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*"Year-to-date,
General Fund
revenues are
3.2% above the
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are \$10.4 million
above forecast."*

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on January 21, 2014.

Summary

December General Fund revenue collections totaled \$777.2 million. Base revenues, which exclude one-time adjustments, were (3.1)% below December 2012 and \$(43.7) million below forecast. The year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

The December forecast loss occurred mainly in 2 categories. Individual Income Tax receipts fell by (6.3)% in the month and were \$(10.1) million below forecast, almost entirely due to lower than expected withholding collections.

In addition, Corporate Income Tax revenues continued the poor performance seen so far this year – with December collections declining by (10.8)% and coming in at \$(27.3) million below forecast. This marks the third month of significant double-digit declines in the Corporate Income Tax so far in FY 2014.

Year-to-date, General Fund revenues are 3.2% above the prior year and are \$10.4 million above forecast.

In comparison to revenue of \$777.2 million, December 2013 spending was \$532.9 million which is a decrease of \$(28.9) million from the prior year.

Fiscal year-to-date, General Fund revenues of \$4.26 billion have been offset by \$5.47 billion of expenditures.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance is at

\$2.2 billion as of mid-January 2014. In addition, the state's Budget Stabilization Fund has a balance of \$453.3 million.

JLBC Baseline Summary

In mid-January the JLBC released its [FY 2015 Baseline budget](#). The Baseline reflects a consensus economic forecast and statutory funding formula requirements. In summary:

- Given forecasted FY 2015 General Fund revenues of \$9.36 billion and spending of \$9.04 billion, the budget has a projected FY 2015 balance of \$327 million.
- Under the 3-year budget projections, there would be an ending shortfall of \$(17) million in FY 2016 and \$(383) million in FY 2017, prior to any debt buyback or Highway User Revenue Fund (HURF) shift proposal.
- Under the current terms of the state's 2010 \$1.5 billion debt financing, the state must begin to buy back that debt if its reserves reach a certain level. Based on FY 2015 balances, the required FY 2017 buyback is estimated at \$210 million.
- The 2-year legislative proposal to eliminate the use of HURF for Department of Public Safety (DPS) Highway Patrol expenses in FY 2015 and FY 2016 would have a General Fund cost of \$238 million.
- After adjustments for the debt buy back and HURF proposal, the FY 2016 projected shortfalls are \$(256) million in FY 2016 and \$(593) million in FY 2017.
- The ending balance projections exclude the state's Budget Stabilization Fund reserve.

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December Revenues

	<u>FY 2014 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2013</u>
December	\$ 777.2	\$ (43.6)	\$ (30.4)
Year-to-Date	\$ 4,259.6	\$ 10.4	\$ (158.3)

Sales Tax collections of \$327.1 million were 6.0% above December 2012 and \$2.8 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 half of the fiscal year, sales tax collections are 6.7% above the prior year and are \$18.8 million above forecast.

Specific sales tax category information was not available from the Department of Revenue as of the publication date of this document.

Individual Income Tax net revenues were \$384.2 million in December, which was (6.3)% below the prior year. Collections were \$(10.1) million below the forecast for the month. Year-to-date, revenue has grown 3.4% over the prior year, and is \$25.2 million above the budget forecast.

As indicated in *Table 2*, withholding decreased by (6.6)% for the month. The December decrease brings withholding tax collections for the fiscal year down to a 1.7% over the prior year. This amount is \$(46.6) million below the budget forecast.

December estimated and final payments were (3.8)% below last year, and were \$(1.8) million below the forecast for the month. Year-to-date, payments are \$17.0 million above the forecast.

December refunds were 31.3% above last year, but were still \$1.3 million below forecast. Year-to-date, refunds are \$54.9 million below forecast.

**Table 2
Individual Income Tax Growth Rates
Compared to Prior Year**

	<u>December</u>	<u>YTD</u>
Withholding	(6.6)%	1.7%
Estimated + Final Payments	(3.8)%	15.5%
Refunds	31.3%	6.6%

Corporate Income Tax net collections were \$84.7 million in December, which is \$(10.3) million less than December of the prior year. Collections were \$(27.3) million below the budget forecast.

Year-to-date, collections are down (14.8)% compared to the prior year, and are \$(48.8) million below the budget forecast.

The **Lottery Commission** reports that December ticket sales were \$71.3 million, which is \$18.4 million, or 34.7%, above sales in the prior year. Year-to-date ticket sales are \$349.6 million, which is 7.8% 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 \$102.1 million in December were up \$286,200, or 0.3%, compared to December of last year. Year-to-date revenues are 2.5% above collections in the prior year, and are \$9.0 million above the budget forecast.

Table 3

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

	Current Month					FY 2014 YTD (Six Months)				
	Actual December 2013	Change From December 2012		Enacted Forecast		Actual December 2013	Change from December 2012		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$327,109,813	\$18,485,098	6.0 %	\$2,838,561	0.9 %	\$1,985,422,957	\$124,319,793	6.7 %	\$18,846,916	1.0 %
Income - Individual	384,210,008	(25,971,560)	(6.3)	(10,064,534)	(2.6)	1,919,644,214	62,514,738	3.4	25,246,011	1.3
- Corporate	84,742,313	(10,260,596)	(10.8)	(27,276,857)	(24.4)	251,641,552	(43,668,197)	(14.8)	(48,782,023)	(16.2)
Property	2,756,875	173,984	6.7	(243,125)	(8.1)	9,743,429	2,133,147	28.0	1,343,429	16.0
Luxury - Tobacco	2,080,000	(1,391,239)	(40.1)	0	0.0	13,754,930	652,103	5.0	1,354,930	10.9
- Liquor	3,140,000	(588,084)	(15.8)	0	0.0	16,598,388	745,705	4.7	698,388	4.4
Insurance Premium	12,180,601	(3,803,760)	(23.8)	(4,459,199)	(26.8)	131,279,386	(206,128)	(0.2)	(10,243,714)	(7.2)
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	21,302	(9,430)	(30.7)	(53,698)	(71.6)	240,332	(115)	(0.0)	(209,668)	(46.6)
Sub-Total Taxes	\$816,240,912	(\$23,365,587)	(2.8) %	(\$39,258,852)	(4.6) %	\$4,328,325,188	\$146,491,046	3.5 %	(\$11,745,731)	(0.3) %
Other Revenue										
Lottery	1,283,454	(4,341,086)	(77.2)	(4,716,546)	(78.6)	15,286,868	(1,761,332)	(10.3)	(3,213,132)	(17.4)
License, Fees and Permits	2,246,478	(452,357)	(16.8)	(353,522)	(13.6)	14,718,342	(637,721)	(4.2)	(281,658)	(1.9)
Interest	1,535	67	4.6	1,535	--	11,841	(804)	(6.4)	11,841	--
Sales and Services	1,075,204	(253,038)	(19.1)	(424,796)	(28.3)	7,817,557	(353,935)	(4.3)	(1,682,443)	(17.7)
Other Miscellaneous	1,586,911	(804,813)	(33.6)	86,911	5.8	5,763,816	(8,297,342)	(59.0)	(4,436,184)	(43.5)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,499,101	2,748,949	--	999,101	199.8	15,148,753	2,194,629	16.9	2,648,753	21.2
Sub-Total Other Revenue	\$7,692,683	(\$3,102,278)	(28.7) %	(\$4,407,317)	(36.4) %	\$58,747,177	(\$8,856,505)	(13.1) %	(\$6,952,823)	(10.6) %
TOTAL BASE REVENUE	\$823,933,595	(\$26,467,865)	(3.1) %	(\$43,666,169)	(5.0) %	\$4,387,072,365	\$137,634,541	3.2 %	(\$18,698,554)	(0.4) %
Other Adjustments										
Urban Revenue Sharing	(46,709,330)	(3,910,660)	9.1	40,770	(0.1)	(280,745,213)	(23,953,193)	9.3	(244,613)	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	0	--	0	--	2,611,367	(386,655,630)	(99.3)	2,611,367	--
Sub-Total Other Adjustments	(46,709,330)	(3,910,660)	9.1 %	40,770	(0.1) %	(127,442,285)	(295,917,262)	-- %	29,058,315	(18.6) %
TOTAL GENERAL FUND REVENUE	\$777,224,265	(\$30,378,525)	(3.8) %	(\$43,625,399)	(5.3) %	\$4,259,630,080	(\$158,282,721)	(3.6) %	\$10,359,761	0.2 %
Non-General Funds										
Highway User Revenue Fund	\$102,061,776	\$286,195	0.3 %	(\$731,561)	(0.7) %	\$606,696,214	\$14,900,943	2.5 %	\$8,982,991	1.5 %

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 4.1% in the third quarter of 2013. This revised estimate represents the largest rate of growth since the fourth quarter of 2011. The acceleration was largely due to increases in inventory investment, personal consumption, and fixed investment. Federal government spending was the only major component of GDP that decreased during the quarter.

The Conference Board's **U.S. Consumer Confidence Index** increased 8.5% in December and 17.1% since December 2012. The latest reading reversed the negative trend experienced during the prior 3 months and marks the largest monthly increase since June 2013. The increase was largely due to an improved job market outlook, as the percent of respondents that expect more job opportunities in coming months increased from 13.1% to 17.1%.

The Conference Board's **U.S. Leading Economic Index** grew by 0.8% in November, the largest monthly percentage increase since April 2013. This represents a continuation of the strong index growth seen in recent months, with the exception of a brief interruption in October. During the month, improving conditions in jobless claims, manufacturing orders, and several measures of financial markets more than offset negative contributions to the index from worsening consumer confidence and building permit creation.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.3% in December and 1.5% above December 2012 prices. Energy prices drove the majority of the monthly growth, increasing 2.1% over November prices. Core inflation (all items except food and energy) only increased 0.1% during the month. Annual inflation measured by the index in the future is expected to strongly influence the pace the Federal Reserve Bank reduces their monetary stimulus to the economy.

ARIZONA

The U.S. Census Bureau released new **state population** estimates last month. According to

this information, the population in Arizona as of July 1, 2013 was 6,626,624, a net increase of 75,475, or 1.2%, from July 1, 2012. This was somewhat lower than the 1.3% population growth estimate in the previous year.

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 November, 46 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.3% compared to the prior month. Year-over-year, the Arizona index is 2.4% above last year, which is the 33rd highest growth rate in the country. While this is a significant improvement, Arizona's index is still (8.8)% 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 2.6% over the next 6 months. This is higher than the revised 2.5% growth projection in October and lower than the 3.5% projection in November 2012.

Housing

The number of Maricopa County **pending foreclosures** decreased from 6,065 in November to 5,974 in December. The December 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 21,095 in December 2012 to 25,360 in December 2013, a 20.2% increase.

“(GDP) increased at an annual rate of 4.1% in the third quarter of 2013...the largest rate of growth since the fourth quarter of 2011.”

Recent Economic Indicators (Continued)

In the Metropolitan Phoenix area, the **median price of a single family home** was \$200,000 in November. This represents no change from October, and a 23.1% increase from November of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through November, a total of 1,291 **single-family building permits** had been issued statewide, a 2.2% 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 November, a total of 131 **multi-family building permits** were issued in the state. This figure remains well below the peak of activity in April 2007.

State Agency Data

At the beginning of January, total **AHCCCS** caseloads remained at 1.26 million members. Overall, AHCCCS caseloads are currently (0.8)% below January 2013 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, decreased by (2.8)% since last month while decreasing (3.3)% since last year. The total population in this program is approximately 855,000.

From July 2011 through December 2013, the childless adult program did not allow new participants. As part of Medicaid expansion and restoration that began January 1, 2014, the program again allowed new participants. Since the December MFH, the population has increased by 29,064 to reach a level of 96,834. As a whole, the Proposition 204 program has increased 12.6% compared to the prior month, and 2.5% from the prior year.

Medicaid expansion also resulted in the creation of a new member population consisting of adults from 100% to 133% of the Federal Poverty Level (FPL). At the beginning of January, 1,369 individuals had enrolled under this new population. Federal requirements that took effect January 1, 2014 may have also increased January caseloads of children and of those previously eligible but not enrolled. Caseload amounts for those groups are unknown though, as they are not reported separately from existing populations.

KidsCare I provides coverage for 5,583 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (32.6)% 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 January, 37,101 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 FPL began transferring to the traditional acute care program.

There were 34,566 **TANF recipients** in the state in November, a monthly caseload decrease of (3.4)%. Year-over-year, the number of TANF recipients has declined by (15.5)%. 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 34,566 TANF recipients include 1,691 tribal recipients. These recipients belong to tribes that operate their own TANF program but contract with the state for program administration, meaning there were 32,875 state-funded TANF recipients in November.

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 1.1 million food stamp recipients in the state, a (2.3)% decrease over the prior month. Compared to the same month last year, food stamp participation was down by (3.9)%. 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 41,009 inmates in December 2013. Relative to the prior 3-month period, the population has increased by 70 inmates. Compared to a year ago, the population has increased by 924 inmates.

“As part of Medicaid expansion and restoration that began January 1, 2014, the [childless adult] program again allowed new participants. Since the December MFH, the population has increased by 29,064 to reach a level of 96,834.”

Recent Economic Indicators (Continued)

Table 4

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>
Arizona				
- Unemployment Rate (SA)	November	7.8%	(0.4) %	(0.2)%
- Initial Unemployment Insurance Claims	December	18,554	4.5%	1.2%
- Unemployment Insurance Recipients	December	34,824	(1.0)%	(8.6)%
- 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	November	40.9	0.7%	1.2%
- 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	Sep-Nov	1,291	(10.9)%	2.2%
Multi-unit	Sep-Nov	131	(25.4)%	(63.3)%
- Greater Phoenix Home Sales				
Single-Family	November	5,846	(17.0)%	(27.0)%
Townhouse/Condominium	November	961	(9.6)%	(18.6)%
- Greater Phoenix Median Home Price				
Single-Family	November	\$200,000	0.0%	23.1%
Townhouse/Condominium	November	\$119,900	0.0%	19.9%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	October	144.49	0.9%	18.1%
- Foreclosure Activity, Maricopa County	December	5,974	(1.5)%	(42.9)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	December	25,360	(5.5)%	20.2%
- Phoenix Sky Harbor Air Passengers	November	3.22 million	(2.7)%	(2.5)%
- Revenue Per Available Hotel Room	November	\$55.81	(8.6)%	8.9%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	October	\$4.24	(3.9)%	(5.1)%
- Arizona Consumer Confidence Index (1985 = 100)	4th Quarter 2013	66.9	(7.7)%	(6.2)%
- Arizona Coincident Index (July 1992 = 100)	November	184.00	0.3%	2.4%
- Arizona Leading Index -- 6 month projected growth rate	Sep-Nov	2.6%	0.2%	(0.9)%
- Arizona Personal Income	3rd Quarter 2013	\$246.5 billion	0.9%	4.5%
- Arizona Population	July 1, 2013	6.63 million	N/A	1.2%
- AHCCCS Recipients	January	1,259,050	0.1%	(0.8)%
Acute Care Traditional		854,716	(2.8)%	(3.3)%
Prop 204 Childless Adults		96,834	42.9%	11.7%
Other Prop 204		143,982	0.9%	(2.8)%
Adult Expansion		1,369	N/A	N/A
Kids Care I		5,583	(9.7)%	(32.6)%
Kids Care II		37,101	(8.6)%	43.6%
Long-Term Care – Elderly & DD		54,561	0.1%	2.3%
Emergency Services		64,904	(2.6)%	3.0%
- TANF Recipients	November	34,566	(3.4)%	(15.5)%
- SNAP (Food Stamps) Recipients	November	1,084,695	(2.3)%	(3.9)%
- ADC Inmate Growth (3-month average)	Oct-Dec	41,009	70 inmates	924 inmates
- Probation Caseload				
Non-Maricopa	November	17,535	149	(376)
Maricopa County	November	24,576	(449)	(719)
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	3 rd Quarter 2013 (3 rd Estimate)	\$15.8 trillion	4.1%	1.9%
- Consumer Confidence Index (1985 = 100)	December	78.1	8.5%	17.1%
- Leading Indicators Index (2004 = 100)	November	98.3	0.8%	5.2%
- U.S. Semiconductor Billings (3-month moving average)	Sept.-Nov.	\$6.0 billion	4.2%	18.6%
- Consumer Price Index, SA (1982-84 = 100)	December	234.6	0.3%	1.5%

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

Summary of Recent Agency Reports

AHCCCS/Department of Health Services - Report on Reconciliation Payments - Pursuant to the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1), the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) submitted their reports on reconciliation payments and penalties received during the first 6 months of FY 2014. AHCCCS reports that during that 6-month period they deposited \$18.8 million into the General Fund and used \$47.6 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions. DHS reports that \$22,800 from the General Fund and \$46,900 from Federal Medicaid Authority in payments were 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 if losses exceed the set level or to the agency if 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.

Previously, the agencies retained monies from reconciliation payments and penalties. The FY 2013 Health and Welfare Budget Reconciliation Bill (Laws 2012, Chapter 299, Section 1) required, as permanent law, that AHCCCS and DHS deposit monies received for reconciliation payments and penalties received into the General Fund or the fund from which the appropriation was originally made. (Amy Upston)

AHCCCS – Report on Safety Net Care Pool Program – Pursuant to an FY 2014 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) reported on the monies received from local government hospital assessments for the Safety Net Care Pool (SNCP) program through November 30, 2013. The SNCP program funds unreimbursed costs incurred by hospitals in caring for uninsured and AHCCCS recipients. Local governments or public universities provide the state match, and the voluntary contributions receive an approximate 2:1 match from the federal government. As a federal condition of participating in the program, some of the monies must be used for coverage expansion of the KidsCare and the childless adult population.

In April 2012, AHCCCS received federal approval to establish the SNCP program. The program was expanded a year later using monies collected from a City of Phoenix hospital assessment. The agency reports these payments resulted in an additional \$283.5 million in total fund distributions to hospitals and \$42.3 million in total funds expended for coverage expansion, through November 30, 2013. In November 2013, this resulted in an additional

42,289 children covered through the KidsCare II program and 3,735 additional persons covered through the childless adult program. More detail on FY 2014 year-to-date payments and coverage is provided in the table below.

While 4 other cities requested to expand the SNCP program using state match monies from a hospital assessment, they did not receive approval from the federal government. (Amy Upston)

Table 5

FY 2014 SNCP and Coverage Expansion
(YTD through November; \$ in Millions)

	<u>State Match</u>	<u>Federal Match</u>	<u>Total Funds</u>
Original SNCP Agreement	\$49.4	\$106.8	\$156.2
City of Phoenix SNCP Agreement	<u>43.7</u>	<u>83.6</u>	<u>127.3</u>
Sub-total SNCP Payments to Hospitals	93.1	190.4	283.5
KidsCare II and Childless Adult Coverage Expansion	<u>9.9</u>	<u>32.4</u>	<u>42.3</u>
Grand Total^{1/}	\$103.0	\$222.8	\$325.9

^{1/} Numbers do not add due to rounding.

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 2013, the State Aid to County Attorneys Fund received revenues totaling \$973,600 and had an ending balance of \$1.9 million. The State Aid to Indigent Defense Fund did not receive revenues in FY 2013.

ACJC reports that county attorneys reported expenditures of \$1.2 million in FY 2013. Of that total, \$1.1 million was spent on salary and benefits, \$37,100 on other expenditures, \$19,200 on equipment, \$8,200 for contractual services, \$3,000 on case management software, and \$200 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)

Summary of Recent Agency Reports (Continued)

Department of Economic Security - Report on Available State and Federal Domestic Violence Funding - Pursuant to a General Appropriation Act Footnote, the Department of Economic Security (DES) submitted its annual report on state and federal domestic violence funds. A total of \$23.5 million was used by 6 state entities for domestic violence services in FY 2013, a (0.6)% decline in spending from FY 2012, reflecting reduced federal funding. (Ben Beutler)

Department of Economic Security - Report on Temporary Assistance for Needy Families (TANF) Grant Diversion Program - Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) has provided the 2013 annual report on the TANF Grant Diversion Program. The program's purpose is to divert applicants from long-term TANF cash assistance by offering immediate, one-time assistance to resolve a financial crisis. In FY 2013, 8,991 applicant households chose the grant diversion option and were diverted from long-term assistance. A total of 5,342 households obtained employment within 90 days of receiving assistance under the diversion program during the 12-month period of April 2012 through March 2013. Through December 2012, the most recent month for which complete data is available, 506 of 4,367 households, or 12%, reapplied for long-term assistance within 180 days of their participation in the diversion program. Complete data for FY 2012 indicates 2,384 of the total 16,599 households receiving diversion payments, or 14%, reapplied within 180 days. In December 2011, the department implemented a policy that restricted qualified applicants of the grant diversion option to one diversion payment in a single year. (Ben Beutler)

Department of Economic Security - Foster Care Medicaid Report - Pursuant to Laws 2013, Chapter 220, Section 7B, the Department of Economic Security (DES) has provided its quarterly report on foster care and Medicaid eligibility. There were 13,940 children eligible for Medicaid in foster care in November, or 97% of all children in foster care. The number of new Medicaid-eligible children for November was 964, while 12,980 children continued to be eligible for Medicaid from the previous month. The number of Medicaid-eligible children who had their cases closed in November was 960. The amount of non-Medicaid expenditures by service type used by DES to supplement the behavioral health services was not provided. (Ben Beutler)

Department of Economic Security - Report on the Status of the Unemployment Insurance Trust Fund - Pursuant to A.R.S. § 23-665.13B, the Department of Economic Security (DES) has provided a quarterly status report on the Unemployment Insurance (UI) Trust Fund, including UI revenue, fund outlays, the ending balance, interest charges on the UI tax anticipation notes, and any outstanding federal debt. During the 3rd quarter of calendar year 2013, DES estimates that the UI Trust Fund had a beginning balance of \$(111.4) million, revenues of

\$273.6 million including \$201.2 million of bond proceeds, and fund outlays of \$101.5 million, resulting in a \$60.7 million ending balance. (Ben Beutler)

Department of Economic Security - Report on Unemployment Insurance Tax Anticipation Notes - Pursuant to A.R.S. § 23-665.13A, the Department of Economic Security (DES) has provided the finalized debt issuance information for its unemployment insurance (UI) tax anticipation notes, including the principal amount, interest rate, the debt service schedule, the length of term, the interest to be paid over the life of the loan, and the status of the bonds as taxable or non-taxable. The finalized UI debt issuance amounts are the following:

- Principal amount - \$200 million
- Interest rate - 1.5%
- Debt service schedule/length of term - \$200 million principle payment on bonds is due in 2 separate May 2014 payments
- Interest at full maturity - \$1.9 million
- Bond status - non-taxable

During the recession, Arizona was 1 of 33 states to borrow from the U.S. Department of Labor to fund unemployment benefits. After borrowing the Federal Funds, the state established a UI special assessment on employers for calendar year (CY) 2011 and CY 2012 only. Despite the additional revenue from the special assessment, the state was unable to repay all outstanding federal loans by November 10, 2012, resulting in a 0.3% FUTA tax increase for CY 2012, or an additional UI tax against employers of \$21 per employee. The \$200 million in revenue from the recently issued UI tax anticipation notes was used to repay the state's federal loan in September 2013. By paying off the federal loan, the state will avoid (a) the continuation of the 0.3% FUTA rate increase from CY 2012 and (b) an additional 0.3% FUTA rate increase in CY 2014, resulting in a combined (0.6)% FUTA rate savings of \$42 per employee in CY 2014. (Ben Beutler)

Arizona Department of Education - Report on K-12 Aggregate Expenditure Limit - Pursuant to A.R.S. § 15-911B, the State Board of Education reported on October 31, 2013 that currently budgeted expenditures for all school districts collectively statewide for FY 2014 are \$(593.9) million below the Constitution's aggregate expenditure limitation (AEL). For FY 2013 the difference was \$(678.5) million. The AEL limits growth in statewide K-12 expenditures to the combined rate of growth for enrollment and inflation, with certain exceptions. (Steve Schimpp)

Commission for Postsecondary Education - Report on Math, Science, and Special Education Teacher Loan Forgiveness Program - A.R.S. § 15-1782 requires the Commission for Postsecondary Education to report annually on its Math, Science, and Special Education Teacher Loan Forgiveness (MSSE) program.

Summary of Recent Agency Reports (Continued)

The MSSE program provides forgivable loans to eligible students attending any regionally or nationally accredited institution in Arizona (public or private) that agree to a service commitment to teach in an Arizona public K-12 school. The program was created in 2007.

In FY 2013 the MSSE program had 63 applicants and disbursed 46 loans. This total includes 34 new loans and 12 renewals. The total disbursement was \$277,045. Of the 46 recipients, 17 are studying mathematics, 4 are studying science, 20 are studying special education, and 5 are studying elementary education. Eleven recipients attend private postsecondary institutions and 35 attend public universities.

FY 2013 was the first year that the commission has collected retention data. At the conclusion of FY 2013, 229 students have participated in the MSSE program. Of those, 35 are still enrolled in a postsecondary institution, 14 are in the 12-month grace period, 55 are teaching in a public K-12 school in Arizona, 65 had their loan forgiven for completing their teaching service, 16 are in repayment, 3 have paid their loan balance in full, and 41 may potentially be placed in repayment. (Tom Ritland)

Commission for Postsecondary Education – Report on Postsecondary Education Grant Program – A.R.S. § 15-1855 requires the Commission for Postsecondary Education (ACPE) to report annually on its Postsecondary Education Grant (PEG) program.

The PEG program provides grants to students attending private postsecondary institutions. The program was launched in March 2007 and received funding through FY 2010. In FY 2010, a total of \$2.2 million was disbursed to 1,400 grantees representing 20 private postsecondary schools. Funding was eliminated after FY 2010 and the program continues to be suspended.

Since its inception, 4,084 students received a PEG loan. Of those recipients, 2,300 have already graduated with a baccalaureate degree and 640 are currently enrolled and working on completing their degree. The remaining 1,144 promissory note holders are reported as not enrolled or attending the last institution on file at the time of their last grant award. ACPE is currently searching to locate these students for inquiry regarding their enrollment or graduation status. Those who fail to meet the requirements of the forgivable loan must enter into the PEG repayment program. (Tom Ritland)

Public Safety Personnel Retirement System (PSPRS) – Report on Shared Cost Structure, Funding Status and Rate of Return - Pursuant to A.R.S. § 38-848.02, PSPRS is required to report annually on the shared cost structure of the employees and employers, the funding status and the rate of return for the system. Besides administering its own system, PSPRS is also responsible for the Correctional Officers Retirement Plan (CORP) as well as the Elected Officials’ Retirement Plan (EORP). *Table 6* shows the

contribution rates, funded status and rate of return for FY 2015, based on valuation data from June 30, 2013.

In PSPRS and CORP, there is significant variation in the actuarial status of individual employer groups, therefore the employer contribution rates and funded statuses have been shown in the aggregate. Individual employer contribution rates and funded ratios are available on the PSPRS website.

A 7-year smoothing period is used to calculate the investment rate of return. This smoothing technique is a tool used to reduce short-term volatility of assets by deferring a portion of gains and losses over time. This smoothing process is used under the condition that the maximum deferred gain or loss remains within 20% of market value. *Table 1* shows 1-year market-based returns, in addition to the 7-year smoothing technique. (Ben Henderson)

Table 6

	PSPRS Annual Report		
	<u>PSPRS</u>	<u>CORP</u>	<u>EORP</u>
FY 15 Contribution Rates ^{1/}			
Employer ^{2/}	32.54%	14.46%	23.50% ^{3/}
Employee	11.05% ^{4/}	8.41% ^{5/}	13.00%
Funded Status ^{1/ 2/}	57.1%	66.9%	55.5%
Rate of Return			
1-year market value basis	10.9%	11.0%	10.8%
7-year smoothing basis	3.4%	3.8%	2.9%

^{1/} Based on June 30, 2013 valuation.

^{2/} Employer contribution rates and funded statuses for PSPRS and CORP are shown in the aggregate, as there is significant variation in the actuarial status between individual employer groups.

^{3/} Pursuant to A.R.S. § 38-810, a fixed employer contribution rate of 23.5% begins January 1, 2014.

^{4/} As stipulated in A.R.S. § 38-843E

^{5/} Pursuant to A.R.S. § 38-891H and I, the employee rate is 7.96% for full-time dispatchers and 8.41% for all others.

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 2012-2013 academic year, 10,315 community college students transferred to the public university system. This is an increase of 25% from the 2006-2007 academic year.
- 59% of new transfer students had 60 or more credit hours transferred to a university in 2012-2013 versus 43% in 2006-2007.

Summary of Recent Agency Reports (Continued)

- 53% of transfer students completed an associate's degree prior to transfer in 2011-2012 versus 41% in 2006-2007.
- Ethnic minorities accounted for 38% of new community college transfers in 2012-2013. (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 2013 report include:

- Approximately \$1.9 billion in total financial aid was provided to students.
- Of this amount, \$913.5 million (47.5%) came from federal sources, \$632.7 million (32.9%) came from tuition and other sources, \$365.1 million (19.0%) came from private sources, and \$10.9 million (0.6%) came from state scholarships, grants and loans.
- A total of 123,901 students received aid, including 100,057 undergraduate students and 23,844 graduate students.
- Of the undergraduate students receiving aid, 22,771 received non-need-based gift aid, 57,617 received need-based gift aid, and 49,612 were awarded miscellaneous types of non-gift aid (i.e. work study). Some students received multiple types of aid.
- The average aid package was \$11,216, which includes both need and non-need-based aid.
- 41.4% of undergraduate students and 41.1% of graduate students have debt.
- Upon graduation, the average undergraduate student debt was \$22,758, while the average graduate student debt was \$49,850.

(Art Smith)

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 2015 and FY 2016 for the Emergency Deficiencies Correction and New School Facilities Programs.

In both FY 2015 and FY 2016, SFB estimates no funds will be available for the Emergency Deficiencies Correction Program.

In FY 2015, SFB estimates a total funding requirement of \$1.4 million for New School Construction. This amount would fund 9,720 square feet of additional space in the Thatcher District. The project's total cost is \$1.5 million, however, an estimated \$100,000 will be spent in FY 2014. SFB estimates that 2 districts would qualify for new school construction in FY 2016, for a total cost of \$14.2 million. Funding for these projects would then be appropriated in FY 2017 and FY 2018. The first project would cost \$12.8 million and would fund additional K-8 space in the Laveen Elementary District. The second project would cost \$1.0 million and would fund a new K-6 school for the Pima Unified School District. SFB estimates that site

conditions for both projects would be a total of \$400,000. SFB estimates that the Lease-to-Own Debt Service will be \$170.2 million and \$173.7 million in FY 2015 and FY 2016, respectively. These amounts incorporate \$(5.2) million in savings achieved through a refinancing agreement that was favorably reviewed by the Joint Committee on Capital Review (JCCR) in October 2013.

SFB did not request to transfer any monies from the New School Facilities Fund to the Emergency Deficiencies Correction Fund in FY 2015 or FY 2016, due to the lack of excess monies in the New School Facilities Fund. (Ben Henderson)

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 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.

During FY 2013, the Supreme Court contracted with several outside vendors to increase compliance with court orders, resulting in total collections of \$43.4 million from backlogged cases. 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 declined by (15.6)% year-over-year with collections of \$15.7 million in CY 2013.

Expenditures from the State Aid to the Courts Fund were \$2.6 million in FY 2013. 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 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)

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, 143,975 students registered for the fall 2013 semester. Of the total students registered, the universities were able to verify the legal immigration

Summary of Recent Agency Reports (Continued)

status of 134,547 students. Additionally, the universities reported that 12,344 of these students did not require verification because they have either not requested, or received in-state tuition or state supported financial aid. The universities reported that a total of 23 students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security - The department reported that 7,295 applications were received for child care assistance during the reporting period of June 1, 2013 to November 30, 2013. Of this number, 17 were denied because criteria for citizenship or legal residency were not met.

Community Colleges - Statewide, the Community Colleges reported a total of 243,815 students classified as in-state for the fall 2013 semester. They reported 395

students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 105,337 students applied for financial aid. Of those who applied, the community colleges reported that 126 were not entitled to any aid because they were not lawfully present in the United States.

Department of Education – The department reported that 14,004 people applied for instruction in Arizona Adult Education during the reporting period of June 1, 2013 to December 1, 2013. Of this amount, 525 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)

December Spending

December 2013 General Fund spending of \$532.9 million was \$(28.9) million lower than December 2012. Year-to-date, spending is \$5.5 billion, or \$18.6 million above last year.

(See Tables 7 & 8).

- The Department of Education spent \$91.6 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 \$70.6 million greater through December due to increased funding levels for the agency in FY 2014.

	General Fund Spending (\$ in Millions)			
	<u>Dec 13</u>	<u>Change From Dec 12</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 13</u>
Agency				
AHCCCS	125.0	(0.8)	686.0	2.1
Corrections	73.6	1.0	469.4	13.4
Economic Security	9.6	6.4	510.3	70.6
Education	229.9	(51.4)	2,294.7	91.6
Health Services	14.1	0.3	460.5	(35.7)
Public Safety	0.8	(0.8)	17.3	1.0
School Facilities Board	0.1	(0.0)	157.6	14.9
Universities	44.0	5.1	469.2	14.1
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>35.8</u>	<u>11.3</u>	<u>317.0</u>	<u>46.6</u>
Total	532.9	(28.9)	5,466.1	218.6
Budget Stabilization Fund Deposit	0.0	0.0	0.0	(200.0)
Grand Total	532.9	(28.9)	5,466.1	18.6

General Fund Spending				
(\$ in Thousands)				
Agency	Dec 13	Change from Dec 12	Year-to-Date	YTD Change from FY 13
Dept. of Admin./Automation Projects Fund	5,616.5	5,057.8	24,516.9	9,939.1
ADOA – Sale/Leaseback Debt Service	-	-	84,119.8	-
Office of Administrative Hearings	56.0	53.1	448.3	17.8
Department of Agriculture	509.3	279.1	4,301.9	442.0
AHCCCS	125,009.1	(820.8)	685,961.1	2,070.1
Attorney General	714.1	(999.5)	10,537.5	(487.4)
AZ Capital Post Conviction Public Defender	-	-	-	(4.1)
State Board of Charter Schools	31.1	(19.0)	432.2	36.9
AZ Commerce Authority	2,625.0	-	15,750.0	-
Community Colleges	217.6	(32.8)	32,932.0	(1,911.9)
Corporation Commission	35.6	(10.3)	244.5	(41.1)
Department of Corrections	73,570.1	1,038.8	469,431.3	13,403.0
County Funding	-	-	7,150.5	7,150.5
AZ State Schools for the Deaf & Blind	719.2	(1,211.0)	11,565.6	(585.2)
Department of Economic Security	9,577.9	6,429.6	510,301.1	70,640.5
Department of Education	229,918.9	(51,425.0)	2,294,699.3	91,639.5
DEMA	798.8	225.6	3,463.5	(570.5)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	9.7	9.7	97.9	42.9
State Board of Equalization	4.0	(18.4)	328.2	(10.8)
Board of Executive Clemency	44.5	(4.6)	418.9	43.0
Department of Financial Institutions	222.8	22.5	1,484.1	81.7
Department of Fire, Bldg and Life Safety	141.4	128.5	1,053.5	157.1
State Forester	196.9	11.1	1,593.0	(550.2)
Arizona Geological Survey	45.6	35.7	355.7	(109.4)
Governor/OSPB	669.9	65.7	5,348.3	1,307.5
Department of Health Services	14,059.5	259.5	460,502.3	(35,719.7)
Arizona Historical Society	183.0	6.1	1,753.6	16.2
Prescott Historical Society of AZ	60.0	12.8	361.0	14.0
Independent Redistricting Comm.	107.4	(0.5)	804.5	69.1
Commission of Indian Affairs	1.7	(0.8)	29.7	2.3
Department of Insurance	393.4	60.6	2,789.1	286.6
Judiciary				
Supreme/Superior Court	1,765.7	280.0	46,027.3	893.4
Court of Appeals	912.9	(84.5)	6,934.1	94.8
Department of Juvenile Corrections	2,891.7	(112.2)	19,767.9	(1,475.0)

Agency	Dec 13	Change from Dec 12	Year-to-Date	YTD Change from FY 13
State Land Department	834.4	804.7	6,028.7	5,480.5
Law Enforcement Merit System	-	(5.4)	-	(33.1)
Legislature				
Auditor General	1,532.7	209.3	9,511.4	908.2
House of Representatives	925.4	52.8	5,915.4	535.0
Joint Legislative Budget Comm.	152.5	7.7	996.1	85.2
Legislative Council	430.8	69.2	3,672.2	(431.8)
Senate	592.7	(121.2)	3,937.3	214.7
Mine Inspector	77.2	(17.8)	617.7	5.6
Nav. Streams & Adjudication	8.1	(0.4)	59.6	(3.1)
Occupational Safety and Health Review	1.9	1.9	2.3	2.3
Phoenix Convention Center	-	-	20,449.0	14,854.0
Pioneers' Home	370.8	319.8	811.4	222.2
Comm. for Postsecondary Ed.	-	-	698.4	-
Department of Public Safety	753.5	(817.8)	17,275.8	973.6
Public Safety Personnel Retirement System	5,000.0	5,000.0	5,000.0	5,000.0
Arizona Department of Racing	-	-	1,789.8	(0.7)
Radiation Regulatory Agency	(0.4)	(60.7)	747.6	18.6
Real Estate Department	147.7	(2.1)	1,320.8	103.5
Department of Revenue	4,536.1	1,808.4	29,541.2	8,058.5
School Facilities Board	97.6	(10.2)	157,559.8	14,865.9
Secretary of State	669.9	(630.9)	6,700.4	(4,119.8)
Tax Appeals Board	17.1	(0.0)	144.5	3.6
Office of Tourism	485.3	53.7	2,925.8	263.7
Department of Transportation	0.2	0.2	1.2	(17.6)
Commission on Uniform State Laws	-	-	55.7	55.7
Universities				
Board of Regents	1,175.8	1,464.5	12,378.3	(7,590.0)
Arizona State University	19,640.4	2,259.2	208,417.9	13,555.2
Northern Arizona University	6,562.5	646.5	69,869.9	3,829.9
University of Arizona	16,596.4	725.6	178,508.0	4,353.8
Department of Veteran Services	380.6	160.8	2,594.7	(43.2)
Department of Water Resources	760.9	21.2	5,140.4	638.1
Department of Weights & Measures	83.6	(48.5)	592.1	(98.4)
Other - JP Salaries Distribution	-	(13.1)	371.8	(9.3)
Other	-	-	0.4	0.4
Total	532,943.4	(28,885.8)	5,466,140.3	218,563.9
Budget Stabilization Fund Deposit	-	-	-	(200,000.0)
Grand Total	532,943.4	(28,885.8)	5,466,140.3	18,563.9

Tracking Arizona's Recovery

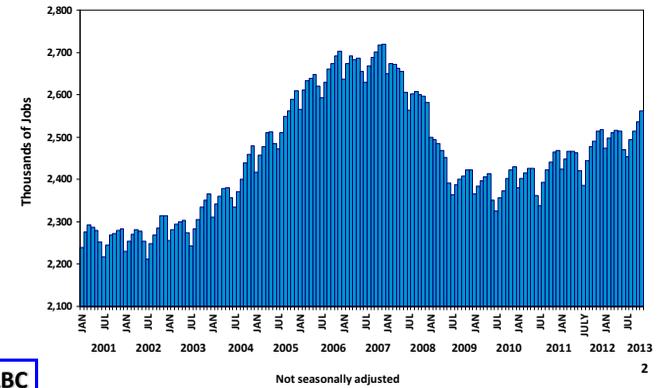
January 2014
Appendix A

Slide:

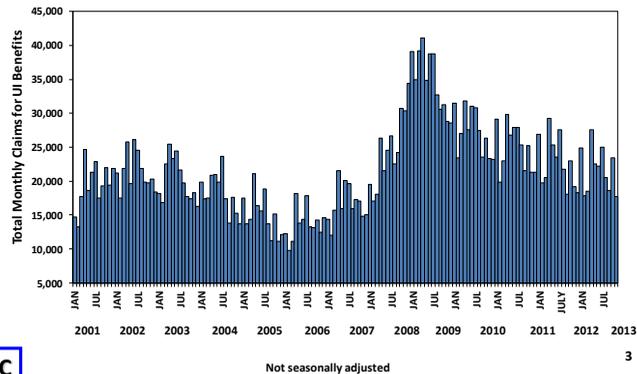
- 2.....Total Non-Farm Employment
- 3.....Initial Claims for Unemployment Insurance
- 4.....State Sales Tax Collections – Retail Category
- 5.....State Sales Tax Collections – Contracting Category
- 6.....Single Family Building Permits
- 7.....Maricopa County Pending Foreclosures
- 8.....Coincident Index

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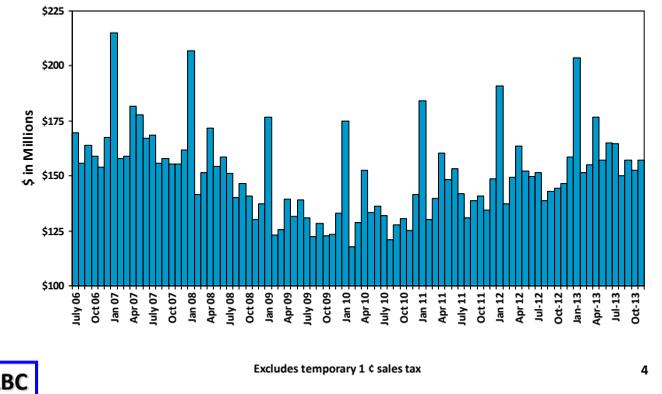
Total Non-Farm Employment



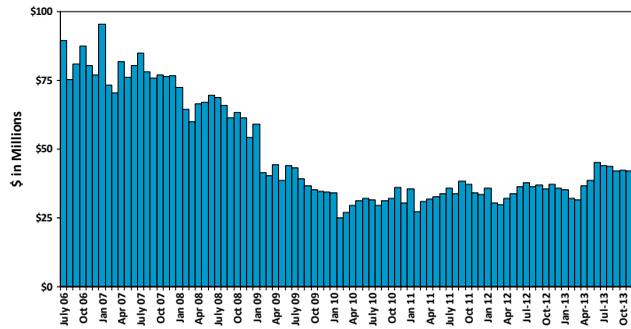
Initial Claims for Unemployment Insurance



State Sales Tax Collections – Retail Category



State Sales Tax Collections – Contracting Category

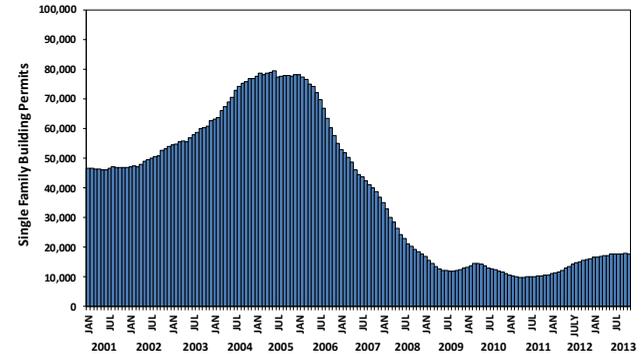


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Excludes temporary 1 ¢ sales tax

5

Single Family Building Permits

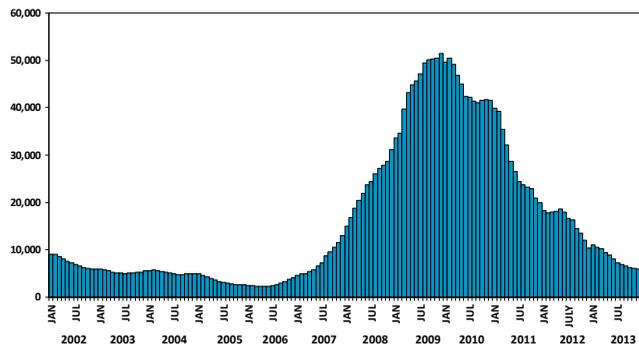


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12-Month Moving Sum

6

Maricopa County Pending Foreclosures

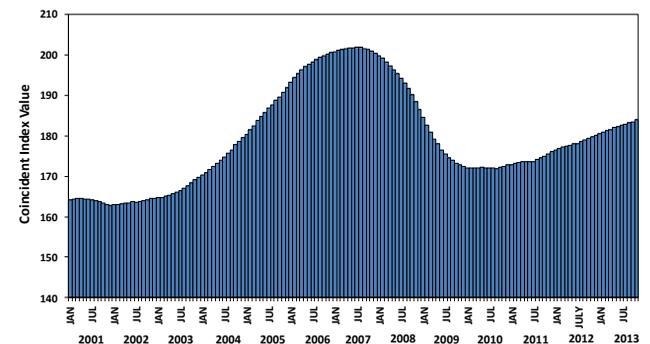


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An initial notice of trustee sale has been recorded but final sale has not yet occurred

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.

8