spending.

The Conference Board's **U.S. Leading Economic Index** grew by 0.2% in October, which represents a slowdown after strong growth of 0.7% in August and 0.9% in September. During the month, increasing stock prices and multifamily unit building permits more than offset negative contributions to the index from worsening consumer confidence and manufacturing orders.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the Americas increased 3.3% in October, to \$5.74 billion. This reading is the highest since October 2000 during the dot-com era, but is not adjusted for inflation. October is the 6<sup>th</sup> consecutive month in which billings have increased.

### 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 October, 44 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.1% compared to the prior month. Year-over-year, the Arizona index is 1.9% above last year, which is the 37<sup>th</sup> highest growth

rate in the country. While this is a significant improvement, Arizona's index is still (9.3)% 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 2.1% over the next 6 months. This is lower than the revised 2.2% growth projection in September and lower than the 3.6% projection in October 2012.

#### Housing

The number of Maricopa County **pending foreclosures** decreased from 6,199 in October to 6,065 in November. The November 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 23,232 in November 2012 to 26,845 in November 2013, a 15.6% increase.

In the Metropolitan Phoenix area, the **median price of a single family home** was \$200,000 in October. This represents a 0.5% increase from September, and a 27.4% increase from October of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through October, a total of 1,449 **single-family building permits** had been issued statewide, an 7.2% 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*.

In the 3-month period ending in October, a total of 176 **multi-family building permits** were issued in the state. This figure remains well below the peak of activity in April 2007.

*“Semiconductor billings... increased 3.3% in October, to \$5.74 billion. This reading is the highest since October 2000 during the dot-com era.”*

## Recent Economic Indicators (Continued)

### Employment

According to the Arizona Department of Administration's monthly Workforce Employment Report, the state added 25,900 **nonfarm jobs** from October to November. Almost half of these job gains came from the retail sector. Businesses typically hire additional employees for the holiday season.

Year-over-year, private and public sector employers had 47,500, or 1.9%, more employees on their payrolls than 12 months ago. The year-over-year job gains are concentrated in 3 sectors of the economy: trade, transportation, and utilities (+11,000), education and health services (+10,800), and financial activities (+9,600).

As of November, nonfarm employment of 2.56 million is (157,900) jobs, or (5.8)%, below the pre-recession peak level of 2.72 million jobs.

The state's **unemployment rate** fell from 8.2% in October to 7.8% in November. This marked the first time since May 2013 that the jobless rate was below 8.0%. The U.S. unemployment rate in November was (0.8)% lower than Arizona's, or 7.0%.

### State Agency Data

At the beginning of December, total **AHCCCS** caseloads decreased to 1.26 million members. Overall, AHCCCS caseloads are currently (0.7)% below December 2012 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, decreased by (0.8)% since last month while decreasing (0.4)% since last year. The total population in this program is almost 900,000.

The childless adult program has not allowed new participants since July 2011 but will allow new participants again beginning on January 1, 2014. Since July 2011, the population has declined (156,722) to 67,770. As a whole, the Proposition 204 program has declined (3.2)% compared to the prior month, and (11.6)% from the prior year.

KidsCare I provides coverage for 6,183 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in

January 2010. Enrollment declined (26.2)% from the prior year.

Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II. The state match is provided by voluntary payments from political subdivisions. As of the beginning of December, 40,578 children were enrolled in KidsCare II. KidsCare II expires on January 31, 2014. On January 1, 2014, children in both KidsCare I and KidsCare II up to 133% of the Federal Poverty Level will transfer to the traditional acute care program.

There were 35,767 **TANF recipients** in the state in October, a monthly caseload decrease of (4.6)%. Year-over-year, the number of TANF recipients has declined by (14.9)%. 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 35,767 TANF recipients includes 1,658 tribal recipients. These recipients belong to tribes that operate their own TANF program but contract with the state for program administration, meaning there were 34,109 state-funded TANF recipients in October.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In October, there were a total 1.1 million food stamp recipients in the state, a (0.3)% decrease over the prior month. Compared to the same month last year, food stamp participation was down by (2.5)%. The number of SNAP recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Corrections (ADC) inmate population** increased to 40,939 inmates in November 2013. Relative to the prior 3-month period, the population has increased by 79 inmates. Compared to a year ago, the population has increased by 899 inmates.

*“Relative to the prior 3-month period, the [Department of Corrections] population has increased by 79 inmates. Compared to a year ago, the population has increased by 899 inmates.”*

## Recent Economic Indicators (Continued)

Table 5

### ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate (SA)	November	7.8%	(0.4) %	(0.2)%
- Initial Unemployment Insurance Claims	November	17,762	(24.3)%	(7.2)%
- Unemployment Insurance Recipients	November	35,184	(7.9)%	(11.2)%
- Non-Farm Employment - Total	November	2.56 million	1.0%	1.9%
Manufacturing	November	154,500	0.0%	(1.0)%
Construction	November	124,400	1.0%	4.5%
- Average Weekly Hours, Manufacturing	October	40.4	0.2%	(0.2)%
- Contracting Tax Receipts (3-month average)	Sep-Nov	\$42.3 million	(1.2)%	15.8%*
- Retail Sales Tax Receipts (3-month average)	Sep-Nov	\$155.7 million	1.5%	7.6%*
- Residential Building Permits (3-month moving average)				
Single-family	Aug-Oct	1,449	(4.3)%	7.2%
Multi-unit	Aug-Oct	176	(44.4)%	(65.4)%
- Greater Phoenix Home Sales				
Single-Family	October	7,045	(1.4)%	(19.5)%
Townhouse/Condominium	October	1,063	(2.8)%	(15.6)%
- Greater Phoenix Median Home Price				
Single-Family	October	\$200,000	0.5%	27.4%
Townhouse/Condominium	October	\$119,900	2.5%	27.6%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	September	143.14	1.2%	18.6%
- Foreclosure Activity, Maricopa County	November	6,065	(2.2)%	(49.3)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	November	26,845	2.6%	15.6%
- Phoenix Sky Harbor Air Passengers	October	3.31 million	(2.1)%	(0.5)%
- Revenue Per Available Hotel Room	October	\$61.09	17.4%	2.3%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	September	\$4.41	(1.3)%	9.2%
- Arizona Consumer Confidence Index (1985 = 100)	4th Quarter 2013	66.9	(7.7)%	(6.2)%
- Arizona Coincident Index (July 1992 = 100)	October	182.93	0.1%	1.9%
- Arizona Leading Index -- 6 month projected growth rate	Aug-Oct	2.1%	(0.1)%	(1.5)%
- Arizona Personal Income	2nd Quarter 2013	\$243.1 billion	1.5%	2.6%
- Arizona Population	July 1, 2012	6.55 million	N/A	1.3%
- AHCCCS Recipients	December	1,258,142	(1.3)%	(0.7)%
Acute Care Traditional		879,782	(0.8)%	(0.4)%
Prop 204 Childless Adults		67,770	(2.6)%	(24.4)%
Other Prop 204		142,668	(3.3)%	(3.8)%
Kids Care I		6,183	(4.3)%	(26.2)%
Kids Care II		40,578	(4.0)%	84.3%
Long-Term Care – Elderly & DD		54,510	0.2%	2.5%
Emergency Services		66,651	(0.6)%	7.0%
- TANF Recipients	October	35,767	(4.6)%	(14.9)%
- SNAP (Food Stamps) Recipients	October	1,109,788	(0.3)%	(2.5)%
- ADC Inmate Growth (3-month average)	Sept-Nov	40,939	79 inmates	899 inmates
- Probation Caseload				
Non-Maricopa	October	17,386	(200)	(747)
Maricopa County	October	25,025	11	(438)
<b>United States</b>				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	3 <sup>rd</sup> Quarter 2013 (2 <sup>nd</sup> Estimate)	\$15.8 trillion	3.6%	1.8%
- Consumer Confidence Index (1985 = 100)	November	70.4	(2.8)%	(1.5)%
- Leading Indicators Index (2004 = 100)	October	97.5	0.2%	4.4%
- U.S. Semiconductor Billings (3-month moving average)	Aug.-Oct.	\$5.7 billion	3.3%	20.1%
- Consumer Price Index, SA (1982-84 = 100)	November	233.9	0.0%	1.2%

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

## JLBC Meeting

At its December 17, 2013 meeting, the Joint Legislative Budget Committee considered the following issues:

**Arizona Department of Administration**– Review of Automation Fund Expenditures – The Committee gave a favorable review to ADOA’s \$3.4 million in proposed FY 2014 expenditures from the Automation Projects Fund for projects at the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. These projects include data storage, facility, and “cloud” computing enhancements to the state’s Data Center; security, privacy, and risk upgrades; and project management and oversight. The Committee added technical provisions to its favorable review.

**Arizona Department of Administration** – Review of Requested Exchange of Automation Project Fund Transfers and Report on the Arizona Financial Information System (AFIS) Charge – The Committee gave a favorable review of the request of 6 agencies to replace the fund sources for 11 of their enacted fund transfers to the Automation Project Fund. The Committee also heard information regarding 5 agencies electing not to participate in the AFIS replacement project at this time.

**Attorney General** – Review of Plan to Transition Capital Postconviction Prosecution Responsibility to Maricopa County – The Committee tabled review of the capital postconviction transition plan pending further discussion with the Attorney General’s Office on the matter.

**JLBC Staff** –Consider Approval of Index for School Facilities Board (SFB) Construction Costs – The Committee approved a 0% adjustment in the cost-per-square-foot factors used in SFB funding formulas, based on the overall decline in construction costs since November 2008.

**Secretary of State** – Review of FY 2009 Records Services Fund Spending Plan – The Committee gave a favorable review of the Secretary of State’s expenditure plan of \$228,700 from the Records Services Fund which included \$109,300 for repairs at the Records Services Center, \$28,000 for transportation costs associated with moving a statue of John C. Greenway from the U.S. Capitol’s Statuary Hall back to Arizona, and \$91,400 for building renovation and code compliance projects.

## Summary of Recent Agency Reports

**Table 6**

**Emergency Department Utilization  
By AHCCCS Recipients**

Level	# Visits	Amount Paid (\$ in Millions)	% Total Visits	% Paid Amount
I	53,028	\$ 5.4	6.1%	1.7%
II	133,454	20.6	15.4	6.5
III	330,641	92.0	38.2	29.2
IV	254,567	125.1	29.4	39.7
V	<u>92,947</u>	<u>72.1</u>	<u>10.7</u>	<u>22.9</u>
Total	864,637	\$315.2	100.0%	100.0%

**AHCCCS – Report on Emergency Department Utilization** – Pursuant to an FY 2014 Health and Welfare Budget Reconciliation Bill (Laws 2013, 1<sup>st</sup> Special Session, Chapter 10) provision, AHCCCS submitted their report on emergency department (ED) utilization. AHCCCS reports that there is no standard or code set that identifies whether an ED visit was the result of an emergency. Therefore, AHCCCS used the American College of Emergency Physicians’ facility coding which assigns visits into 1 of 5 categories. Level I represents conditions such as acute upper respiratory infection, removal of sutures, or cough. Conditions such as severe burns or toxic ingestions would be classified as a Level V visit, the most severe. AHCCCS believes the number of Level I visits is a

“reasonable,” though imperfect, indicator of non-emergency use of ED services. A breakout of visits by AHCCCS recipients is provided in the *Table 6*, above. (Amy Upston)

**AHCCCS – Report on Uncompensated Hospital Costs and Hospital Profitability** – Pursuant to an FY 2014 Health and Welfare Budget Reconciliation Bill (Laws 2013, 1<sup>st</sup> Special Session, Chapter 10) provision, AHCCCS submitted its first report on uncompensated hospital costs and hospital profitability. AHCCCS used data from the 2011 and 2012 Uniform Accounting Reports, statutorily required audited financial statements.

From 2011 to 2012, total uncompensated care costs grew from \$503.3 million to \$733.8 million (45.8% increase) and average operating profitability fell from \$8.1 million to \$7.0 million (13.5% decline). More detail is provided in the table below.

During this time, there were several AHCCCS-related changes which may have impacted hospital financial statements:

- 5% hospital provider rate decrease beginning on 4/1/11

## Summary of Recent Agency Reports (Continued)

- 5% hospital provider rate decrease beginning on 10/1/11
- 25-day inpatient day limit beginning on 10/1/11
- Phase out of the spend down program beginning 5/1/11
- Childless enrollment freeze beginning 7/1/11

**Table 7**  
**2011 and 2012 Hospital Uncompensated Care and Profitability**  
 (\$ in Millions)

	<u>2011</u>	<u>2012</u>	<u>% change</u>
Total Uncompensated Care	\$503.3	\$733.8	45.8%
Average Uncompensated Care Per Hospital	\$ 5.8	\$ 8.1	39.6
Average % of Uncompensated Care Per Hospital	3.8%	5.8%	51.0
Average Operating Profitability	\$ 8.1	\$ 7.0	(13.5)
Average Operating Margin	5.1%	4.6%	(10.0)
Average Occupancy Rate	62.0%	59.1%	(3.4)

(Amy Upston)

**Auditor General - Report on Foster Home Recruitment-Related Services Contracts** - Laws 2013, 1<sup>st</sup> Special Session, Chapter 10 instructs the Auditor General to submit a report addressing expenditures for the recruitment, retention, training, licensing and tracking of foster care families as part of Children Support Services. In FY 2012, the Department of Economic Security (DES) spent \$18.9 million for contracted foster home recruitment-related services, or 10.8% more than FY 2011. The Auditor General believes the current contract process of home recruitment study and supervision is the most appropriate means to provide these services.

In order to better improve its performance-based contracting for foster home-related services, the Auditor General recommends that DES develop a mechanism to use performance measure data to monitor and assess contractor performance, building greater incentives into contracts that focus on DES' critical goals, such as the retention of foster parents. DES agreed to implement this recommendation.

This is the first of 3 audits on Children Support Services. The next 2 reports will be published in March 2014 and October 2014. (Ben Beutler)

**Arizona Commerce Authority – Annual Report on Arizona Competes Fund** – Pursuant to A.R.S. § 41-1545.04, the Arizona Commerce Authority (ACA) is required to report annually on grants from the previous fiscal year and other projects currently funded from the Arizona Competes Fund and performance measures for the recipients including job creation, capital investment and median wages. In total, ACA awarded 22 grants from the Arizona

Competes Fund totaling \$8.0 million in FY 2013. ACA reports awarding 3 grants for the purpose of expanding or retaining business in Arizona, totaling \$3.5 million, from the Arizona Competes Fund in FY 2013. The largest grant of \$1.5 million was awarded to Go Daddy Group, Inc., with Maverick HealthCare Group, LLC and Accelerate Diagnostics each receiving \$1.0 million.

Each recipient agreed, as part of the granting process, to meet certain metrics regarding job creation. The 3 recipients agreed, over the next 3 years, to create a collective total of 741 jobs, provide average annual wages of \$62,000, make a collective capital investment of \$46.5 million, and pay for at least 65% of health insurance costs. As of June 30, 2013, the grantees had created 169 jobs, average annual wages of \$73,000, and \$30.1 million in capital investment.

Additionally, ACA reports awarding 19 grants to support rural and small businesses, totaling \$4.5 million, from the Arizona Competes Fund in FY 2013. Of this amount, \$1.5 million was granted to 7 local government and economic development entities for the purpose of helping rural communities enhance economic development programs. The 7 recipients agreed, over the next 3 years, to create a collective total of 805 jobs, provide average annual wages of \$49,300, and make a collective capital investment of \$77.1 million. As of June 30, 2013, the grantees had created 422 jobs, average annual wages of \$58,300, and \$36.6 million in capital investment. The remaining \$3.0 million in grants were awarded to 12 early-stage companies for the purposes of funding the start-up costs of small businesses. The grants were made for a 1-year period and do not have employment or development requirements attached to them.

ACA awarded 4 grants for the purpose of expanding or retaining business in Arizona in FY 2012 totaling \$4.2 million. Through FY 2013, these grantees created 492 jobs with average annual wages of \$63,500 and capital investment of \$12.7 million. This compares to commitments of 956 jobs created, average annual wages of \$59,700, and capital investment of \$25.7 million. The 4 grantees have until the end of FY 2015 to reach the agreed upon metrics.

The Arizona Competes Fund receives an annual \$21.5 million deposit of income tax withholding monies and \$3.5 million in state lottery revenues. The monies are used to retain, attract, and expand businesses in Arizona through the provision of grants and loans. As of June 30, 2013, the Arizona Competes Fund had a balance of \$45.8 million. (Eric Billings)

**Department of Economic Security (DES) - Semi-Annual Report on CPS** - Pursuant to A.R.S. § 8-818, DES has

## Summary of Recent Agency Reports (Continued)

submitted its semi-annual financial and program accountability report. According to the report, out-of-home placements increased from 14,159 in December to 14,608 in June. Caseloads are above the department's goals and turnover for Child Protective Services (CPS) case managers was approximately 10.9%. Employee satisfaction has remained constant at a 3.6 rating on a 5 point scale. The highlights of this report, covering the last 6 months of FY 2013, are summarized below.

- The CPS Training Academy had 224 new CPS case managers in training as of June 2013.
- As of June 2013, the number of filled positions was 1,240, including those in training and hotline staff. Caseloads per worker remain considerably higher than caseload goals, with investigations at 16 (goal: 10), in-home at 31 (goal: 19), and out-of-home at 24 (goal: 16).
- DES reports that annualized case manager turnover during January - June 2013 was 27.9%, down from a 28.6% annualized rate in the last report.
- The percent of CPS dependency cases denied or dismissed in the last 6 months increased to 0.14% from 0.04% in the previous 6 months, while the percent of Office of Administrative Hearing's decisions affirming CPS case findings decreased from 87.5% to 78.4%. The percent of complaints validated by the Ombudsman increased from 2.0% to 19.0% (51 of 272 complaints).
- The number of children in out-of-home family placements increased from 11,427 in December to 11,909 in June, a 4.2% increase. The number of congregate care placements increased from 2,030 to 2,107, a 3.8% increase. DES also reports that from December to June the number of children aged 0-3 in shelter care grew from 27 to 43, the number of children aged 0-6 in group homes decreased from 53 to 52, and the number of children in shelter care for more than 21 days decreased from 104 to 98.
- The June numbers are labeled as preliminary. (Ben Beutler)

**Arizona Criminal Justice Commission – Report on Criminal Justice Enhancement Fund** – Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) has provided its annual report on Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 47% assessment on certain fines, penalties, and forfeitures imposed and collected by the courts. In FY 2013, CJEF revenues totaled \$41.1 million and the total funds available for the fiscal year, including the beginning balance and adjustments, was \$63.8 million. In FY 2013, CJEF revenues decreased by (4.6)% from FY 2012; CJEF expenditures totaled \$41.9 million, and fund transfers

totaled \$93,600. (Krista MacGahan)

**Department of Education – Override Report** – Pursuant to A.R.S. § 15-249.04, the Arizona Department of Education (ADE) recently reported FY 2014 data on school district budget overrides. Overrides permit school districts to generate and spend additional monies from local property taxes if approved by voters. The ADE report indicates that in FY 2014 102 districts statewide have Maintenance and Operation (M&O) overrides pursuant to A.R.S. § 15-481, 19 have "Special Program" overrides pursuant to A.R.S. § 15-482, and 20 have "District Additional Assistance" overrides pursuant to A.R.S. § 15-481. The total amounts budgeted for overrides for FY 2014 include \$383,661,700 for both types of M&O overrides combined and \$59,210,200 for District Additional Assistance overrides. (Steve Schimpp)

**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 2013, the State Mine Inspector reports that the AMSF had no new revenue. The State Mine Inspector secured 26 mine sites during FY 2013, at a total cost of \$44,800. The Mine Inspector has completed preliminary planning for an additional 24 mine sites in FY 2014, with an estimated cost of \$47,600. The Mine Inspector financed these activities through the fund's carry-forward balance. (Krista MacGahan)

**Arizona State Retirement System - Report on Incentive Compensation Plan** – Pursuant to A.R.S. § 38-611.01, the Arizona State Retirement System (ASRS), in consultation with the Director of the Arizona Department of Administration (ADOA), may establish an Incentive Compensation Plan (ICP) for investment-related personnel. Within 10 days of adopting such a plan, ASRS is required to file the ICP with the JLBC.

The recently adopted ICP would apply only to the investment staff, which currently consists of 10 FTE Positions. The ICP has 3 stated objectives: 1) retain investment professionals; 2) attract investment professionals; and 3) incentivize investment performance.

The maximum increase that any employee would receive is limited to 25% of base pay. If all FTE Positions received the maximum amount, the total cost would be

## Summary of Recent Agency Reports (Continued)

\$350,000 annually. Individuals are evaluated on a variety of criteria, including individual and group performance of various investments over the past 3 years, as well as a qualitative assessment which may vary from one individual to the next. Before any incentive pay is rewarded, however, the fund's performance as a whole must be greater than 0% over the most recent fiscal year. (Ben Henderson)

**School Facilities Board - Report on Costs for Current and Potential Litigation** – Pursuant to A.R.S. § 15-2041L, the School Facilities Board (SFB) is required to annually report on the costs associated with current and potential litigation against the agency. The litigation account was created to pay for attorney fees, expert witness fees and other costs associated with litigation in

which SFB pursues the recovery of damages for deficiencies correction that resulted from alleged construction defects or design defects that SFB believes caused or contributed to the failure of the school building to conform to the building adequacy requirements prescribed in A.R.S. § 15-2011.

SFB is not currently in litigation and does not expect there to be potential litigation in pursuing the recovery of damages for deficiencies corrections. The account currently has a zero balance. (Ben Henderson)

## November Spending

November 2013 General Fund spending of \$571.0 million was \$30.6 million greater than November 2012. Year-to-date, spending is \$4.9 billion, or \$47.4 million above last year.

(See Tables 8 & 9).

- The Department of Education spent \$143.1 million more year-to-date due to increased per-student funding for the agency as part of the FY 2014 budget.
- Department of Economic Security expenditures are \$64.2 million greater through November due to increased funding levels for the agency in FY 2014.

	<u>Nov 13</u>	<u>Change From Nov 12</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 13</u>
<b>Agency</b>				
AHCCCS	112.5	12.7	561.0	2.9
Corrections	69.7	(7.1)	395.9	12.4
Economic Security	2.2	(0.6)	500.7	64.2
Education	226.9	(45.5)	2,064.8	143.1
Health Services	63.6	49.2	446.4	(36.0)
Public Safety	1.6	0.3	16.5	1.8
School Facilities Board	0.1	(0.7)	157.5	14.9
Universities	42.4	(1.0)	425.2	9.1
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>52.0</u>	<u>23.3</u>	<u>275.8</u>	<u>35.0</u>
<b>Total</b>	<b>571.0</b>	<b>30.6</b>	<b>4,927.9</b>	<b>247.4</b>
Budget Stabilization Fund Deposit	0.0	0.0	0.0	(200.0)
<b>Grand Total</b>	<b>571.0</b>	<b>30.6</b>	<b>4,927.9</b>	<b>47.4</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>Nov 13</b>	<b>Change from Nov 12</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 13</b>
Department of Administration	9,318.9	7,239.2	26,050.8	12,031.8
ADOA Sale/Leaseback Debt Service	-	-	84,119.8	-
Office of Administrative Hearings	63.1	(22.0)	392.3	(35.3)
Department of Agriculture	640.7	26.4	3,792.6	162.9
AHCCCS	112,471.4	12,735.8	560,952.0	2,890.9
Attorney General	1,418.2	(791.5)	9,823.4	512.2
AZ Capital Post Conviction Public Defender	-	-	-	(4.1)
State Board of Charter Schools	52.5	(1.1)	401.0	55.9
AZ Commerce Authority	2,625.0	-	7,875.0	-
Community Colleges	222.2	(1,518.1)	32,714.5	(1,879.1)
Corporation Commission	35.5	(14.1)	208.9	(30.8)
Department of Corrections	69,705.6	(7,082.7)	395,861.2	12,364.2
AZ State Schools for the Deaf & Blind	458.2	(8.7)	10,846.4	625.8
Department of Economic Security	2,192.9	(574.3)	500,723.1	64,210.9
Department of Education	226,871.8	(45,522.2)	2,064,780.4	143,064.5
DEMA	641.9	217.5	2,664.7	(796.1)
DEQ – WQARF	7,000.0	7,000.0	7,000.0	-
Office of Equal Opportunity	17.1	17.1	88.2	33.2
State Board of Equalization	50.2	16.1	324.3	7.5
Board of Executive Clemency	37.4	(30.3)	374.4	47.6
Department of Financial Institutions	204.7	(10.9)	1,261.3	59.2
Department of Fire, Bldg and Life Safety	132.2	106.8	912.1	28.6
State Forester	223.7	(176.1)	1,396.1	(561.2)
Arizona Geological Survey	50.7	(133.9)	310.1	(145.1)
Governor/OSPB	743.6	131.1	4,678.4	1,241.9
Department of Health Services	63,567.3	49,227.0	446,442.7	(35,979.2)
Arizona Historical Society	211.5	(10.6)	1,570.6	10.1
Prescott Historical Society of AZ	52.6	5.4	300.9	1.2
Independent Redistricting Comm.	53.9	(72.6)	697.0	69.6
Commission of Indian Affairs	2.5	0.1	28.0	3.1
Department of Insurance	380.3	35.2	2,395.7	226.0
Judiciary				
Supreme/Superior Court	10,250.6	7,521.7	44,261.6	613.4
Court of Appeals	1,083.5	58.7	6,021.2	179.3
Department of Juvenile Corrections	2,805.9	(383.8)	16,876.2	(1,362.9)

Agency	Nov 13	Change from Nov 12	Year-to-Date	YTD Change from FY 13
State Land Department	1,394.3	1,362.4	5,194.3	4,675.7
Law Enforcement Merit System	-	(5.2)	-	(27.7)
Legislature				
Auditor General	1,487.5	154.3	7,978.7	698.9
House of Representatives	913.3	96.7	4,990.0	482.2
Joint Legislative Budget Comm.	147.0	12.6	843.6	77.5
Legislative Council	556.1	161.9	3,241.4	(500.9)
Senate	626.6	53.1	3,344.6	336.0
Mine Inspector	81.5	(7.3)	540.5	23.3
Nav. Streams & Adjudication	8.7	1.3	51.5	(2.7)
Occupational Safety and Health Review	0.4	0.4	0.4	0.4
Phoenix Convention Center	-	-	20,449.0	14,854.0
Pioneers' Home	4.9	(33.6)	440.6	(97.6)
Comm. for Postsecondary Ed.	-	-	698.4	-
Department of Public Safety	1,580.5	287.3	16,522.3	1,791.3
Arizona Department of Racing	-	-	1,789.8	(0.7)
Radiation Regulatory Agency	34.3	(30.5)	748.0	79.3
Real Estate Department	165.7	11.0	1,173.1	105.6
Department of Revenue	4,909.0	2,514.3	25,005.1	6,250.1
School Facilities Board	95.5	(745.4)	157,462.2	14,876.0
Secretary of State	878.7	(425.3)	6,030.5	(3,488.9)
Tax Appeals Board	17.2	(0.5)	127.4	3.6
Office of Tourism	603.8	105.9	2,440.5	210.0
Department of Transportation	0.3	(2.6)	1.0	(17.8)
Commission on Uniform State Laws	-	-	55.7	55.7
Universities				
Board of Regents	(382.7)	(4,594.4)	11,202.5	(9,054.4)
Arizona State University	19,640.4	2,259.2	188,777.5	11,296.0
Northern Arizona University	6,562.5	636.7	63,307.4	3,183.4
University of Arizona	16,596.4	725.6	161,911.7	3,628.1
Department of Veteran Services	395.9	2.4	2,214.0	(204.0)
Department of Water Resources	806.6	80.5	4,379.5	616.8
Department of Weights & Measures	100.4	(0.7)	508.5	(49.9)
Other - JP Salaries Distribution	207.5	(12.7)	371.8	3.8
Other	0.4	0.4	0.4	0.4
<b>Total</b>	<b>571,018.0</b>	<b>30,593.1</b>	<b>4,927,946.9</b>	<b>247,449.6</b>
Budget Stabilization Fund Deposit	-	-	-	(200,000.0)
<b>Grand Total</b>	<b>571,018.0</b>	<b>30,593.1</b>	<b>4,927,946.9</b>	<b>47,449.6</b>

## Tracking Arizona's Recovery

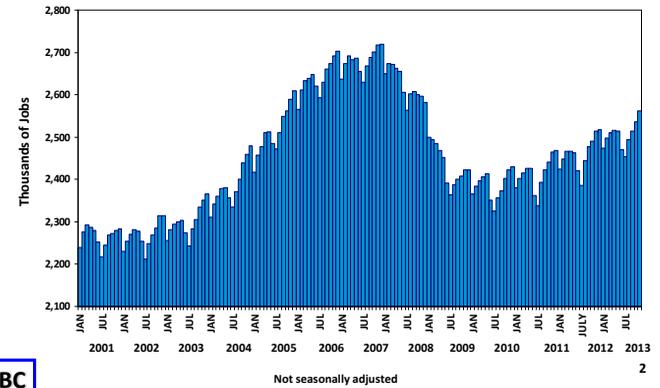
December 2013  
Appendix A

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

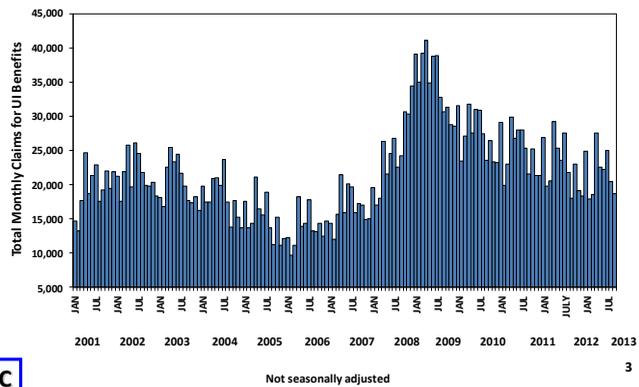
JLBC

## Total Non-Farm Employment



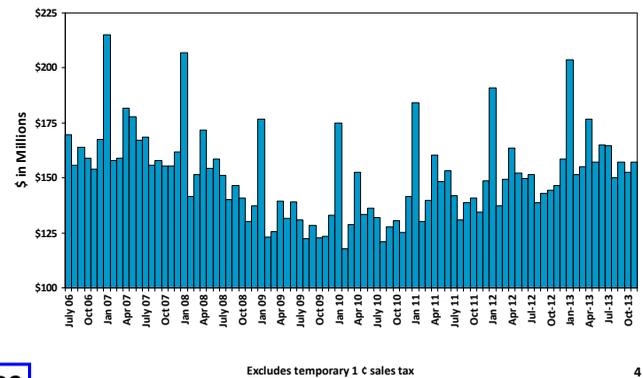
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## Initial Claims for Unemployment Insurance



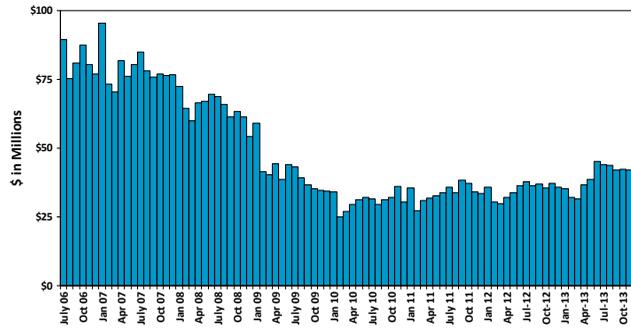
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## State Sales Tax Collections – Retail Category



JLBC

## State Sales Tax Collections – Contracting Category

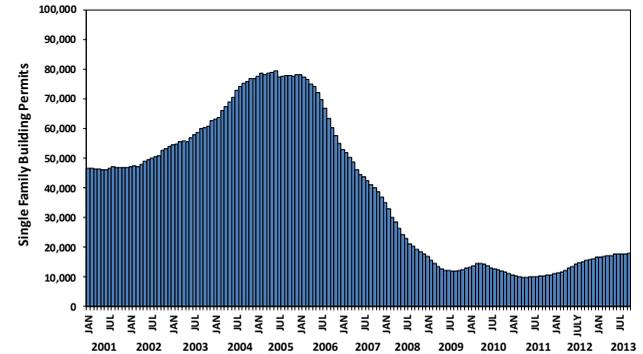


Excludes temporary 1 ¢ sales tax

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## Single Family Building Permits

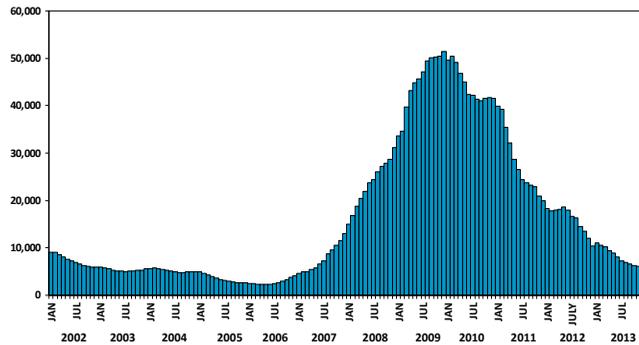


12-Month Moving Sum

JLBC

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## Maricopa County Pending Foreclosures

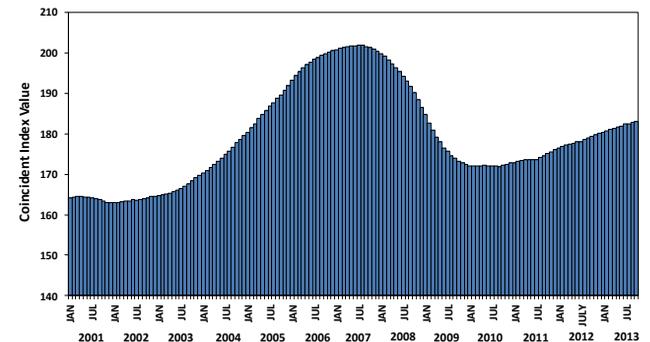


An initial notice of trustee sale has been recorded but final sale has not yet occurred

JLBC

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## 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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