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

Summary

February General Fund collections were \$356.3 million, which is an increase of 23.2% above February 2014. February revenues were \$25.8 million above the Baseline Forecast.

The February growth rate overstates the underlying trend in state revenue collections, as the increase was almost entirely due to the timing of Individual Income Tax refunds being issued during the month.

As the state begins processing Individual Income Tax returns during the February – April tax filing season, there can be significant fluctuations in revenue collections from month to month based on the timing of DOR processing and taxpayer filings.

During February 2015, the amount of Individual Income Tax refunds issued by the state declined by (15.5)% compared to the prior year. It is unclear at this time whether refunds issued will remain lower throughout the 2015 tax season, or whether some refund activity has been shifted to March and April.

In addition, Individual Income Tax payments, most of which occur in April, will also play a significant role in the final results for FY 2015 revenue growth. Determining the pattern of collections for the Individual Income Tax category will require several more months of additional data.

February sales tax collections reflect January sales. Compared to January 2014, sales tax collections grew by 3.5% and were \$(8.0) million below forecast.

Within the overall sales tax category, retail collections increased by 8.9%. This strong growth may have reflected Super Bowl activity. Overall sales tax growth was muted by the (17.4)% decline in contracting activity.

Year-to-date, base General Fund revenues are 5.4% above the prior year and are \$35.8 million above the Baseline forecast. These amounts exclude Urban Revenue Sharing and one-time adjustments.

In comparison to revenue of \$356.3 million, February 2015 spending was \$547.6 million which is an increase of \$37.0 million from the prior year.

Fiscal year-to-date, General Fund revenues of \$5.57 billion have been offset by \$7.05 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-March 2015 is \$1.7 billion. In addition, the state’s Budget Stabilization Fund has a balance of \$456.5 million.

FY 2016 Enacted Budget Summary

Earlier this month, the FY 2016 budget was enacted and signed into law. JLBC Staff has published a [Summary of the FY 2016 Enacted Budget](#).

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February Revenues

	<u>FY 2015 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2014</u>
February	\$ 356.3	\$ 25.8	\$ 67.2
Year-to-Date	\$ 5,571.0	\$ 36.7	\$ 196.3

Sales Tax collections of \$325.3 million were 3.5% above February of last year and \$(8.0) million below the forecast for the month. Year to date, collections have increased by 4.2% and are \$9.5 million above forecast.

Table 2 below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections. As indicated in Table 2, the retail category, which makes up roughly half of sales tax collections, increased by 8.9% in February compared to the same month in the prior year. The February collection amount reflects January sales activity.

Collections from contracting activity declined by (17.4)% in February, the largest year-over-year decrease since August 2010. Year to date, prime contracting tax collections are down by (0.8)%. The large decline in contracting tax revenues in February (and the increase in retail collections) may be related to legislation enacted in 2013, which provides that building materials be taxed at the retail level, beginning January 1, 2015. Prior to the 2013 "TPT Simplification" legislation, building materials were exempted from the retail tax and instead taxed as part of the overall value of the contract.

Sales tax collections from the restaurant and bar category in February were understated for technical reasons. After factoring in this technical adjustment, restaurant and bar sales tax collections in February grew by 11.8%. As with retail sales, this significant growth likely reflects Super Bowl activity.

	<u>February</u>	<u>YTD</u>
Retail	8.9%	3.5%
Contracting	(17.4)%	(0.8)%
Use	8.0%	28.2%
Restaurant & Bar	2.6%	9.1%
Utilities	0.6%	(0.2)%

Individual Income Tax net revenues were \$36.8 million in February, which was \$68.7 million more than the prior year. Collections were \$40.5 million above the forecast for the month. Year-to-date, revenue has grown 5.6% over the prior year.

As indicated in Table 3, withholding increased 5.2% in February. The February collections bring withholding tax collections for the fiscal year to a slow 2.3% over the prior

year. This amount is \$(15.2) million below the budgeted forecast.

February estimated and final payments were (0.5)% below last year, and were \$(0.1) million below the forecast. While February marks the first month of tax filing season, estimated and final payments are typically minimal during February, with most payments not occurring until April. Year-to-date, payments have grown 5.4% over the prior year.

February refunds were (15.5)% below last year, and this decline in refunds issued accounted for \$31.9 million of the \$40.5 million in forecast overage for individual income tax revenues during the month. Low refunds in February may be the result of the timing of processing and therefore may be offset by refund growth in later months.

	<u>February</u>	<u>YTD</u>
Withholding	5.2%	2.3%
Estimated + Final Payments	(0.5)%	5.4%
Refunds	(15.5)%	(10.7)%

Corporate Income Tax net collections were \$1.1 million in February, which was (92.5)%, or \$(14.0) million less than February 2014. The minimal amount of Corporate Income Tax collections during February was not entirely unexpected, as February is usually one of the lowest months for net collections in the category during a given fiscal year.

Collections for the month were \$(11.4) million below the budgeted forecast. Year-to-date, net collections are up 15.5% compared to the prior year. While Corporate Income Tax collections have grown significantly during FY 2015, these gains follow losses seen during FY 2014, when Corporate Income Tax collections fell by (13.1)%

Insurance Premium Tax collections were \$5.1 million in February, which was 1.9% above the prior year. Collections for February were \$0.7 million above forecast.

Highway User Revenue Fund (HURF) collections of \$109.1 million in February were up \$5.4 million, or 5.2% compared to February of last year. Collections for the month were \$3.3 million above forecast. Year-to-date collections are 3.9% above FY 2014.

Table 4

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

	Current Month					FY 2015 YTD (Eight Months)				
	Actual February 2015	Change From February 2014		Budget Forecast		Actual February 2015	Change from February 2014		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$325,308,761	\$10,877,423	3.5 %	(\$7,999,057)	(2.4) %	\$2,778,584,216	\$111,120,530	4.2 %	\$9,548,842	0.3 %
Income - Individual	36,808,028	68,678,695	--	40,537,785	--	2,451,456,101	129,402,187	5.6	27,626,055	1.1
- Corporate	1,136,215	(14,006,417)	(92.5)	(11,410,216)	(90.9)	326,822,979	43,756,914	15.5	(6,132,829)	(1.8)
Property	504,850	159,003	46.0	204,850	68.3	21,416,058	10,413,065	94.6	1,954,149	10.0
Luxury - Tobacco	629,130	(1,157,445)	(64.8)	(949,734)	(60.2)	14,674,077	(2,698,475)	(15.5)	(801,676)	(5.2)
- Liquor	2,219,893	158,915	7.7	5,335	0.2	21,580,429	(372,757)	(1.7)	(147,670)	(0.7)
Insurance Premium	5,144,681	97,667	1.9	684,938	15.4	181,086,094	22,651,604	14.3	5,085,746	2.9
Other Taxes	1,547,961	1,074,974	227.3	912,961	143.8	4,861,706	2,703,891	125.3	763,051	18.6
Sub-Total Taxes	\$373,299,519	\$65,882,815	21.4 %	\$21,986,862	6.3 %	\$5,800,481,659	\$315,363,783	5.7 %	\$37,895,668	0.7 %
Other Revenue										
Lottery	9,263,200	9,263,200	--	3,263,200	54.4	24,589,800	(728,550)	(2.9)	(1,736,800)	(6.6)
License, Fees and Permits	1,561,266	(123,068)	(7.3)	(438,734)	(21.9)	20,666,151	1,668,595	8.8	133,646	0.7
Interest	2,192	(661)	(23.2)	2,192	--	21,362	5,145	31.7	4,034	23.3
Sales and Services	10,468,986	(70,807)	(0.7)	(531,014)	(4.8)	20,037,211	155,861	0.8	(1,428,645)	(6.7)
Other Miscellaneous	1,097,457	441,187	67.2	97,457	9.7	16,041,535	4,894,364	43.9	(699,588)	(4.2)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,056,835	(11,226,075)	(73.5)	1,306,835	47.5	33,003,766	(16,930,681)	(33.9)	1,662,365	5.3
Sub-Total Other Revenue	\$26,449,936	(\$1,716,224)	(6.1) %	\$3,699,936	16.3 %	\$114,359,826	(\$10,935,265)	(8.7) %	(\$2,064,988)	(1.8) %
TOTAL BASE REVENUE	\$399,749,454	\$64,166,590	19.1 %	\$25,686,797	6.9 %	\$5,914,841,485	\$304,428,518	5.4 %	\$35,830,680	0.6 %
Other Adjustments										
Urban Revenue Sharing	(50,744,642)	(4,035,312)	8.6	0	0.0	(405,957,138)	(31,793,265)	8.5	0	0.0
One-Time Transfers	7,254,456	7,254,456	--	0	0.0	61,154,456	(70,391,693)	(53.5)	0	(0.0)
Sales Tax - 1¢ Increase	68,514	(211,980)	(75.6)	68,514	--	911,666	(5,948,947)	(86.7)	911,666	--
Sub-Total Other Adjustments	(43,421,672)	3,007,164	-- %	68,514	(0.2) %	(343,891,016)	(108,133,905)	45.9 %	911,666	(0.3) %
TOTAL GENERAL FUND REVENUE	\$356,327,782	\$67,173,754	23.2 %	\$25,755,311	7.8 %	\$5,570,950,469	\$196,294,613	3.7 %	\$36,742,346	0.7 %
Non-General Funds										
Highway User Revenue Fund	\$109,134,003	\$5,420,962	5.2 %	\$3,346,702	3.2 %	\$843,410,905	\$31,708,516	3.9 %	\$9,463,974	1.1 %

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 2.2% in the 4th quarter of 2014. This estimate is a downward revision of the advance estimate and a further deceleration from the 5.0% growth during the 3rd 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.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (7.1)% in February, after reaching a post-recession peak in January. The index still stands 23.1% above its February 2014 level. The February decrease was broad-based, though worsening expectations of the economy 6-months out provided the largest drag on the index. Economists think a gradual recovery in gas prices and may have caused the drop in confidence during February.

The Conference Board's **U.S. Leading Economic Index** increased by 0.2% in January and 6.5% since January 2014. This month marked the 12th consecutive period in which the index grew or remained unchanged. Of the index's 10 components, 6 made positive contributions during the month. Movement in interest rates and consumer confidence were the largest positive contributors to the index while initial employment claims, stock market performance and new manufacturing orders were a negative influence.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** decreased by (0.5)% in January from the prior month—the third consecutive monthly decrease. The index's annual growth has fallen to 0.2%, down from annual growth of 1.7% in May 2014 and well below the Federal Reserve Bank's 2% annual inflation target. While decreases in energy prices have drastically lowered growth in the overall index in recent months, the year over year growth in the core index (all items except food and energy) stood at 1.3% in January.

ARIZONA

Housing

The total housing inventory for sale in the Greater Phoenix area is (7.8)% smaller than February of last year.

This change is mostly attributable to the high inventory level last February. Market slowness is evidenced by homes being listed longer before selling. In February 2014, homes were on the market an average of 86 days. In February 2015, homes were on the market an average of 95 days.

The **median price of a single family home** was \$214,900 in February, a 2.1% increase from January. The price is 7.5% higher than February of last year.

Single family housing construction continues to weaken, while multi-family construction continues to expand strongly. Arizona's 12-month total of **single-family building permits** is 17,496, or (3.4)% less than a year ago. The comparable single-family permit growth rate for the entire U.S. is 1.0% 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 10,344 **multi-family building permits** is 89.5% above last year. Arizona's rate of increase is greater than the comparable multi-family permit growth for the U.S. as a whole which is 9.1% above last year.

Employment

The state's regular **unemployment rate** remained unchanged at 6.6% in January. The jobless rate was 7.1% in January 2014. The U.S. unemployment rate was 5.7% in January, which was a 0.1% increase from the prior month.

According to the latest employment report released by the Department of Administration, the state shed (43,400) **Nonfarm jobs** in January compared to the prior month. Job losses are typical in the state in January as staffing levels are reduced following the holidays. By way of comparison, the average job loss in January over the prior 10 years was (58,000). All of the major industry sectors lost jobs in January except for Other Services (+1,600 jobs) and Construction (+100 jobs).

Compared to the same month in the prior year, Arizona added 64,000 net new jobs in January. This represents a year-over-year job growth rate of 2.5%. The largest year-over-year job gains in January came from the following industries: Education and Health Services (+16,700), Professional and Business Services (+16,000), and Leisure and Hospitality (+13,600).

Monthly Indicators (Continued)

In January, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.4 hours. This workload is (0.3)% below the January 2014 level.

The **Average Hourly Earnings** received by these private sector workers was \$22.84, which is 1.6% above the average in the prior month. The January increase over December may partially reflect the seasonal loss of relatively lower paying retail and service sector jobs. The year over year growth rate recovered somewhat from (3.4)% in December to reach (1.8)% in January. The average hourly earnings nationwide in February 2015 were 2.0% above the average from a year prior.

State Agency Data

At the beginning of March 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 335,500 members.

Total monthly enrollment increased 0.9% in March, the first month of growth since October 2014. Prior to March, the Affordable Care Act growth in coverage appeared to have slowed significantly. The slowdown in prior months may have been exacerbated by a change in the length of eligibility redetermination.

The overall increase in March was spread across most AHCCCS populations. Enrollment in the Traditional population of the lowest income parents and children increased 2,800 in March to a level of 953,600 members. The March level represents an increase of 0.3% since last month and an 8.7% increase since last year.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In March 2015, the childless adult population increased by 3,300, or 1.2%. Since January 2014, the childless adult population has increased by 211,300 to reach a level of 279,100. The state share of the Proposition 204 physical health cost is paid through a hospital assessment while the behavioral health costs are paid through the General Fund.

The state also opted to expand adult Medicaid coverage to 133% of FPL. The 100% - 133% enrollment increased by 4,600 in March and now totals 42,000 individuals enrolled since January 2014. The federal government is currently paying 100% of this cost.

In the last 12 months, **reports of child maltreatment**, as reported by the Department of Child Safety, increased by 12.0% over the prior year, going from 43,509 in the period covering January 2013 through December 2013 to 48,710 reports in the period covering January 2014 through

December 2014. For December 2014, the department reports 17,102 **children in out-of-home care**, a slight increase of 0.4% from the prior month. Out-of-home children in December 2014 were up by 13.9% compared to the same month in the prior year.

At the end of February 2015, the **Arizona Department of Corrections** reported at total inmate population of 42,091. This is a 0.1% increase from the end of January. The inmate population has increased by 1.8% since February 2014.

The Department of Economic Security (DES) reported that there were 26,921 **TANF recipients** in the state in January, representing a monthly caseload decrease of (5.5)% from December. The year-over-year number of TANF recipients has declined by (15.0)%. The current statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In January, there were a total of 1.0 million food stamp recipients in the state, a (1.8)% decrease over the prior month. Compared to January caseloads last year, the level of food stamp participation has declined by (2.4)%.

Table 5

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	January	6.6%	0.0%	(0.5)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2014	14.7%	(0.4)%	(1.3)%
- Initial Unemployment Insurance Claims	January	18,920	10.4%	(18.1)%
- Unemployment Insurance Recipients	December	30,402	(2.0)%	(12.7)%
- Non-Farm Employment - Total	January	2.60 million	(1.6)%	2.5%
Manufacturing	January	154,900	(0.9)%	(0.5)%
Construction	January	126,100	0.1%	1.9%
- Average Weekly Hours, Private Sector	January	34.4	(0.6)%	(0.3)%
- Average Hourly Earnings, Private Sector	January	\$22.84	1.6%	(1.8)%
<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	January	17,496	(0.3)%	(3.4)%
Multi-family	January	10,344	0.3%	89.5%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	February	5,434	23.4%	(4.8)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	February	\$214,900	2.1%	7.5%
- Phoenix S&P/C Home Price Index (2000 = 100)	December	147.98	0.2%	2.4%
- Maricopa Pending Foreclosures	February	5,680	0.1%	(28.2)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	February	27,334	0.8%	(7.8)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	January	3.47 million	(7.5)%	3.1%
- 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	January	\$81.54	65.1%	31.1%
<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	March	1,593,649	0.9%	22.2%
Acute Care Traditional		953,563	0.3%	8.7%
Prop 204 Childless Adults		279,056	1.2%	78.7%
Other Prop 204		168,694	2.3%	17.6%
Adult Expansion		42,009	12.4%	-
Kids Care I		1,632	(2.0)%	(23.8)%
Kids Care II		0	0.0%	(100.0)%
Long-Term Care – Elderly & DD		56,668	0.3%	3.6%
Emergency Services		92,027	(1.0)%	42.5%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	Dec. 2014	48,710	0.8%	12.0%
DCS Out-of-Home Children	December	17,102	0.4%	13.9%
Filled Caseworkers (1406 Budgeted)	February	1,396	1	206
- ADC Inmate Growth	February	42,091	0.1%	1.8%
- Department of Economic Security				
- TANF Recipients	January	26,921	(5.5)%	(15.0)%
- SNAP (Food Stamps) Recipients	January	1,021,201	(1.8)%	(2.4)%
- Judiciary Probation Caseload				
Non-Maricopa	January	17,882	(200)	365
Maricopa County	January	26,503	4	1,571
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	4 th Q, 2014 (2 nd Estimate)	\$16.3 trillion	2.4%	2.2%
- Consumer Confidence Index (1985 = 100)	February	96.4	(7.1)%	23.1%
- Leading Indicators Index (2010 = 100)	January	121.1	0.2%	6.5%
- Consumer Price Index, SA (1982-84 = 100)	January	234.7	(0.7)%	(0.1)%
- Personal Consumption Price Index (2009 = 100)	January	108.3	(0.5)%	0.2%

Summary of Recent Agency Reports

AHCCCS, DES, DHS, & DCS – Report on Preliminary Actuarial Estimates for FY 2016 Capitation Rate Changes – Pursuant to FY 2015 General Appropriation Act footnotes, the Arizona Health Cost Containment System (AHCCCS) has submitted a report on preliminary Medicaid capitation rate increases for contract year (CY) 2016. Their submission includes information for AHCCCS, the Department of Economic Security (DES), the Department of Health Services (DHS), and the Department of Child Safety (DCS).

In their report, AHCCCS provided information on components of potential CY 2016 capitation rate changes. The report listed no specific preliminary rate adjustment changes except for the health insurer fee.

- Potential capitation increases based on medical expense trends, utilization trends, and reinsurance changes. AHCCCS' actuaries will continue to analyze rate adjustments and utilization trends through spring 2015.
- A statewide initiative to shift funds between health programs due to the integration of medical care for members with Serious Mental Illness (SMI) and adults who are eligible for both Medicaid and Medicaid (e.g., "dual-eligible" participants). AHCCCS reports that this adjustment would be cost-neutral.
- An approximate 1.34% increase for a nationwide health insurer fee included in the federal Affordable Care Act (ACA). The approved FY 2016 budget includes monies for the fee.

In addition, AHCCCS will continue the following CY 2015 mid-year changes into future year capitation rates:

- A federal Supreme Court requirement to cover incontinence briefs for preventative skin breakdown for members enrolled in the Arizona Long Term Care System (ALTCs).
- Annualized reimbursements to Federally Qualified Health Centers and Rural Centers (FQHCs). Historically, reimbursements to FQHCs were made semi-annually and capitation rates were adjusted accordingly. Under the new payment methodology, total-year FQHCs payments are incorporated into the capitation rates. AHCCCS reports that this adjustment would be cost-neutral.

The enacted FY 2016 budget includes a 5% provider rate reduction on all health providers except developmental disabled, home and community based care, and nursing facility providers. Before implementing the provider rate reduction, AHCCCS will conduct an analysis to ensure that the 5% provider

rate reduction will not interfere with its federal requirement to provide quality access care to members. (Andrew Smith)

Department of Child Safety (DCS) - Monthly Report on Hiring - Pursuant to Laws 2014, 2nd Special Session, Chapter 2, DCS has reported on its progress in hiring child safety staff through February 2015.

Direct Line Child Safety Staff - In the last month, the number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) increased by 1 to 1,396. The budgeted staffing level is 1,406. The 1,396 includes 43 caseworkers awaiting training who have accepted a position, but have not yet started employment. Since January 2014, the number of staff directly working cases has increased by 77 FTE Positions to 1,060.

Non-Direct Line Child Safety Staff - Since January 2014, non-direct line child safety staff has increased by 305 to 1,366. The budgeted staffing level is 1,417 excluding Attorney General positions. In February 2015, staffing decreased by (10) FTE Positions from January 2015.

Table 6

Change in the Department of Child Safety Staff since January 2014

	January 2014	February 2015	Change thru January 2014
Direct Line Staff			
Caseworkers	983	1,060	77
Hotline Staff ^{1/}	70	76	6
Staff in Training	137	217	80
Hired Awaiting Training	N/A	43	43
Subtotal - Direct Line	1,190	1,396	206
Non-Direct Line Staff			
Asst. Program Managers	36	38	2
Unit Supervisors	168	216	48
Case Aides	211	286	75
OCWI	33	61	28
Other Non-Direct Line Staff ^{2/}	613	765	152
Subtotal - Non-Direct Line	1,061	1,366	305
Grand Total	2,251	2,762	511

^{1/} Excludes 20 temporary staff.

^{2/} There are an estimated 180 unit secretaries included in this figure.

(Ben Beutler)

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2015. In that report, ADE estimates that it will experience a \$(27.3) million net funding shortfall for formula programs for FY 2015. The recently enacted budget funds a \$26.9 million shortfall, or \$(413,700) less. ADE's current \$(27.3) million shortfall estimate is subject to further revision as additional data become available. (Steve Schimpp)

Summary of Recent Agency Reports (Continued)

Department of Health Services – Quarterly Report on Individuals in the Comprehensive Medical and Dental Program (CMDP) - Pursuant to Laws 2013, Chapter 220, the Department of Health Services (DHS) is required to report on the financial and program accountability trends of CMDP, the foster care medical program. This report is required quarterly until December 31, 2015.

DHS administers behavioral health services for CMDP clients. In the first quarter of FY 2015, DHS reports that 61% (11,168 of 18,382) of children in CMDP received behavioral health services, which represents a 3% increase from 58% in the fourth quarter of FY 2014. The service utilization level ranged between 53% and 77% across the 6 geographic service areas (GSAs), with Maricopa County service area experiencing the lowest rate of usage.

The most widely used services by CMDP members during the first quarter of FY 2015 were support services (including case management), treatment services, and pharmacy services. Of all members served, 86% used support services, 64% used treatment services, and 17% used pharmacy services. The most expensive service per capita was residential services. DHS states that 135 CMDP members received over \$1.0 million in residential services during the first quarter (\$7,700 per member). Residential services consist of treatment at facilities that provide 24-hour supervision from an on-site or on-call behavioral health professional for CMDP members who do not require on-site medical services or who need protective oversight. (Matt Gress)

Auditor General - Report on Child Welfare Data - Pursuant to the FY 2015 Health and Welfare Budget Reconciliation Bill, the Auditor General has produced a report evaluating Arizona relative to national child welfare data. Specifically, the legislation asked the Auditor General to (a) compare Arizona's reporting rate and substantiation rate for child maltreatment to other states, and (b) report on any redundancies among child safety caseworkers, child safety law enforcement (OCWI) and local law enforcement when investigating criminal child abuse.

Child Welfare Data

The Auditor General reports that Arizona's number of child maltreatment reports per capita was lower than the national average from federal fiscal years (FFY) 2008 to 2012, but it slightly exceeded the national average in FFY 2013. The Auditor General believes that legislative changes expanding the definition of child maltreatment in 2009 and administrative changes to the hotline that screened-in domestic violence referrals for investigation in 2010 are possible explanations for the increased reports.

Arizona's rate of substantiated child maltreatment grew from 3.2 to 9.2 substantiated cases per 1,000 between FFY 2008 and FFY 2013, reports the Auditor General. This compares to a national average that ranged from 10.9 to 11.6 substantiated cases of child maltreatment during the same time period. Substantiated reports are cases where the Department of Child Safety (DCS) determines that at least one of the allegations in the report of child abuse or neglect is true.

The Auditor General points to legislative changes in 2009 that expanded the definitions of child maltreatment and automatically substantiated child maltreatment for children in state custody as the likely sources for the growth in the substantiation rate. The Auditor General notes, however, that Arizona was not the only state to have its substantiation rate change significantly in the past 5 years. Substantiation rates vary among states because of different definitions of child maltreatment, burden of proof, and caseworker perception of risk, according to the Auditor General.

OCWI

The Legislature established the Office of Child Welfare Investigations (OCWI) in 2012. Initially, OCWI had 34 staff, but the Legislature increased the level of staff to 127 FTE Positions in FY 2015. OCWI investigates criminal conduct allegations of child maltreatment in conjunction with local law enforcement.

The Auditor General found that there were some initial redundancies among OCWI, caseworkers, and local law enforcement, but those redundancies have since been resolved. The Auditor General also indicated that besides Texas, Arizona is the only state with an organization similar to OCWI.

The report recommends that DCS should (1) continue its efforts to co-locate OCWI staff, caseworkers, and other staff; (2) work with the Maricopa and Pima County Attorneys to update investigation protocols; and (3) enhance its training related to criminal conduct investigations. (Ben Beutler)

Arizona State Parks Board – Report on Progress of Implementing FY 15 Capital Improvement Projects - As a condition to a favorable review by the Joint Committee on Capital Review (JCCR) at its September 2014 meeting, the Arizona State Parks Board has submitted a progress report on projects reviewed by the JCCR. The Parks Board reports that:

- Design plans for 5 restroom buildings and a lift station project for Lake Havasu are 85% complete, with construction beginning in November 2015 and ending April 2016.

Summary of Recent Agency Reports (Continued)

- Specifications for an American with Disabilities Act (ADA)-compliant cabin at Tonto Natural Bridge are being finalized with a project completion date of December 2015.
- ADA compliance for the historic lodge at Tonto Natural Bridge is 90% complete, with an estimated opening date of June 2015.
- Adobe administration building stabilization at Fort Verde is 95% complete, with an expected completion date of April 2015.
- The evaluation report for the Douglas Mansion and Carriage House roof in Jerome has been received and is currently under review. The Parks Board will decide to either issue a solicitation for the project or utilize the Arizona Department of Administration Job Order Contracting (JOC) approved vendor. The project is estimated to be completed by March 2016.
- The Cholla launch ramp extension project at Alamo Lake has been cancelled.
(Art Smith)

February Spending

February 2015 General Fund spending of \$547.6 million was \$37.0 million greater than February 2014. Year-to-date, spending is \$7.05 billion, or \$462.7 million above last year. (See Tables 7 & 8).

- Year-to-date, the Department of Education has spent \$136.5 million more than the prior year.
- Year-to-date, Department of Health Services spending has increased by \$63.3 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.
- During FY 2015, Department of Public Safety spending has increased by \$33.7 million compared to the prior year. This increase is mostly due to the shift of \$30.0 million of Highway Patrol funding from the Highway User Revenue Fund to the General Fund in the FY 2015 budget.

Table 7

Agency	General Fund Spending (\$ in Millions)			
	<u>Feb 15</u>	<u>Change From Feb 14</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 14</u>
AHCCCS	126.0	12.7	940.5	39.1
Corrections	76.6	2.6	645.8	21.1
Child Safety	0.0	0.0	79.9	79.9
Economic Security	6.8	(1.8)	634.1	45.6
Education	227.4	2.2	2,873.3	136.5
Health Services	15.5	1.6	548.2	63.3
Public Safety	2.6	0.5	55.7	33.7
School Facilities Board	17.3	17.2	173.3	(15.0)
Universities	45.6	2.7	586.6	25.8
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>29.8</u>	<u>(0.7)</u>	<u>432.3</u>	<u>32.7</u>
Total	547.6	37.0	7,053.8	462.7

General Fund Spending				
(\$ in Thousands)				
Agency	Feb 15	Change from Feb 14	Year-to-Date	YTD Change from FY 14
Dept. of Admin./Automation Projects Fund	3,548.1	(160.1)	43,829.2	14,696.5
ADOA – Sale/Leaseback Debt Service	-	-	84,123.7	3.9
Office of Administrative Hearings	65.5	2.4	602.2	20.7
Commission of African-American Affairs	5.7	5.7	7.2	7.2
Department of Agriculture	353.8	263.4	5,081.1	(85.6)
AHCCCS	126,023.3	12,681.6	940,509.2	39,102.2
Attorney General	1,700.9	219.1	14,510.6	826.0
State Board of Charter Schools	61.3	7.6	576.7	3.7
Department of Child Safety	-	-	79,898.1	79,898.1
AZ Commerce Authority	2,700.0	75.0	21,825.0	225.0
Community Colleges	305.4	(1,511.6)	53,531.2	2,653.2
Corporation Commission	53.4	17.2	406.6	90.0
Department of Corrections	76,557.5	2,638.1	645,775.1	21,054.8
County Funding	-	-	7,650.5	500.0
AZ State Schools for the Deaf & Blind	833.5	(1,070.2)	14,105.6	(1,288.3)
Dept. of Econ. Security/Dept. of Child Safety	6,790.6	(1,835.0)	634,109.1	45,637.1
Department of Education	227,352.5	2,188.9	2,873,338.9	136,483.1
DEMA	488.2	114.8	5,927.5	1,503.1
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	13.2	0.4	100.8	(37.8)
State Board of Equalization	23.6	1.2	370.4	(19.4)
Board of Executive Clemency	64.2	11.0	621.0	87.6
Department of Financial Institutions	234.6	14.0	2,013.9	92.6
Department of Fire, Bldg and Life Safety	170.5	31.6	1,427.5	109.0
State Forester	1,024.2	634.5	3,066.4	826.6
Arizona Geological Survey	53.2	(2.0)	647.3	186.1
Governor/OSPB	568.1	(149.7)	7,116.9	568.3
Department of Health Services	15,528.0	1,594.0	548,244.8	63,306.8
Arizona Historical Society	216.5	3.9	2,249.6	53.1
Prescott Historical Society of AZ	143.5	94.1	555.3	95.5
Independent Redistricting Comm.	79.5	(15.2)	726.5	(228.5)
Commission of Indian Affairs	1.2	(1.6)	41.0	4.6
Department of Insurance	333.0	(8.6)	3,524.3	0.4
Judiciary				
Supreme/Superior Court	2,631.8	546.7	59,861.0	1,257.1
Court of Appeals	1,090.3	39.0	9,231.9	60.6
Department of Juvenile Corrections	2,676.1	(367.0)	25,978.7	274.8

Table 8 (Continued)

Agency	Feb 15	Change from Feb 14	Year-to-Date	YTD Change from FY 14
State Land Department	725.4	64.4	8,000.7	527.6
Legislature				
Auditor General	1,486.8	38.9	13,205.0	758.3
House of Representatives	1,274.0	165.0	8,575.2	509.3
Joint Legislative Budget Comm.	208.8	51.1	1,508.4	163.2
Legislative Council	433.2	39.6	6,053.7	1,423.7
Senate	899.5	209.1	5,585.3	209.5
Mine Inspector	74.5	(14.8)	760.3	(29.7)
Nav. Streams & Adjudication	9.8	(8.1)	109.0	22.2
Occupational Safety and Health Review	-	-	0.9	(1.4)
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	4.3	3.7	1,022.4	(157.6)
Comm. for Postsecondary Ed.	-	(610.4)	1,396.8	-
Department of Public Safety	2,613.2	467.2	55,707.2	33,699.0
Public Safety Personnel Retirement System	-	-	6,000.0	1,000.0
Arizona Department of Racing	-	(1.0)	1,869.6	(6.3)
Radiation Regulatory Agency	56.3	5.6	1,031.9	4.5
Real Estate Department	160.2	(0.3)	1,682.1	(0.0)
Department of Revenue	1,819.1	149.1	31,050.6	(1,369.4)
School Facilities Board	17,253.7	17,155.9	173,331.1	(14,957.3)
Secretary of State	1,664.4	960.4	9,884.7	1,845.2
Tax Appeals Board	16.7	(2.4)	181.3	(0.0)
Office of Tourism	-	(815.8)	8,393.3	4,125.7
Universities				
Board of Regents	20.4	(0.4)	22,302.7	3,882.3
Arizona State University	21,559.2	1,918.8	263,049.0	15,350.2
Northern Arizona University	7,315.5	753.0	89,019.1	6,024.1
University of Arizona	16,666.4	70.0	212,260.9	560.1
Department of Veteran Services	353.7	0.7	3,019.2	(343.3)
Department of Water Resources	930.5	131.4	7,160.6	335.8
Water Infrastructure Finance Authority	-	-	1,000.0	1,000.0
Department of Weights & Measures	77.8	(5.9)	863.5	85.3
Other - JP Salaries Distribution	264.6	213.9	685.9	109.1
Other	-	(7.0)	38.5	31.0
Total	547,579.5	36,993.1	7,053,782.8	462,708.7

Tracking Arizona's Recovery

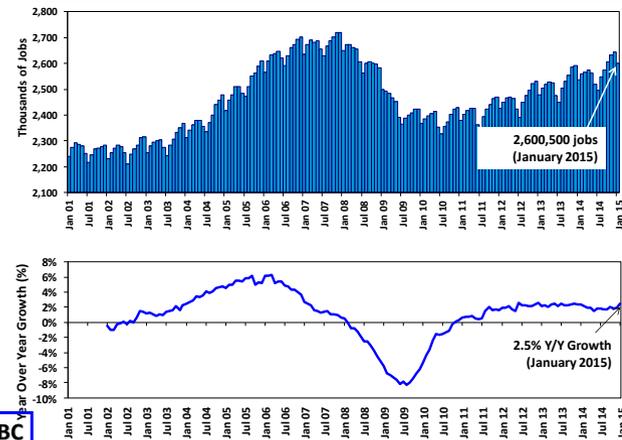
March 2015
Appendix A

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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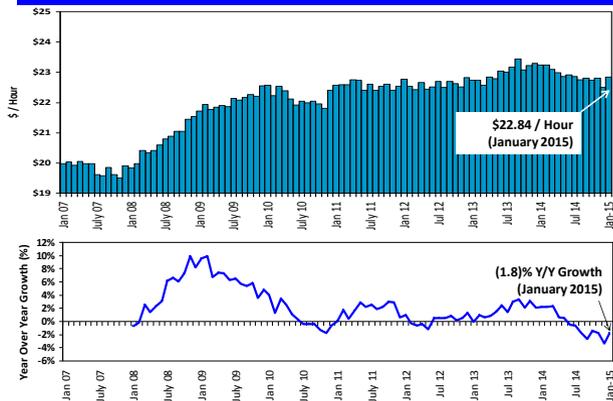
Total Non-Farm Employment



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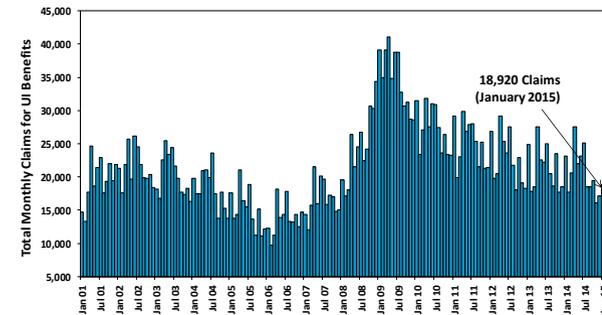
Average Hourly Earnings – Private Sector



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Initial Claims for Unemployment Insurance

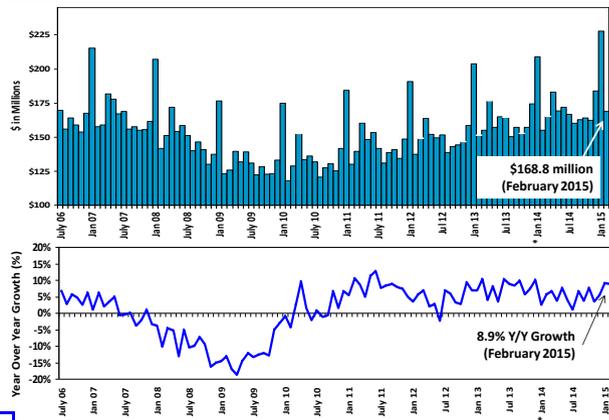


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Not seasonally adjusted

4

State Sales Tax Collections – Retail Category



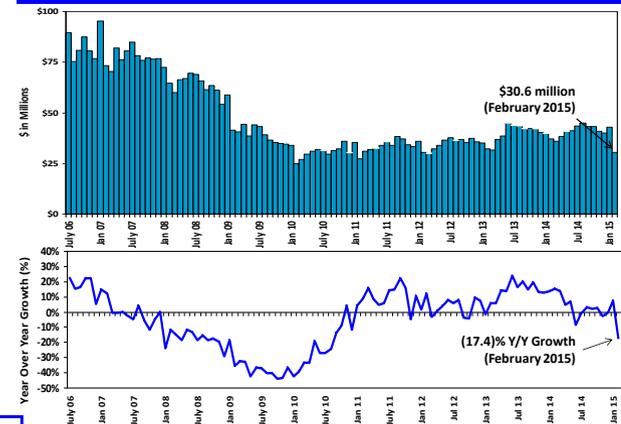
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Excludes temporary 1 ¢ sales tax

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

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State Sales Tax Collections – Contracting Category

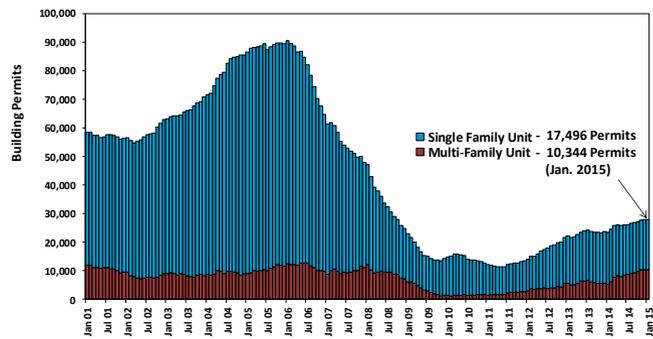


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Excludes temporary 1 ¢ sales tax

6

Residential Building Permits

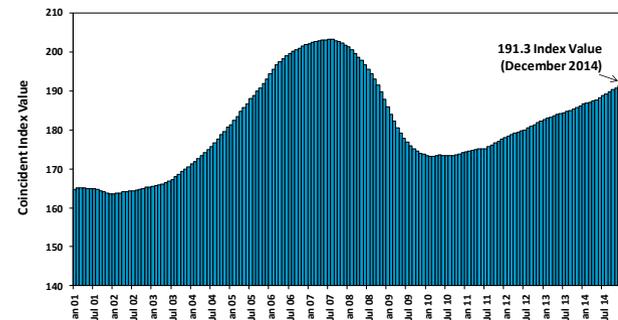


JLBC

12-Month Moving Sum

7

Economic Activity Index



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

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