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*“Year-to-date,  
base General  
Fund revenues  
are 4.6%  
above the  
prior year.”*

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

## Summary

January General Fund revenues totaled \$854.0 million, which is an increase of 4.1% above January 2014. This moderate growth was driven by a 9.1% increase in Retail Sales Tax collections during the holiday season. Low gas prices may have spurred consumers to increase their December retail spending.

Beginning with the February report, the *Monthly Fiscal Highlights* compares actual revenue collections to the Baseline consensus forecast published last month. The Baseline forecast is based on estimates presented at the January Finance Advisory Committee meeting.

Year-to-date, base General Fund revenues are 4.6% above the prior year and are \$10.1 million above the Baseline forecast. These amounts exclude Urban Revenue Sharing and one-time adjustments.

In comparison to revenue of \$854.0 million, January 2015 spending was \$683.4 million which is an increase of \$69.7 million from the prior year.

Fiscal year-to-date, General Fund revenues of \$5.21 billion have been offset by \$6.51 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-February 2015 is \$1.9 billion. In addition, the state’s Budget Stabilization Fund has a balance of \$456.2 million.

### State Appropriations Limit Report

JLBC Staff is required to annually report by February 15 on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Total FY 2015 state appropriations (both General and Other Funds) are \$15.11 billion, or 5.81% of personal income. Under the JLBC Baseline, projected FY 2016 spending is \$15.22 billion, which would be 5.56% of personal income.

### Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2015, as required by A.R.S. § 41-1276. Due to the growth in values for new properties being slightly higher than expected, the cost of the FY 2016 K-12 Basic State Aid formula will be \$(1.5) million less than the JLBC Baseline.

The purpose of TNT is to offset the annual change in the value of existing property statewide with a proportional Qualifying Tax Rate and State Equalization Tax Rate changes.

Because the higher than expected property value growth is offset by lower than expected TNT rates, these revisions will have a minimal impact in terms of existing properties.

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## January Revenues

	<u>FY 2015 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2014</u>
January	\$ 854.0	\$ 10.1	\$ 33.9
Year-to-Date	\$ 5,214.3	\$ 10.1	\$ 128.8

**Sales Tax** collections of \$399.9 million were 8.8% above January of last year and \$17.5 million above the forecast for the month. Due to technical adjustments, the underlying January sales tax growth is 5.8%. Year-to-date, collections are up by 4.3%.

The January growth was driven by a 9.1% increase in retail collections, which make up roughly half of overall sales tax revenues. The 9.1% growth exceeded most analysts' predictions for holiday sales. Consumers may have channeled some of their savings from the recent gas price decline into additional retail purchases. Assuming gas prices remain low during 2015, retail sales will bear watching in the months to come to determine if the shift in consumer buying habits is sustained.

**Individual Income Tax** net revenues were \$433.3 million in January, which was (0.2)%, or \$(1.0) million less than the prior year. Collections were \$(12.9) million below the forecast for the month. Year-to-date, revenue has grown 2.6% over the prior year.

As indicated in *Table 2*, withholding decreased (3.3)% in January. The January collections bring withholding tax collections for the fiscal year to a sluggish 1.9% over the prior year. This amount is \$(22.5) million below the Baseline forecast.

January estimated and final payments were 6.8% above last year, and were \$7.4 million above the forecast. Year-to-date, payments have grown 5.7% over the prior year.

In the past, strong growth of payments in both December and January has often been followed by strong payment growth during April tax filing. The total of December and January payments were 11.5%, or \$21.0 million, above payments during the same months of FY 2014, suggesting that payment growth may continue in April.

January refunds were (72.4)% below last year and \$2.2 million less than the forecast. Year-to-date, refunds have grown \$(1.9) million over the prior year.

	<u>January</u>	<u>YTD</u>
Withholding	(3.3)%	1.9%
Estimated +		
Final Payments	6.8%	5.7%
Refunds	(72.4)%	1.4%

**Corporate Income Tax** net collections were \$20.2 million in January, which was 24.1%, or \$3.9 million more than January 2014. Collections for the month were \$5.3 million above the budgeted forecast. Year-to-date, net collections are up 21.6% compared to the prior year.

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 \$33.9 million in January, which was 53.1%, or \$11.7 million above the prior year. Collections for January were \$4.4 million above forecast.

The **Lottery Commission** reports that January ticket sales were \$70.6 million, which is \$10.6 million, or 17.6%, above sales in the prior year. Year-to-date ticket sales are \$409.3 million, which is (0.1)% below last year's sales. In terms of General Fund collections, year-to-date lottery revenues have decreased by (39.5)% compared to the prior year and are \$(5.0) million below the Baseline forecast.

**Highway User Revenue Fund (HURF)** collections of \$110.2 million in January were up \$9.0 million, or 8.8% compared to January of last year. Collections for the month were \$0.9 million above forecast. Year-to-date collections are 3.7% above FY 2014.

Table 3

## General Fund Revenue: Change from Previous Year and Budget Forecast January 2015

	Current Month					FY 2015 YTD (Seven Months)				
	Actual January 2015	Change From January 2014		Budget Forecast		Actual January 2015	Change from January 2014		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$399,861,665	\$32,252,275	8.8 %	\$17,547,899	4.6 %	\$2,453,275,455	\$100,243,107	4.3 %	\$17,547,899	0.7 %
Income - Individual	433,302,725	(977,642)	(0.2)	(12,911,730)	(2.9)	2,414,648,073	60,723,492	2.6	(12,911,730)	(0.5)
- Corporate	20,199,440	3,917,559	24.1	5,277,387	35.4	325,686,764	57,763,331	21.6	5,277,387	1.6
Property	2,249,299	1,335,582	146.2	1,749,299	349.9	20,911,208	10,254,062	96.2	1,749,299	9.1
Luxury - Tobacco	2,142,130	(535,126)	(20.0)	148,058	7.4	14,044,947	(1,541,030)	(9.9)	148,058	1.1
- Liquor	3,633,393	(845,818)	(18.9)	(153,005)	(4.0)	19,360,536	(531,672)	(2.7)	(153,005)	(0.8)
Insurance Premium	33,853,685	11,745,595	53.1	4,400,808	14.9	175,941,412	22,553,936	14.7	4,400,808	2.6
Other Taxes	485,090	88,129	22.2	(149,910)	(23.6)	3,313,746	1,628,918	96.7	(149,910)	(4.3)
<b>Sub-Total Taxes</b>	<b>\$895,727,427</b>	<b>\$46,980,554</b>	<b>5.5 %</b>	<b>\$15,908,806</b>	<b>1.8 %</b>	<b>\$5,427,182,141</b>	<b>\$249,480,969</b>	<b>4.8 %</b>	<b>\$15,908,806</b>	<b>0.3 %</b>
<b>Other Revenue</b>										
Lottery	0	(11,434,750)	(100.0)	(5,000,000)	(100.0)	15,326,600	(9,991,750)	(39.5)	(5,000,000)	(24.6)
License, Fees and Permits	3,572,380	977,500	37.7	572,380	19.1	19,104,885	1,791,663	10.3	572,380	3.1
Interest	1,842	319	21.0	1,842	--	19,170	5,806	43.4	1,842	10.6
Sales and Services	1,102,369	(421,631)	(27.7)	(897,631)	(44.9)	9,568,225	226,668	2.4	(897,631)	(8.6)
Other Miscellaneous	1,202,956	(240,675)	(16.7)	(797,044)	(39.9)	14,944,078	4,453,177	42.4	(797,044)	(5.1)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	3,105,530	2,753,161	781.3	355,530	12.9	28,946,931	(5,704,606)	(16.5)	355,530	1.2
<b>Sub-Total Other Revenue</b>	<b>\$8,985,077</b>	<b>(\$8,366,076)</b>	<b>(48.2) %</b>	<b>(\$5,764,923)</b>	<b>(39.1) %</b>	<b>\$87,909,890</b>	<b>(\$9,219,041)</b>	<b>(9.5) %</b>	<b>(\$5,764,923)</b>	<b>(6.2) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$904,712,504</b>	<b>\$38,614,478</b>	<b>4.5 %</b>	<b>\$10,143,883</b>	<b>1.1 %</b>	<b>\$5,515,092,031</b>	<b>\$240,261,928</b>	<b>4.6 %</b>	<b>\$10,143,883</b>	<b>0.2 %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(50,744,642)	(4,035,312)	8.6	0	0.0	(355,212,496)	(27,757,953)	8.5	0	0.0
One-Time Transfers	0	(5,001)	(100.0)	0	--	53,900,000	(77,646,149)	(59.0)	0	0.0
Sales Tax - 1¢ Increase	0	(687,602)	(100.0)	0	--	541,615	(6,038,504)	(91.8)	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(50,744,642)</b>	<b>(4,727,915)</b>	<b>10.3 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(300,770,881)</b>	<b>(111,442,606)</b>	<b>58.9 %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$853,967,862</b>	<b>\$33,886,563</b>	<b>4.1 %</b>	<b>\$10,143,883</b>	<b>1.2 %</b>	<b>\$5,214,321,150</b>	<b>\$128,819,322</b>	<b>2.5 %</b>	<b>\$10,143,883</b>	<b>0.2 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$110,248,700	\$8,955,566	8.8 %	\$919,208	0.8 %	\$734,276,902	\$26,287,554	3.7 %	\$6,117,272	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 2.6% in the 4<sup>th</sup> quarter of 2014. This advance estimate is a notable deceleration from the 5.0% growth during the 3<sup>rd</sup> quarter. The decrease relative to third quarter growth was primarily due to an increase in imports and a decrease in federal defense spending. Positive contributions came primarily from consumer spending, inventory and fixed investment, exports, and state and local spending. Consumer spending grew at 4.3% during the quarter, which is the highest quarterly rate since 2006.

The Conference Board's **U.S. Consumer Confidence Index** increased by 10.5% in January to its highest level since August 2007. The index now stands 29.6% above its January 2014 level. The January increase was broad-based, including improved outlooks on the present and near future economy. Economists think lower gas prices and positive employment reports continue to increase optimism.

The Conference Board's **U.S. Leading Economic Index** increased by 0.5% in December and 6.4% since December 2013. This month marked the 11<sup>th</sup> consecutive period in which the index grew or remained unchanged. Of the index's 10 components, 8 improved, 1 was flat and 1 decreased. Movement in interest rates and initial unemployment claims were the largest positive contributors to the index while building permits acted as a drag.

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 December from the prior month—the second consecutive monthly decrease. The index's annual growth has fallen to 0.7%, down from annual growth of 1.7% in May and well below the Federal Reserve Bank's 2% annual inflation target.

### 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 2.8% compared to December 2013. Over the same time period, the U.S.

coincident index increased by 3.5%. Currently, Arizona's rate of annual coincident index growth is 32<sup>nd</sup> in the nation. Last year at this time, Arizona's rate was 33<sup>rd</sup> highest among states. *See Appendix A – Tracking Arizona's Recovery* for additional historical information.

### Housing

The total housing inventory in the Greater Phoenix area is (4.8)% smaller than January of last year. Although this is an improvement, inventory levels still suggest a somewhat slow resale market. This is further evidenced by homes being listed longer before selling. In January 2014, homes were on the market an average of 79 days. In January 2015, homes were on the market an average of 96 days.

The **median price of a single family home** was \$210,500 in January, a 3.2% increase from December. The price is 9.9% higher than January 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 17,555, or (3.2)% less than a year ago. The comparable single-family permit growth rate for the entire U.S. is 0.7% 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 10,308 **multi-family building permits** is 87.7% 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 8.1% above 2013.

### Employment

Due to the annual revision of employment date (also known as "benchmarking"), January's employment and unemployment figures will not be released until the second week of March. For this reason, this month's issue of *Monthly Fiscal Highlights* does not include these employment statistics.

In December, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.7 hours. This workload is (1.4)% below the December 2013 level. The **Average Hourly Earnings** received by these private sector workers was \$22.50, which is (3.4)% below the average in December 2013. The average hourly earnings nationwide in January 2015 were 2.2% above the average from a year prior.

## Monthly Indicators (Continued)

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the “regularly” unemployed, the measure also includes persons who are available to work but stopped looking for a job (“discouraged workers”), and persons who had to settle for part-time employment (“underemployed workers”). The Arizona rate stood at 14.7% for the fourth quarter of 2014, which is down (0.4)% from the prior quarter and (1.3)% from the prior year. The state’s total unemployment rate reading of 14.7% was the third highest of any state. The national average for the measure was 12.0% during the quarter.

### State Agency Data

At the beginning of February 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 322,000 members. The enacted budget assumed the AHCCCS population would grow by 375,000 members through February 2015.

Total monthly enrollment decreased (0.9)% in February. New enrollment following the January 1, 2014 expansion of coverage appears to have slowed significantly or even decreased. This may partly be due to a change in the length of eligibility redetermination.

The overall decrease in February was largely due to enrollment of the Traditional AHCCCS population of lower income children and their parents. Enrollment in this population fell (11,000) in February to a level of 950,800 members (versus a budgeted caseload of 1,023,600). The February level represents a decrease of (1.2)% since last month and an 8.4% increase since last year. This population 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 February 2015, the childless adult population decreased by (3,400), or (1.2)%. Since January 2014, the childless adult population has increased by 208,000 to reach a level of 275,700. This is compared to a budgeted level of 239,600 for February. 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 1,000 in February and now totals 37,400 individuals enrolled since January 2014 (versus a budgeted caseload of 58,300). The federal government is currently paying 100% of this cost.

**Arizona Department of Corrections** reported a (0.3)% decrease in the inmate population at the end of January 2015. The total inmate population was 42,070. Since January 2014, the inmate population has increased 1.7%.

The Department of Economic Security (DES) reported that there were 28,489 **TANF recipients** in the state in December, representing a (2.5)% decrease in monthly caseloads from November. The year-over-year number of TANF recipients has declined by (14.5)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. This December, there were 1.0 million food stamp recipients in the state, representing a 1.0% decrease from November caseloads. Compared to November of last year, food stamp participation declined by (2.4)%.

Table 4

## MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	December	6.7%	(0.1)%	(0.9)%
- Total Unemployment Rate (discouraged/underemployed)	4 <sup>th</sup> Q 2014	14.7%	(0.4)%	(1.3)%
- Initial Unemployment Insurance Claims	December	17,142	6.9%	(7.6)%
- Unemployment Insurance Recipients	December	30,402	(2.0)%	(12.7)%
- Non-Farm Employment - Total	December	2.64 million	0.5%	2.5%
Manufacturing	December	154,500	(0.4)%	(0.4)%
Construction	December	119,800	(0.2)%	(3.5)%
- Average Weekly Hours, Private Sector	December	34.7	(0.3)%	(1.4)%
- Average Hourly Earnings, Private Sector	December	\$22.50	(1.4)%	(3.4)%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	December	\$872.2 million	2.8%	8.7%
Furniture/Home Furnishings	December	\$351.9 million	13.7%	8.4%
Building Material/Lawn & Garden	December	\$323.8 million	(2.9)%	7.0%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	December	17,555	0.6%	(3.2)%
Multi-family	December	10,308	0.8%	87.7%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	January	4,404	23.5%	(8.5)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	January	\$210,500	3.2%	9.9%
- Phoenix S&P/C Home Price Index (2000 = 100)	November	147.67	0.2%	1.9%
- Maricopa Pending Foreclosures	January	5,675	(1.5)%	(31.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	January	27,106	8.7%	(4.8)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	December	3.75 million	9.6%	6.3%
- National Park Visitors	December	605,350	(34.9)%	20.5%
- State Park Visitors	December	117,575	(27.5)%	9.2%
- Revenue Per Available Hotel Room	December	\$49.38	(18.5)%	(11.5)%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	1st Q 2015	79.1	N/A	14.8%
- Arizona Coincident Index (July 1992 = 100)	December	191.31	0.3%	2.8%
- Arizona Leading Index -- 6 month projected growth	December	3.5%	(0.2)%	0.4%
- Arizona Personal Income	3rd 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	February	1,579,976	(0.9)%	23.8%
Acute Care Traditional		950,805	(1.2)%	8.4%
Prop 204 Childless Adults		275,743	(1.2)%	109.5%
Other Prop 204		164,971	(0.1)%	15.1%
Adult Expansion		37,369	2.7%	-
Kids Care I		1,665	(11.1)%	(27.3)%
Kids Care II		0	0.0%	(100.0)%
Long-Term Care – Elderly & DD		56,512	0.0%	3.4%
Emergency Services		92,911	0.2%	44.7%
- 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	January	42,070	(0.3)%	1.7%
- Department of Economic Security				
- TANF Recipients	December	28,489	(2.5)%	(14.5)%
- SNAP (Food Stamps) Recipients	December	1,039,515	(1.0)%	(2.4)%
- Judiciary Probation Caseload				
Non-Maricopa	November	17,976	4	441
Maricopa County	November	26,258	158	1,444
<b>United States</b>				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	4 <sup>th</sup> Q, 2014	\$16.3 trillion	2.5%	2.6%
- Consumer Confidence Index (1985 = 100)	January	102.9	10.5%	29.6%
- Leading Indicators Index (2010 = 100)	December	121.1	0.5%	6.4%
- Consumer Price Index, SA (1982-84 = 100)	December	236.1	(0.4)%	0.7%
- Personal Consumption Price Index (2009 = 100)	December	108.7	(0.2)%	0.7%

## Summary of Recent Agency Reports

**Arizona Department of Administration – Report on Repayment of State Debt and Obligations** – Pursuant to A.R.S. § 41-726, the Department of Administration is required to report on the amount of potential savings if the state repays the balance of any outstanding long-term General Fund financing obligations, under the following repayment scenarios: \$50 million, \$100 million, \$150 million, and \$200 million. Under the 4 repayment scenarios, ADOA reported the following net lifetime savings in debt service payments:

- \$50 million repayment – \$24.2 million
  - \$100 million repayment – \$47.7 million
  - \$150 million repayment – \$70.4 million
  - \$200 million repayment – \$92.6 million
- (Josh Hope)

**Department of Child Safety - Report on Implementation of Auditor General Recommendations** - Laws 2013, 1<sup>st</sup> Special Session, Chapter 10 instructed the Auditor General to submit a report addressing expenditures for the recruitment, retention, training, licensing and tracking of foster care families. The Auditor General recommended in October 2013 that the program use performance measure data to monitor and assess contractor performance, building greater incentives into contracts that focus on critical goals such as the retention of foster parents. The agency agreed to implement these recommendations.

Subsequent to the Auditor General's recommendation and pursuant to a footnote in Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, the Department of Child Safety (DCS) is reporting on its progress in implementing the Auditor General's recommendations to improve performance-based contracting for foster home-related services. DCS reports that its new foster home recruitment-related services contract will include incentives to achieve DCS goals and the capability to monitor contractor performance.

In October 2014, the Auditor General supported DCS' progress, stating that 6 of the 7 Auditor General recommendations had been or were in the process of being implemented. DCS, however, had yet to document its compliance with the Auditor General's recommendation that DCS continue to contact other states about their experiences developing performance-based contracting for foster care services. (Ben Beutler)

**Department of Child Safety - DCS/ECDHB Joint Report** - The FY 2015 Health and Welfare Budget Reconciliation Bill requires the Department of Child Safety (DCS) and the Early Childhood Development and Health Board (ECDHB) to report on their collaborative efforts to address child welfare issues of

common concern, specifically the level of coordination among DCS, ECDHB, and community groups to promote the well-being of children and families that are identified in reports of abuse or neglect. Below is a summary of the major efforts listed in the report:

- **Child Care Funding**: ECDHB anticipates providing \$34.0 million of matching dollars to draw down about \$37.0 million of matching federal monies in federal fiscal year (FFY) 2015. The \$34.0 million would provide child care scholarships to children. ECDHB helps about 19,000 children annually with child care and preschool scholarships.
- **Court Teams Program**: The focus of this program is to improve how the courts, child welfare, and child serving organizations work together to protect infants in the child welfare system from further harm.
- **ECDHB Child Welfare Policy**: In cases where a family is receiving ECDHB-funded services and subsequently becomes involved with the child welfare system, the ECDHB grantee will work with DCS caseworkers to reassess the family situation.
- **The "Who Do You Trust With Your Child?" Campaign**: This child abuse prevention and awareness campaign helps parents choose a safe caregiver and prevent child maltreatment.
- **Healthy Families Arizona**: This is a home visitation program that is designed to strengthen families during the first 5 years of a child's life. DCS and ECDHB are working together to identify additional funding sources for the expansion of the program.
- **Birth to 5 Helpline**: Staffed by nurses and early childhood development experts, the helpline answers parenting questions from caregivers with a child 5 or younger. (Ben Beutler)

**Department of Child Safety - Quarterly Report on Foster Care Medicaid** - Pursuant to Laws 2013, Chapter 220, the Department of Child Safety (DCS) is required to report on foster care and Medicaid eligibility. This is the final report.

During the 2<sup>nd</sup> quarter of FY 2015, DCS reports the following trends on foster care and Medicaid eligibility:

1. There were 15,745 children eligible for Medicaid in foster care at the end of the 2<sup>nd</sup> quarter, up from 15,555 at the end of the 1<sup>st</sup> quarter of FY 2015.
2. The percentage of foster care children eligible for Medicaid declined from 97% at the end of the 1<sup>st</sup> quarter of FY 2015 to 95% at the end of the 2<sup>nd</sup> quarter of FY 2015.
3. The amount of non-Medicaid behavioral health group home expenditures used by DCS to supplement Medicaid behavioral health placement services was \$1.5 million in the 2<sup>nd</sup> quarter of FY 2015 compared to \$2.6 million in the 1<sup>st</sup> quarter of FY 2015.

## Summary of Recent Agency Reports (Continued)

4. The amount of non-Medicaid behavioral health evaluation/counseling expenditures used by DCS to supplement Medicaid behavioral health services declined from \$190,400 in the 1<sup>st</sup> quarter of FY 2015 to \$66,400 in the 2<sup>nd</sup> quarter of FY 2015. (Ben Beutler)

**Department of Child Safety – Report on Hotline Wait Times** – A footnote in Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2 requires the Department of Child Safety (DCS) to report to the Legislature on hotline wait times and the abandoned call rate. The average wait time decreased from 5 minutes in December 2013 to 30 seconds in December 2014. The department reported that the median wait time was 0 seconds from May 2014 onward but did not track that information prior to that date. The abandoned call rate also decreased in 2014, going from 22% in December 2013 to 2% in December 2014. The department received nearly 153,000 calls in 2014. The department attributes its improvement in hotline wait times and abandoned calls to a telephony system upgrade in 2014 and other process improvements. (Ben Beutler)

**Governor’s Council on Workforce Policy – 2014 Annual Report** – Pursuant to A.R.S. § 41-1542, the Governor’s Council on Workforce Policy (GCWP) submitted its annual report on workforce development. The total workforce spending from state, federal, and local sources for FY 2014 was \$422.9 million. Of this total, the Department of Economic Security accounted for \$208.0 million, Department of Education for \$15.8 million, Arizona Commerce Authority for \$5.3 million, and Community Colleges for \$193.8 million.

Excluding the community colleges, the largest programs in FY 2014 included Vocational Rehabilitation (\$84.8 million), the Workforce Investment Act program (\$46.4 million), Unemployment Insurance (\$36.7 million), and the Jobs program, which provides employment and training services to Temporary Assistance for Needy Families (TANF) recipients (\$15.9 million). (Eric Billings)

**Department of Health Services – Report on Arnold v. Sarn** – Pursuant to a FY 2015 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted the first and second quarter report on implementing the *Arnold v. Sarn* joint agreement.

The state has been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population. In January 2014, both parties filed a joint agreement with the court to terminate the lawsuit. The agreement, which received court approval in February 2014, requires expansion of certain services by June 2016 and continued monitoring of service capacity and quality.

**Assertive Community Treatment (ACT)**: The joint agreement requires DHS to establish 8 new ACT teams. ACT teams include more than 10 specialized health care professionals that provide services, such as substance abuse treatment and supported employment, which are tailored to the client’s needs. DHS added 1 team in both the first and second quarters and plans to add 2 teams later in FY 2015. DHS states that cost per team is approximately \$1.5 million. In total, the cost to establish all 8 teams is projected to be \$11.6 million (\$8.7 million General Fund and \$2.9 million Federal Funds).

**Peer Support**: The joint agreement requires DHS to provide peer support services to an additional 1,500 SMI clients. Peer support services are delivered in individual and group settings by individuals who have personal experience with mental illness, substance abuse or dependence, and recovery. DHS added 50 clients in the first quarter and 125 clients in the second quarter. DHS states that the cost per client is approximately \$1,100. In total, the cost to serve 1,500 SMI clients is projected to be \$1.6 million (\$1.2 million General Fund and \$411,000 Federal Funds).

**Supported Employment**: The joint agreement requires DHS to provide supported employment services to an additional 750 SMI clients. Supported employment services include assistance in attaining employment, job coaching, transportation, assistive technology, specialized job training and individually tailored supervision. DHS added 19 clients in the first quarter and 48 clients in the second quarter. DHS states that the cost per client is approximately \$1,600. In total, the cost to serve 750 SMI clients is projected to be \$1.2 million (\$922,500 General Fund and \$307,500 Federal Funds).

**Supported Housing**: The joint agreement requires DHS to provide supported housing services to an additional 1,200 SMI clients. Supported housing is permanent housing with support services. DHS states that the cost per client is approximately \$26,300. DHS added 100 clients in the first quarter and 100 clients in the second quarter. In total, the cost to serve 1,200 SMI clients is projected to be \$31.5 million (\$26.8 million General Fund and \$4.7 million Federal Funds). (Matt Gress)

**Ombudsman-Citizens Aide Office – Annual Report** – Pursuant to A.R.S. § 41-1376, the ombudsman-citizens aide is to submit an annual written report by January 1 summarizing their activities during the previous fiscal year, and semiannually present this report before Legislative Council. The ombudsman-citizens aide issued an annual report for CY 2013 on May 23, 2014. The CY 2013 annual report includes the ombudsman’s mission statement, and cites examples of cases in the office’s 3 focus areas of administrative actions of state

## Summary of Recent Agency Reports (Continued)

agencies, Child Protective Services (CPS, now known as Department of Child Safety), and public access cases. There were 4,853 total cases in CY 2013 including 3,387 involving coaching, 1,255 needing assistance, and 211 requesting investigations. Of the 211 total requests for investigation, 185 were completed, 8 are ongoing, and the Ombudsman declined to investigate 18.

The ombudsman-citizens aide also issued a semi-annual report for January – June 2014 on December 22, 2014, which follows the same format as the annual report. There were 2,769 total cases including 1,888 involving coaching, 769 needing assistance, and 112 requesting investigations in the first 6 months of CY 2014. (Bob Hull)

**Department of Public Safety – Quarterly Report on the GIITEM Fund** – Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. In FY 2015, the GIITEM Fund was appropriated \$2.6 million in General Fund monies for grants to local law enforcement agencies to help with border security. During the second quarter of FY 2015 DPS distributed \$1.6 million to the Maricopa County Sheriff and \$500,000 to the Pinal County Sheriff as required by A.R.S. § 41-1724 C, bringing the year-to-date total to \$2.1 million.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$536,700 in criminal fine and fee revenues in the second quarter of FY 2015, bringing the year-to-date total to \$1.1 million. DPS expended \$988,000 in the second quarter bringing the year-to-date total to \$1.1 million. The monies were granted to 15 local law enforcement agencies and the Arizona Department of Corrections for border security purposes. (Eric Billings)

**School Facilities Board – Report on Funding Estimates** – Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is required to report by December 1 on the estimated amounts necessary in FY 2016 and FY 2017 for the Emergency Deficiencies Correction and New School Facilities Programs.

In both FY 2016 and FY 2017, SFB estimates no funds will be available for the Emergency Deficiencies Correction Program.

In FY 2016, SFB estimates a total funding requirement of \$25.0 million for New School Construction for 2 districts. The first project would cost \$590,000 and would fund 4,320 square feet of additional K-4 space in the Benson Unified School District (USD). The second project would cost \$21.0 million and would fund 125,750 square feet of additional 9-12 space in the

Chandler USD. SFB estimates that land costs and site conditions for both projects in total would be \$3.4 million. To date, SFB has only approved a project for the Benson USD. After this report was submitted, SFB further revised their enrollment projections and awarded 17,190 square feet of additional K-4 space to Benson USD at a cost of \$3.4 million, including land and site conditions.

In FY 2017, SFB estimates a total funding requirement of \$63.2 million for New School Construction for 7 districts. The 7 districts are: Agua Fria Union, Chandler Unified, Laveen Elementary, Litchfield Elementary, Pima Unified, Thatcher Unified, and Tolleson Union. The projects would cost \$59.8 million to fund 400,110 square feet of additional space. SFB estimates that land costs and site conditions for these 7 projects in total would be \$3.4 million.

SFB estimates that the Lease-to-Own Debt Service will be \$172.4 million and \$172.3 million in FY 2016 and FY 2017, respectively.

SFB did not request to transfer any monies from the New School Facilities Fund to the Emergency Deficiencies Correction Fund in FY 2016 or FY 2017, due to the lack of excess monies in the New School Facilities Fund. (Josh Hope)

**Secretary of State – Report on the Election Systems Improvement Fund** – Pursuant to a General Appropriation Act footnote and A.R.S. § 41-129C, the Secretary of State submitted a report on the expenditures from the Election Systems Improvement Fund to implement the Help America Vote Act. The expenditures in FY 2014 were \$3.5 million and are projected to be \$2.5 million in FY 2015 and FY 2016. The Secretary of State reports that FY 2014 expenditures were used as follows: 54% for voter registration, 13% on voter accessibility, 7% for administration, 1% for poll workers, 24% on voter education, and 1% for telecommunication and training. A similar distribution is expected to continue for FY 2015 and FY 2016. (Krista MacGahan)

**Arizona Board of Regents – Report on Credit Hour Threshold FTE Student Counts** – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents (ABOR) is required to report by October 15 on the number of students that met or exceeded the undergraduate credit hour threshold. ABOR reports that students exceeded the 145 credit hour threshold by a cumulative 319.2 full-time equivalent (FTE) students in the fall 2014 semester. This represents a decrease of (35.8) FTE from the fall 2013 semester figure of 355 FTE. (Micaela Larkin)

## January Spending

January 2015 General Fund spending of \$683.4 million was \$69.7 million greater than January 2014. Year-to-date, spending is \$6.51 billion, or \$425.7 million above last year. (See *Tables 5 & 6*).

- Year-to-date, the Department of Education has spent \$134.3 million more than the prior year.
- Year-to-date, Department of Health Services spending has increased by \$61.7 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.

**Table 5**

**General Fund Spending (\$ in Millions)**

	<u>Jan 15</u>	Change From <u>Jan 14</u>	<u>Year-to-Date</u>	YTD Change <u>from FY 14</u>
<b>Agency</b>				
AHCCCS	114.0	11.9	814.5	26.4
Corrections	78.7	(2.6)	569.2	18.4
Child Safety	1.2	1.2	79.9	79.9
Economic Security	107.4	37.8	627.3	47.5
Education	244.9	27.9	2,646.0	134.3
Health Services	15.8	5.3	532.7	61.7
Public Safety	14.7	12.2	53.1	33.2
School Facilities Board	0.1	(30.5)	156.1	(32.1)
Universities	51.9	3.1	541.1	23.1
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>54.7</u>	<u>3.4</u>	<u>401.6</u>	<u>33.3</u>
<b>Total</b>	<b>683.4</b>	<b>69.7</b>	<b>6,505.6</b>	<b>425.7</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>Jan 15</b>	<b>Change from Jan 14</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 14</b>
Dept. of Admin./Automation Projects Fund	819.1	(88.6)	40,281.1	14,856.6
ADOA – Sale/Leaseback Debt Service	-	-	84,123.7	3.9
Office of Administrative Hearings	89.3	19.2	536.7	18.3
Commission of African-American Affairs	1.4	1.4	1.4	1.4
Department of Agriculture	448.8	(325.7)	4,727.3	(349.1)
AHCCCS	114,024.2	11,920.1	814,485.9	26,420.7
Attorney General	2,742.1	1,076.8	12,809.7	606.9
State Board of Charter Schools	58.4	(28.7)	515.4	(3.9)
Department of Child Safety	1,211.3	1,211.3	79,898.1	79,898.1
AZ Commerce Authority	2,625.0	-	18,525.0	150.0
Community Colleges	16,858.5	729.5	53,225.8	4,164.8
Corporation Commission	52.2	16.3	353.2	72.8
Department of Corrections	78,731.8	(2,637.8)	569,217.6	18,416.7
County Funding	-	-	7,650.5	500.0
AZ State Schools for the Deaf & Blind	1,886.1	(38.5)	13,272.1	(218.1)
Dept. of Econ. Security	107,359.5	37,814.1	627,318.6	47,472.1
Department of Education	244,881.6	27,888.7	2,645,986.4	134,294.2
DEMA	2,439.4	1,851.8	5,439.3	1,388.3
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	13.3	(14.5)	87.6	(38.2)
State Board of Equalization	24.9	(14.1)	346.7	(20.6)
Board of Executive Clemency	62.0	0.6	556.9	76.6
Department of Financial Institutions	227.4	10.8	1,779.3	78.6
Department of Fire, Bldg and Life Safety	181.1	54.9	1,257.0	77.4
State Forester	280.9	24.0	2,042.1	192.2
Arizona Geological Survey	118.4	68.1	594.1	188.0
Governor/OSPB	753.6	271.1	6,548.7	718.0
Department of Health Services	15,758.9	5,257.1	532,716.8	61,712.8
Arizona Historical Society	231.2	0.9	2,033.1	49.1
Prescott Historical Society of AZ	66.4	17.1	411.8	1.5
Independent Redistricting Comm.	96.4	40.7	647.0	(213.2)
Commission of Indian Affairs	10.5	6.5	39.8	6.2
Department of Insurance	472.5	79.4	3,191.3	9.1
Judiciary				
Supreme/Superior Court	10,425.1	(66.4)	57,229.1	710.4
Court of Appeals	1,098.0	(87.9)	8,141.6	21.6
Department of Juvenile Corrections	3,234.5	341.7	23,302.6	641.8

Table 6 (Continued)

Agency	Jan 15	Change from Jan 14	Year-to-Date	YTD Change from FY 14
State Land Department	868.7	85.4	7,275.3	463.2
Legislature				
Auditor General	1,554.1	66.6	11,718.2	719.4
House of Representatives	1,202.1	160.5	7,301.2	344.3
Joint Legislative Budget Comm.	174.1	(17.4)	1,299.7	112.1
Legislative Council	589.9	25.6	5,620.5	1,384.1
Senate	661.1	(87.0)	4,685.8	0.4
Mine Inspector	77.7	(5.3)	685.8	(15.0)
Nav. Streams & Adjudication	9.7	0.5	99.2	30.3
Occupational Safety and Health Review	-	-	0.9	(1.4)
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	185.8	(182.1)	1,018.0	(161.3)
Comm. for Postsecondary Ed.	698.4	610.4	1,396.8	610.4
Department of Public Safety	14,740.4	12,154.0	53,093.9	33,231.8
Public Safety Personnel Retirement System	-	-	6,000.0	1,000.0
Arizona Department of Racing	80.0	(5.1)	1,869.6	(5.3)
Radiation Regulatory Agency	225.3	(3.8)	975.6	(1.1)
Real Estate Department	154.6	(46.2)	1,521.9	0.3
Department of Revenue	(738.6)	(1,947.5)	29,231.5	(1,518.6)
School Facilities Board	102.1	(30,528.8)	156,077.4	(32,113.3)
Secretary of State	727.4	92.2	8,220.3	884.8
Tax Appeals Board	18.1	0.3	164.6	2.3
Office of Tourism	1,420.7	894.7	8,393.3	4,941.5
Universities				
Board of Regents	6,343.8	322.5	22,282.3	3,882.8
Arizona State University	21,559.2	1,918.8	241,489.8	13,431.4
Northern Arizona University	7,315.5	753.0	81,703.5	5,271.1
University of Arizona	16,666.4	70.0	195,594.5	490.1
Department of Veteran Services	345.1	(69.7)	2,665.5	(344.0)
Department of Water Resources	995.1	109.6	6,230.1	204.3
Water Infrastructure Finance Authority	-	-	1,000.0	1,000.0
Department of Weights & Measures	113.2	10.7	785.7	91.1
Other - JP Salaries Distribution	-	(154.3)	421.4	(104.8)
Other	34.5	34.5	38.5	38.0
<b>Total</b>	<b>683,408.1</b>	<b>69,660.6</b>	<b>6,505,603.4</b>	<b>425,715.7</b>

## Tracking Arizona's Recovery

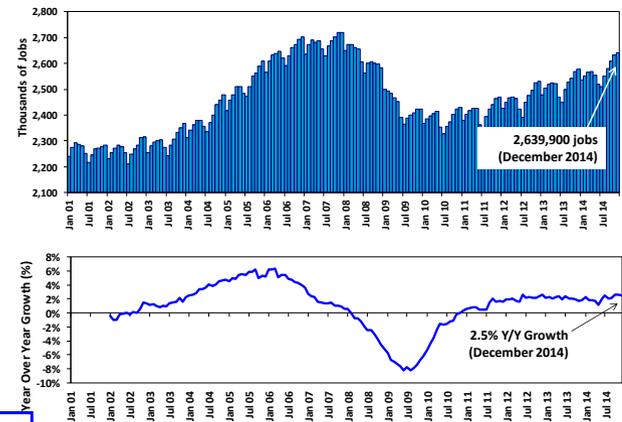
February 2015  
Appendix A

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

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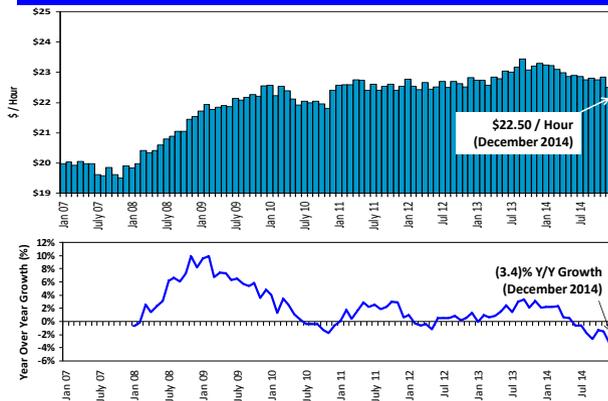
## Total Non-Farm Employment



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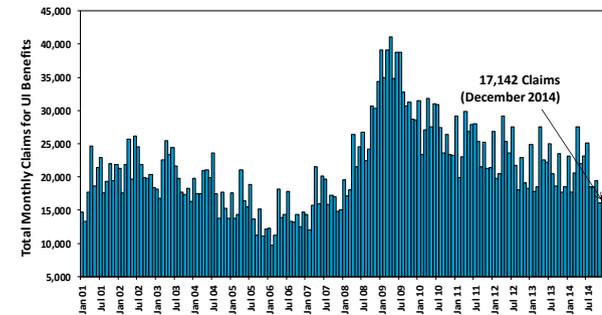
## Average Hourly Earnings – Private Sector



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## Initial Claims for Unemployment Insurance

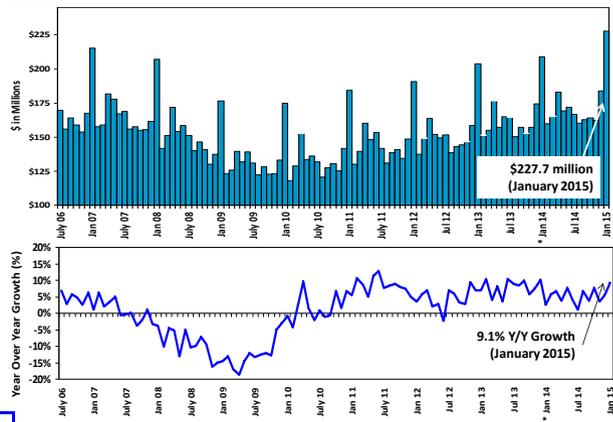


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Not seasonally adjusted

4

## State Sales Tax Collections – Retail Category



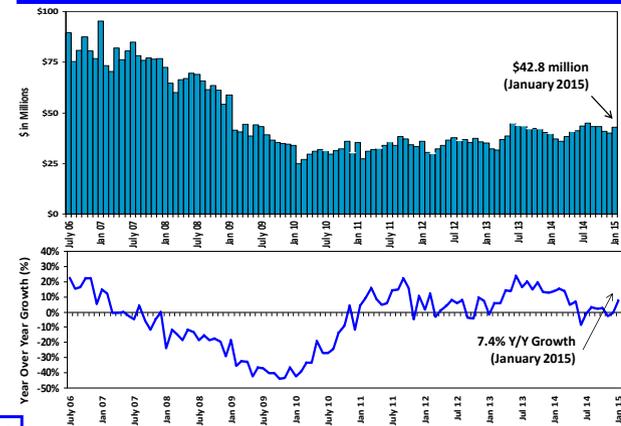
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Excludes temporary 1 c sales tax

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

5

## State Sales Tax Collections – Contracting Category

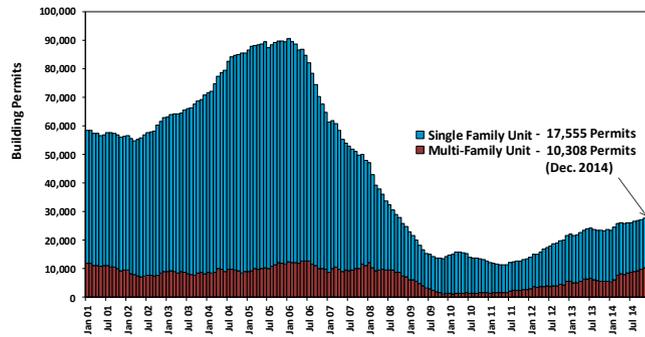


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Excludes temporary 1 c sales tax

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## Residential Building Permits

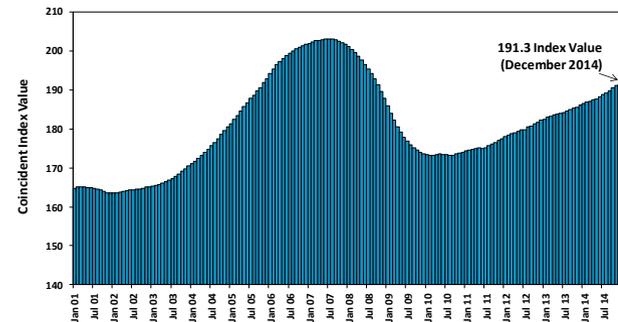


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12-Month Moving Sum

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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