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Summary

April General Fund revenue collections totaled \$856.4 million. Base revenues, which exclude one-time adjustments, were (13.3)% below April 2013. The year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

Overall April General Fund collections were \$(85.3) million below the enacted budget’s January Finance Advisory Committee (FAC) forecast. Year-to-date base revenues are only 1.7% higher than FY 2013, while total General Fund collections through April are \$(37.0) million below forecast.

A decrease in April collections was not unexpected – due to the acceleration of capital gains in FY 2013 as a result of the federal “fiscal cliff.” The enacted budget assumed revenues would decline by (8.6)% in April.

The magnitude of the April decline, however, was greater than projected with most of the forecast loss occurring in the Individual Income Tax category. The level of Individual Income Tax payments came in close to estimates, posting a decline of (10.4)% which was likely due to the capital gains issue. In contrast, refunds were originally expected to remain flat, but instead increased by approximately 20%.

In total, Individual Income Tax collections were \$(55.8) million below forecast in April. Current May Individual Income Tax results do not show substantial improvement from the April collection levels.

In addition, April Corporate Income Tax collections continued the declines seen in the category so far this year, and were \$(28.0) million below forecast for the month.

In comparison to total General Fund revenue of \$856.4 million, April 2014 spending was \$615.5 million, which is an increase of \$70.8 million from the prior year.

May Budget Update

When the enacted budget was signed in April, the FY 2015 ending balance was estimated to be \$139 million. After accounting for post-session vetoes and other bills, the FY 2015 ending cash balance is currently projected to be \$191 million.

In future years, the balance is projected to decline and lead to estimated shortfalls of \$(137) million and \$(359) million in FY 2016 and FY 2017, respectively. JLBC Staff has released a [slideshow](#) which summarizes the updated projections.

Three factors may increase the \$(137) million FY 2016 shortfall estimate: the current lag in revenue collections, on-going K-12 inflation litigation, and new spending enacted in a Special Session. Prior to any child safety adjustments, these issues could raise the FY 2016 shortfall to as much as \$(515) million.

Given the \$(37) million year-to-date revenue loss, the January forecast used in the enacted budget may be too optimistic. Instead, the current revenue trend suggests that collections may end up being closer to the April FAC forecast. In the latter forecast, General Fund revenues were \$(58) million lower than the enacted forecast through FY 2016.

In terms of K-12 litigation, the Arizona Supreme Court ruled that the state must annually provide full inflation funding adjustments

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Summary (Continued)

under Proposition 301. While the state did not make the full inflation adjustments during FY 2009 – FY 2013, the required adjustments were made in FY 2014 and FY 2015.

The case is currently being heard in Superior Court to determine if any additional adjustment is required and if needed, the magnitude of the adjustment. Potential results may include: 1) No additional adjustment; 2) \$80 million annual increase based on accounting for previous K-12 funding changes above the rate of inflation; 3) \$320 million annual increase to adjust for the foregone FY 2009-2013 inflation payments.

And finally, the projected ending balances would be adjusted due to spending increases in a Child Safety Special Session. These estimates are not yet available.

With these 3 factors, the Legislature will likely have to resolve a projected FY 2016 Baseline shortfall during the next Regular Session. *Table 1* outlines several FY 2016 balance scenarios, under the January and April FAC revenue forecasts, and 3 potential outcomes of the K-12 litigation.

Even with no K-12 settlement, the projected FY 2016 shortfall is \$(137) million (January FAC) to \$(195) million (April FAC). While the state's \$460 million Budget Stabilization Fund (BSF) could be used to resolve that problem, the Legislature may want to consider keeping those monies in reserve for the K-12 litigation.

In addition, the use of the BSF would not resolve the state's ongoing structural shortfall. In FY 2016, the gap between ongoing revenues (January FAC) and spending is forecast at \$(322) million.

Table 1
FY 2016 Ending Balance Scenarios (\$ in M)

	Jan. FAC	April FAC
No K-12 Settlement	\$(137)	\$(195)
\$80 M K-12 Settlement	(217)	(275)
\$320 M K-12 Settlement	(457)	(515)

Child Safety Staff Report

The Division of Child Safety and Family Services (DCSFS) has submitted the April report on its progress in hiring child safety staff. Laws 2014, Chapter 4 appropriated \$6.9 million and 192 new FTE Positions.

Direct Line Child Safety Staff - In Chapter 4, the Legislature authorized DCSFS to hire 126 additional direct line staff. Since January, the total number of direct line staff (caseworkers, caseworkers in training, and hotline staff) has increased by 53 FTE Positions to a level of 1,243 in April. In the last month, the number of direct line staff has increased by 10. DCSFS has also hired 52 more individuals who will begin their employment by June and then enter training. DCSFS has funding to hire 1,320 total direct line staff.

Non-Direct Line Child Safety Staff - The Legislature also authorized hiring 66 non-direct line staff. Since January, total non-direct line staff has increased by 11 to 1,105. In April alone, staffing increased by 20 FTE Positions. JLBC Staff is working with DCSFS to delineate between ancillary direct line staff (assistant program managers, unit supervisors, unit secretaries, and case aides) and administrative staff.

Table 2				
Change in the Division of Child Safety & Family Services				
Staff since January 2014				
	February	March	April	Change since January
<u>Direct Line Staff</u>				
Caseworkers	1,007	1,006	1,003	20
Hotline Staff ^{1/}	65	76	75	5
Staff in Training	<u>118</u>	<u>151</u>	<u>165</u>	<u>28</u>
Subtotal - Direct Line	1,190	1,233	1,243	53
<u>Non-Direct Line Staff</u>				
Asst. Program Managers	N/A	N/A	34	N/A
Unit Supervisors	N/A	N/A	180	N/A
Case Aides	N/A	N/A	224	N/A
Other Non-Direct Line Staff	<u>N/A</u>	<u>N/A</u>	<u>667</u> ^{2/}	<u>N/A</u>
Subtotal - Non-Direct Line	1,105	1,085	1,105	11
Grand Total	2,295	2,318	2,348	64

^{1/} Excludes 20 temporary staff
^{2/} There are an estimated 180 unit secretaries included in this figure.

April Revenues

	<u>FY 2014 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2013</u>
April	\$ 856.4	\$ (85.3)	\$ (230.0)
Year-to-Date	\$ 6,818.7	\$ (37.0)	\$ (581.5)

Sales Tax collections of \$358.5 million were 4.9% above April 2013 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 10 months of the fiscal year, sales tax collections are 5.8% above the prior year and are \$5.3 million above the January forecast.

Sales tax collections by category data was not available as of the *Monthly Fiscal Highlights* publication date.

Individual Income Tax net revenues were \$394.4 million in April, which was \$(125.3) million below the prior year. Collections were \$(55.8) million below the forecast for the month. Year-to-date, revenue is approximately equal to collections in the prior year, and is \$(31.8) million below the January forecast.

The April decrease of (24.1)% compared to the prior April was the largest year over year decrease in individual income tax collections since the (71.4)% decrease in April 2009. April net collections have increased steadily since 2009 up until April of this year.

As indicated in *Table 4*, withholding increased by only 0.2% for the month. April results reduce withholding tax collections for the fiscal year to 3.1% over the prior year. This amount, however, is \$11.4 million over the January forecast.

April estimated and final payments were (10.4)% below last year. Year-to-date, payments are down (3.3)% compared to the prior year, and are \$8.6 million above the January forecast.

April refunds were 19.9% greater than last year, and resulted in a \$(68.9) million forecast loss. Refunds totaled \$(408.0) million in April compared to \$(340.4) million last year.

The increase in refunds during April may be at least partially due to an increased number of refund processing days in April 2014.

Year-to-date, refunds are 5.5% greater than the prior year.

Table 4
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>April</u>	<u>YTD</u>
Withholding	0.2%	3.1%
Estimated + Final Payments	(10.4)%	(3.3)%
Refunds	19.9%	5.5%

Corporate Income Tax net collections were \$88.1 million in April, which is \$(14.1) million less than April of the prior year. Year-to-date, collections are down (11.3)% compared to the prior year, and are \$(18.6) million below the January forecast.

Whereas the Individual Income Tax decline may be due to last year's fiscal cliff surge, it is more difficult to explain the Corporate Income Tax decrease. There is currently insufficient timely data to gauge any potential reasons for the decline.

The **Lottery Commission** reports that April ticket sales were \$61.9 million, which is \$3.4 million, or 5.8%, above sales in the prior year. Year-to-date ticket sales are \$607.4 million, which is 7.7% above last year's sales.

To present a more accurate depiction of results, April has been adjusted for the late arrival of \$6.9 million in deposits, which will not appear in the state's accounting system until May reports are released.

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 \$113.3 million in April were up \$4.1 million, or 3.7%, compared to April of last year. Year-to-date revenues are 2.8% above collections in the prior year, and are \$18.4 million above forecast.

Table 5

General Fund Revenue: Change from Previous Year and January Forecast April 2014

	Current Month					FY 2014 YTD (Ten Months)				
	Actual April 2014	Change From April 2013		January Forecast		Actual April 2014	Change from April 2013		January Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$358,451,112	\$16,761,656	4.9 %	\$2,752,388	0.8 %	\$3,351,908,339	\$184,294,319	5.8 %	\$5,296,032	0.2 %
Income - Individual	394,440,392	(125,342,615)	(24.1)	(55,824,380)	(12.4)	2,834,887,021	(2,908,272)	(0.1)	(31,791,659)	(1.1)
- Corporate	88,104,726	(14,116,877)	(13.8)	(28,016,945)	(24.1)	449,579,218	(57,118,795)	(11.3)	(18,636,905)	(4.0)
Property	4,407,615	3,839,553	675.9	4,107,615	--	16,049,299	6,398,863	66.3	5,105,870	46.7
Luxury - Tobacco	2,120,582	1,616,992	321.1	820,582	63.1	21,421,891	1,560,381	7.9	1,313,168	6.5
- Liquor	2,345,050	(459,909)	(16.4)	(654,950)	(21.8)	26,609,728	(282,590)	(1.1)	(503,265)	(1.9)
Insurance Premium	40,437,428	(14,212,715)	(26.0)	(2,795,572)	(6.5)	289,132,416	13,896,316	5.0	(5,392,670)	(1.8)
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	75,261	2,093	2.9	261	0.3	460,100	(1,022,959)	(69.0)	(989,900)	(68.3)
Sub-Total Taxes	\$890,382,166	(\$131,911,822)	(12.9) %	(\$79,611,001)	(8.2) %	\$6,990,048,013	\$144,817,264	2.1 %	(\$45,599,328)	(0.6) %
Other Revenue										
Lottery	6,879,225	(675,915)	(8.9)	(1,120,775)	(14.0)	46,086,093	6,901,993	17.6	6,799,225	17.3
License, Fees and Permits	2,448,022	523,491	27.2	48,022	2.0	23,644,890	(92,690)	(0.4)	(1,373,452)	(5.5)
Interest	(1,114)	(2,489,027)	--	(2,001,114)	--	2,126	(7,395,015)	(100.0)	(4,009,715)	(99.9)
Sales and Services	1,536,625	(737,852)	(32.4)	(1,463,375)	(48.8)	23,484,162	(132,823)	(0.6)	(1,483,394)	(5.9)
Other Miscellaneous	1,644,071	803,576	95.6	644,071	64.4	13,672,676	(8,860,667)	(39.3)	(791,140)	(5.5)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	176,188	(3,920,303)	(95.7)	(1,823,812)	(91.2)	16,299,562	(13,119,794)	(44.6)	(12,849,191)	(44.1)
Sub-Total Other Revenue	\$12,683,017	(\$6,496,030)	(33.9) %	(\$5,716,983)	(31.1) %	\$123,189,509	(\$22,698,996)	(15.6) %	(\$13,707,667)	(10.0) %
TOTAL BASE REVENUE	\$903,065,183	(\$138,407,852)	(13.3) %	(\$85,327,984)	(8.6) %	\$7,113,237,522	\$122,118,268	1.7 %	(\$59,306,995)	(0.8) %
Other Adjustments										
Urban Revenue Sharing	(46,709,330)	(3,910,660)	9.1	0	0.0	(467,582,533)	(39,595,833)	9.3	0	0.0
One-Time Transfers	34,169	34,169	--	34,169	--	165,680,466	129,680,466	360.2	14,988,905	9.9
Sales Tax - 1¢ Increase	0	(87,704,514)	(100.0)	0	--	7,339,859	(793,716,407)	(99.1)	7,339,859	--
Sub-Total Other Adjustments	(46,675,161)	(91,581,005)	-- %	34,169	(0.1) %	(294,562,208)	(703,631,774)	-- %	22,328,764	(7.0) %
TOTAL GENERAL FUND REVENUE	\$856,390,022	(\$229,988,857)	(21.2) %	(\$85,293,815)	(9.1) %	\$6,818,675,313	(\$581,513,507)	(7.9) %	(\$36,978,232)	(0.5) %
Non-General Funds										
Highway User Revenue Fund	\$113,311,520	\$4,091,308	3.7 %	\$2,999,106	2.7 %	\$1,033,990,544	\$28,453,585	2.8 %	\$18,398,216	1.8 %

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 0.1% in the first quarter of 2014. This advance estimate was a significant deceleration from the 2.6% growth in the fourth quarter. The slowdown was primarily due to decreases in inventory investment, nonresidential fixed investment, exports, and state and local government spending while consumer spending increased at a small rate. Much of the slowdown in the first quarter may be the result of unusually harsh winter weather and a concentration of inventory investment in the fourth quarter of 2014.

The Conference Board's **U.S. Consumer Confidence Index** decreased (1.9)% in April while still increasing 19.3% since April 2013. The monthly decrease in the index was driven by the index's component that measures consumer views of current job and economic circumstances. The index's component that measures the 6-month outlook on jobs and the economy increased by 0.1% during the month and resides at its highest mark since August 2013.

The Conference Board's **U.S. Leading Economic Index** increased by 0.8% in March and 6.1% since March 2013. While 7 of the index's 10 components increased during the month, the majority of growth was concentrated in improvements in average workweek length by a production worker, initial claims for unemployment insurance, and interest rate measures. The index has not experienced a monthly decrease in the last 12 months.

Consumer prices, as measured by the U.S. **Consumer Price Index (CPI)**, increased 0.3% in April and 2% above April 2013 levels. Prices increased in all major categories, including 0.4% in food, 0.3% in energy and 0.2% for all other items. 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. The Bank generally aims to maintain annual inflation of 2% over the medium term.

ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

In March, 38 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.2% compared to the prior month. Year-over-year,

the Arizona index is 2.1% above last year, which is the 35th highest growth rate in the country. Arizona's index is still (8.2)% 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 2.7% over the next 6 months. This is lower than the revised 3.0% growth projection in February and unchanged from the 2.7% projection in March 2013.

Housing

The number of Maricopa County **pending foreclosures** decreased from 4,983 in March to 4,693 in April. The April 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 20,083 in April 2013 to 29,627 in April 2014, a 47.5% increase.

In the Metropolitan Phoenix area, the **median price of a single family home** was \$204,520 in March. This represents a 4.9% increase from February, and a 16.9% increase from March of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through March, an average of 1,360 **single-family building permits** had been issued statewide, a (3.4)% decrease 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*.

Employment

The state added a total of 4,300 **nonfarm jobs** between March and April. Although job gains are typically small in April, this year's month-over-month increase was below the 10-year average increase of 4,800 for April. The private sector added a net of 3,200 jobs in April and the government sector added 1,100 jobs. The largest contributions to April's month-over-month net

Recent Economic Indicators (Continued)

job gain came from the following 2 sectors: leisure and hospitality (+1,500) and other services (+1,200).

Compared to April 2013, **nonfarm employment** was up by 1.7%, or 44,100 jobs. This was the third consecutive month of year-over-year growth below 2% following January's job gain of 2.3%. The largest year-over-year net job gains came from the following industries: education and health services (+12,200), trade, transportation and utilities (+9,600), and financial activities (+8,700). The construction industry added 1,200 jobs, year over year, which was the smallest net gain since December 2011. The manufacturing sector lost (200) jobs, year over year, which was the 9th consecutive month with such losses. The manufacturing sector's share of total nonfarm employment declined to 6.0% in April, the lowest such share since at least January 1960.

The state's seasonally adjusted **unemployment rate** declined from 7.3% in March to 6.9% in April. This was the first time since August 2008 that the jobless rate was below 7.0%. The seasonally adjusted unemployment rate in April was (1.1)% lower than a year ago.

At the same time, the labor force fell by (35,500) in April. This suggests that the large drop in the April jobless rate was due more to a decline in the labor force than an increased employment level. Once an unemployed person ceases to actively look for a job (due to the perception of poor job prospects, for example), that individual is no longer counted as being part of the labor force.

State Agency Data

At the beginning of May, total **AHCCCS** caseloads increased to 1.43 million members. Overall, AHCCCS caseloads are currently 12% above May 2013 levels. Since the advent of the federal health care expansion in December, overall AHCCCS caseloads have increased by 167,522 members.

The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, grew by 20,784 to a level of 924,586. This level represents an increase of 2.3% since last month and 4.2% since last year. This growth, in part, may be related to the federal health care expansion. When applying for Affordable Care Act coverage, households may have discovered that they were instead eligible for the traditional Medicaid program.

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 December, the childless adult population has increased by 129,486 to reach a level of 197,256. As a whole, the Proposition 204 program has increased 6% compared to the prior month, and 56.4% 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 April, 16,319 individuals had enrolled under this new population.

KidsCare I provides coverage for 2,083 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment in the program has declined (71.3)% from the prior year, though a portion of that decrease is the result of transferring 3,300 children that became eligible for the Traditional acute care program on January 1, 2014.

There were 29,524 **TANF recipients** in the state in March, a monthly caseload decrease of (4.2)%. Year-over-year, the number of TANF recipients has declined by (20.8)%. 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 29,524 TANF recipients includes 1,521 tribal recipients. These recipients belong to tribes that operate their own TANF program but contract with the state for program administration, meaning there were 28,003 state-funded TANF recipients in March.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In March, there were a total 1.0 million food stamp recipients in the state, a 0.1% increase over the prior month. Compared to the same month last year, food stamp participation was down by (7.0)%.

The 3-month average count of the **Department of Corrections (ADC) inmate population** increased to 41,449 inmates in April 2014. Relative to the prior 3-month period, the population has increased by 78 inmates. Compared to a year ago, the population has increased by 1,278 inmates, or 3.2%.

Recent Economic Indicators (Continued)

Table 6

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)	March	6.9%	(0.4) %	(1.1)%
- Initial Unemployment Insurance Claims	March	20,574	16.5%	11.1%
- Unemployment Insurance Recipients	March	35,748	3.1%	(3.3)%
- Non-Farm Employment - Total	April	2.57 million	0.2%	1.7%
Manufacturing	April	154,500	(0.1)%	(0.1)%
Construction	April	121,800	(0.9)%	1.0%
- Average Weekly Hours, Manufacturing	March	41.0	1.7%	0.7%
- Contracting Tax Receipts (3-month average)	Jan-Mar	\$37.6 million	(3.7)%	13.9%*
- Retail Sales Tax Receipts (3-month average)	Jan-Mar	\$187.8 million	(1.6)%	10.4%*
- Residential Building Permits (3-month moving average)				
Single-family	Jan-Mar	1,360	1.5%	(3.4)%
Multi-unit	Jan-Mar	1,094	8.7%	220.5%
- Greater Phoenix Home Sales				
Single-Family	March	7,062	30.8%	(20.3)%
Townhouse/Condominium	March	1,176	22.1%	(17.5)%
- Greater Phoenix Median Home Price				
Single-Family	March	\$204,520	4.9%	16.9%
Townhouse/Condominium	March	\$134,750	10.5%	16.2%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	February	144.10	(0.1)%	12.5%
- Foreclosure Activity, Maricopa County	April	4,693	(5.8)%	(50.2)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	April	29,627	(1.0)%	47.5%
- Phoenix Sky Harbor Air Passengers	March	4.03 million	28.0%	3.2%
- Revenue Per Available Hotel Room	March	\$99.86	17.8%	10.4%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	February	\$6.12	20.2%	33.3%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2014	75.1	9.0%	7.9%
- Arizona Coincident Index (July 1992 = 100)	March	185.18	0.2%	2.1%
- Arizona Leading Index -- 6 month projected growth rate	Jan-Mar	2.7%	(0.3)%	0.0%
- Arizona Personal Income	4th Quarter 2013	\$247.0 billion	0.7%	1.4%
- Arizona Population	July 1, 2013	6.63 million	N/A	1.2%
- AHCCCS Recipients	May	1,425,664	3.5%	12.0%
Acute Care Traditional		924,586	2.3%	4.2%
Prop 204 Childless Adults		197,256	9.2%	157.5%
Other Prop 204		154,733	3.0%	4.2%
Adult Expansion		16,319	14.2%	-
Kids Care I		2,083	(0.7)%	(71.3)%
Kids Care II		0	(100.0)%	(100.0)%
Long-Term Care – Elderly & DD		55,059	0.2%	3.0%
Emergency Services		75,628	5.2%	12.4%
- TANF Recipients	March	29,524	(4.2)%	(20.8)%
- SNAP (Food Stamps) Recipients	March	1,036,746	0.1%	(7.0)%
- ADC Inmate Growth (3-month average)	Feb-Apr	41,449	78 inmates	1,278 inmates
- Probation Caseload				
Non-Maricopa	March	17,542	60	(197)
Maricopa County	March	24,259	190	(42)
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	1 st Quarter 2014 (Advance Est.)	\$15.9 trillion	0.1%	2.3%
- Consumer Confidence Index (1985 = 100)	April	82.3	(1.9)%	19.3%
- Leading Indicators Index (2004 = 100)	March	100.9	0.8%	6.1%
- U.S. Semiconductor Billings (3-month moving average)	Jan.-Mar.	\$5.1 billion	(4.3)%	16.1%
- Consumer Price Index, SA (1982-84 = 100)	April	236.3	0.3%	2.0%

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

Summary of Recent Agency Reports

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

Under the 4 repayment scenarios, ADOA reported the following net lifetime savings in debt service payments:

- \$50 million repayment – \$25.4 million
 - \$100 million repayment – \$50.9 million
 - \$150 million repayment – \$75.0 million
 - \$200 million repayment – \$99.0 million
- (Jack Brown)

AHCCCS – Report on Safety Net Care Pool Distribution Notification – The FY 2014 General Appropriation Act allows the Arizona Health Care Cost Containment System (AHCCCS) Administration to spend above the appropriated level of \$166 million for the Safety Net Care Pool (SNCP) program, but requires AHCCCS to report if the distributions exceed \$166 million. In July 2013, AHCCCS reported it would distribute \$430 million in FY 2014 towards SNCP funding for hospitals. AHCCCS is now reporting \$479.7 million in total distributions, a \$49.7 million increase of funds from its last report.

The SNCP program uses voluntary monies from political subdivisions to draw down Federal Funds at a 2:1 match. The funds are then distributed to participating hospitals. The original program was approved by the federal government in April 2012. As a condition of participating in this program, some of the monies were used to expand KidsCare (KC) and the Childless Adult program. The SNCP program expired for all hospitals on January 1, 2014, excluding Phoenix Children's Hospital (PCH) which was granted a special waiver to continue its SNCP program through December 31, 2014. KC II had a total of 37,101 enrollees before the program expired on January 31, 2014. KC II enrollees were eligible to transfer to other AHCCCS programs per the Affordability Care Act (ACA) or purchase health insurance at subsidized rates through the federal health exchange.

The original SNCP funding of \$166 million only funded 3 hospitals: Phoenix Children's Hospital, Maricopa Integrated Health Systems, and the University of Arizona Health Network. The increase of funds from \$166 million to \$430 million in FY 2014 was the result of the City of Phoenix Hospital Assessment, which created a new funding source from political subdivisions to pay to acute care hospitals that provided uncompensated care to uninsured and low income patients. The City of Phoenix adopted a 6% assessment on net in-patient hospital revenues at designated acute care hospitals. In FY 2014, there were 9 hospitals that agreed to be levied an assessment and that qualified for a federal match.

The additional \$49.7 million SNCP distribution in FY 2014 consists of \$37.8 million in Federal Funds and \$11.9 million in Political Subdivision Funds (the state match). In accordance with the General Appropriation Act, AHCCCS is required to make available a report of SNCP expenditures. The report will be available late FY 2014 as hospital payments from political subdivisions typically lag 1 fiscal quarter to post to AHCCCS accounts. (Andrew Smith)

Arizona Commerce Authority – Annual Report on the Healthy Forest Enterprise Incentives Program – Pursuant to A.R.S. § 41-1516 (I), the Arizona Commerce Authority is required to report on the Healthy Forest Enterprise Incentives Program on May 1 annually regarding the: 1) quantity and measured weight of qualifying forest products reported; 2) number of new full-time employees hired in qualified employment positions; and 3) number of all full-time employees employed in qualified employment positions. In calendar year 2013 the total weight of qualified harvest, processed, or transported forest products was 800,901 tons; however, none of the 7 companies participated in the income tax credit portion of the program.

The Healthy Forest Enterprise Incentives Program allows businesses primarily engaged in the harvesting, initial processing, or transporting of forest products in Arizona to qualify for the following: a use and transaction privilege tax exemption on qualified purchases, a 50% reduction in the use fuel tax, a reduction in the assessment ratio of personal and real property from 25% to 5%, and an income tax credit of up to \$3,000 per employee on new jobs created. (Eric Billings)

Department of Economic Security/Department of Health Services – Foster Care Medicaid Report/Quarterly Report on Individuals in the Comprehensive Medical and Dental Program (CMDP) - Pursuant to Laws 2013, Chapter 220, the Department of Economic Security (DES) is required to report on foster care and Medicaid eligibility and the Department of Health Services (DHS) is required to report on the financial and program accountability trends of CMDP, the foster care medical program. These reports are required quarterly until December 31, 2015.

During the second quarter of FY 2014, DES reports the following trends on foster care and Medicaid eligibility:

1. There were 13,309 children eligible for Medicaid in foster care at the end of the second quarter, down from 13,736 at the end of the first quarter.
2. The percentage of foster care children eligible for Medicaid remained at 97%.
3. The amount of non-Medicaid behavioral health placement expenditures used by DES to supplement Medicaid behavioral health placement services was \$1.9 million in the second quarter compared to \$1.8 million in the first quarter.

Summary of Recent Agency Reports (Continued)

The amount of non-Medicaid behavioral health service expenditures used by DES to supplement Medicaid behavioral health services grew slightly from \$140,800 in the first quarter to \$148,000 in the second quarter.

DHS administers behavioral health services for CMDP clients. In its second quarter FY 2014 report, DHS reports that 59%, or 10,275 of 17,342 children in CMDP, received behavioral health services, which represents a 3% decline from the first quarter of FY 2014. The service utilization level ranged between 55% and 85% across the 6 geographic service areas, with the Maricopa County service area experiencing the lowest rate of usage. The most widely used services by CMDP members during the second quarter of FY 2014 were support services (including case management), treatment services, and medications. Of all members served, 97% used support services, 75% used treatment services, and 16% received medications. The most expensive service per capita was residential services. DHS states that 120 CMDP members, or 1% of the total CMDP population, received nearly \$1 million in inpatient services (\$8,100 per capita). 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.

DHS included service denials and appeals of denials data in its second quarter report. Neither was included in the first quarter report. When a CMDP member accesses certain non-emergency services, prior authorization from DHS, the Arizona Health Care Cost Containment System (AHCCCS), or a Regional Behavioral Health Authority (RBHA) is required. Of the 248 prior authorization requests made for CMDP members in the second quarter, 59 were denied because the provider deemed them not medically necessary. When a prior authorization is denied, the CMDP member may elect to appeal the decision. There were 23 appeals filed during the second quarter. The decision was upheld for nearly half (11) of the appeals, while 6 appeals were overturned. The remaining appeals were either withdrawn, dismissed, or resulted in a compromise. (Ben Beutler and Matt Gress)

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 4th quarter of calendar year (CY) 2013, DES estimates that the UI Trust Fund had a beginning balance of \$58.0 million, revenues of \$56.8 million, and fund outlays of \$91.3 million, resulting in a \$23.6 million ending balance, a decrease of \$(9.0)

million from its previous estimate of \$32.6 million. 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 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% federal unemployment tax (FUTA) increase for CY 2012, which equaled an average extra charge of \$21 per employee.

To repay the federal loan by September 2013, DES issued \$200 million in UI tax anticipation notes. 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.

After the planned repayment of the UI Tax Anticipation Notes in the 2nd quarter of calendar year 2014, DES is now projecting a negative UI Trust Fund balance of \$(3.6) million in the 1st quarter of CY 2015. (Ben Beutler)

Department of Public Safety – Quarterly Report on the GIITEM Fund – Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. In FY 2014, the GIITEM Fund was appropriated \$2.6 million in General Fund monies for grants to local law enforcement agencies to help with border security. During the third quarter of FY 2014 DPS expended \$650,900 in GIITEM Immigration Enforcement Grant monies bringing the year-to-date total to \$2.0 million. These monies were distributed to the Maricopa and Pinal County Sheriff's Office per statute.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$594,500 in criminal fine and fee revenues in the third quarter of FY 2014 bringing the year-to-date total to \$1.7 million. DPS expended \$684,100 in the third quarter bringing the year-to-date total to \$1.0 million. The monies were granted to 14 local law enforcement agencies and the Arizona Department of Corrections for border security purposes. (Eric Billings)

April Spending

April 2014 General Fund spending of \$615.5 million was \$70.8 million greater than April 2013. Year-to-date, spending is \$7.7 billion, or \$252.3 million above last year.

(See Tables 7 & 8).

- Year-to-date, the Department of Education has spent \$251.7 million more than the prior year due to increased enrollment, increased per-pupil costs, and school district charter conversions.
- Department of Economic Security expenditures are \$59.1 million greater through April due to increased funding levels for the agency in FY 2014.

	<u>April 14</u>	Change From <u>April 13</u>	<u>Year-to-Date</u>	YTD Change <u>from FY 13</u>
Agency				
AHCCCS	8.2	44.0	995.8	(3.4)
Corrections	104.0	19.9	797.4	42.5
Economic Security	92.9	(1.9)	684.7	59.1
Education	230.6	(39.5)	3,185.2	251.7
Health Services	17.0	6.3	515.8	(33.0)
Public Safety	22.7	5.2	46.4	7.4
School Facilities Board	4.5	3.6	192.9	19.5
Universities	45.2	0.9	649.7	21.7
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>90.4</u>	<u>32.3</u>	<u>532.2</u>	<u>86.8</u>
Total	615.5	70.8	7,684.2	452.3
Budget Stabilization Fund Deposit	0.0	0.0	0.0	(200.0)
Grand Total	615.5	70.8	7,684.2	252.3

General Fund Spending				
(\$ in Thousands)				
Agency	April 14	Change from April 13	Year-to-Date	YTD Change from FY 13
Dept. of Admin./Automation Projects Fund	22,990.1	17,949.1	56,332.7	30,358.6
ADOA – Sale/Leaseback Debt Service	-	-	84,119.8	-
Office of Administrative Hearings	97.6	25.6	735.0	50.5
Department of Agriculture	1,028.8	368.9	6,742.0	536.2
AHCCCS	8,179.8	43,980.8	995,786.6	(3,444.3)
Attorney General	1,514.2	(58.3)	16,669.2	(966.4)
AZ Capital Post Conviction Public Defender	-	-	-	(4.4)
State Board of Charter Schools	80.2	25.5	693.9	78.9
AZ Commerce Authority	2,625.0	-	26,250.0	-
Community Colleges	16,793.9	(749.4)	69,513.4	580.6
Corporation Commission	73.9	25.2	426.9	(58.2)
Department of Corrections	103,995.6	19,915.1	797,380.5	42,520.4
County Funding	-	-	7,150.5	7,150.5
AZ State Schools for the Deaf & Blind	4,333.3	1,970.4	20,659.8	2,322.9
Department of Economic Security	92,862.9	(1,924.9)	684,660.0	59,093.2
Department of Education	230,605.2	(39,538.3)	3,185,218.9	251,711.4
DEMA	822.8	230.4	6,601.6	(35.7)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	43.2	31.0	182.7	115.0
State Board of Equalization	31.8	11.0	442.5	24.8
Board of Executive Clemency	61.6	1.1	673.8	23.7
Department of Financial Institutions	321.7	106.9	2,477.8	170.0
Department of Fire, Bldg and Life Safety	187.2	(84.3)	1,663.0	115.8
State Forester	3,513.9	3,312.8	5,947.1	1,461.7
Arizona Geological Survey	87.4	20.0	817.0	104.8
Governor/OSPB	655.2	121.2	7,550.5	642.7
Department of Health Services	17,042.3	6,284.2	515,768.4	(32,977.0)
Arizona Historical Society	299.6	88.8	2,694.8	114.9
Prescott Historical Society of AZ	99.6	46.4	611.2	54.6
Independent Redistricting Comm.	91.1	(19.9)	1,105.7	(630.1)
Commission of Indian Affairs	8.9	4.1	48.7	6.1
Department of Insurance	622.7	231.6	4,507.9	535.0
Judiciary				
Supreme/Superior Court	12,204.3	1,721.8	80,602.6	2,677.1
Court of Appeals	1,621.8	581.4	11,833.1	877.7
Department of Juvenile Corrections	4,437.8	1,570.9	33,208.4	36.6

Table 8 (Continued)				
Agency	April 14	Change from April 13	Year-to-Date	YTD Change from FY 13
State Land Department	1,584.5	1,458.0	9,958.6	9,079.9
Law Enforcement Merit System	-	(5.4)	-	(54.8)
Legislature				
Auditor General	2,119.3	822.3	15,980.0	1,993.7
House of Representatives	1,530.0	522.9	10,644.8	1,189.5
Joint Legislative Budget Comm.	220.8	76.2	1,713.8	176.1
Legislative Council	550.4	193.3	5,564.0	(207.8)
Senate	1,017.9	344.1	7,090.9	646.0
Mine Inspector	124.6	26.7	1,002.1	89.4
Nav. Streams & Adjudication	26.4	17.5	140.0	42.7
Occupational Safety and Health Review	-	-	2.3	2.3
Phoenix Convention Center	-	-	20,449.0	14,854.0
Pioneers' Home	419.4	226.2	1,599.1	534.3
Comm. for Postsecondary Ed.	-	-	1,396.8	0.1
Department of Public Safety	22,744.9	5,153.5	46,427.0	7,433.5
Public Safety Personnel Retirement System	-	-	5,000.0	5,000.0
Arizona Department of Racing	108.0	7.9	1,983.9	6.5
Radiation Regulatory Agency	258.1	37.5	1,334.2	43.2
Real Estate Department	241.0	(27.0)	2,062.2	57.3
Department of Revenue	2,435.1	(876.3)	39,697.2	6,310.1
School Facilities Board	4,486.8	3,619.1	192,873.1	19,462.6
Secretary of State	1,084.1	447.6	9,871.4	(4,259.9)
Tax Appeals Board	25.9	7.7	225.6	13.8
Office of Tourism	1,776.7	1,410.7	8,112.9	4,255.0
Department of Transportation	1.3	1.0	6.4	(13.4)
Commission on Uniform State Laws	18.3	18.3	75.0	75.0
Universities				
Board of Regents	2,370.6	(2,731.0)	21,688.6	(14,534.9)
Arizona State University	19,640.4	2,259.2	286,979.6	22,592.1
Northern Arizona University	6,562.5	638.3	96,120.0	6,383.2
University of Arizona	16,596.4	725.6	244,893.5	7,256.2
Department of Veteran Services	592.8	86.0	4,325.3	(127.1)
Department of Water Resources	1,249.4	449.2	8,951.9	1,325.5
Department of Weights & Measures	124.7	(203.1)	996.7	(326.2)
Other - JP Salaries Distribution	123.6	(92.2)	815.2	(110.9)
Other	172.0	(111.6)	183.5	(168.0)
Total	615,539.2	70,751.2	7,684,240.5	452,266.8
Budget Stabilization Fund Deposit	-	-	-	(200,000.0)
Grand Total	615,539.2	70,751.2	7,684,240.5	252,266.8

Tracking Arizona's Recovery

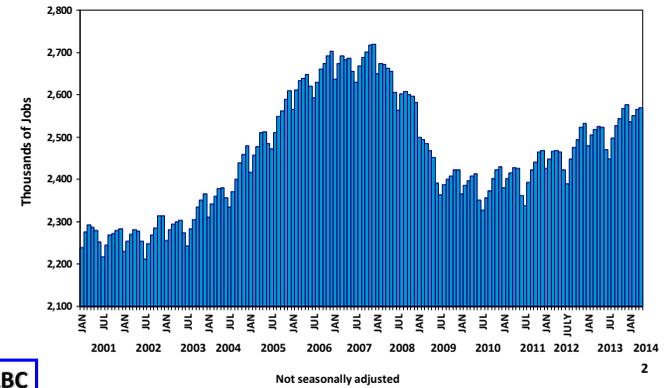
May 2014
Appendix A

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

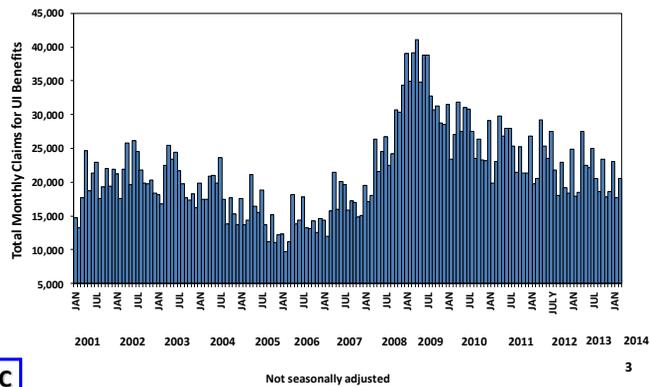
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Total Non-Farm Employment



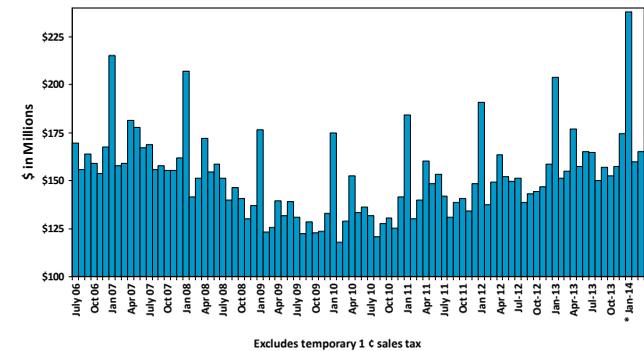
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Initial Claims for Unemployment Insurance



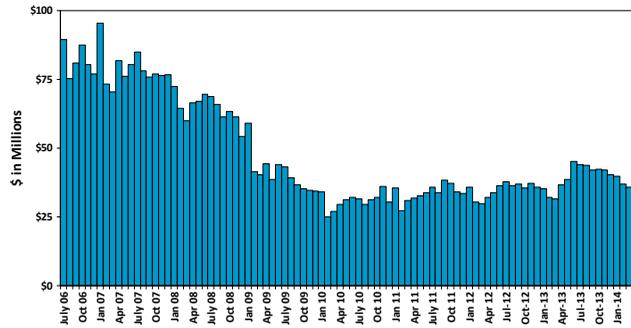
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State Sales Tax Collections – Retail Category



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State Sales Tax Collections – Contracting Category

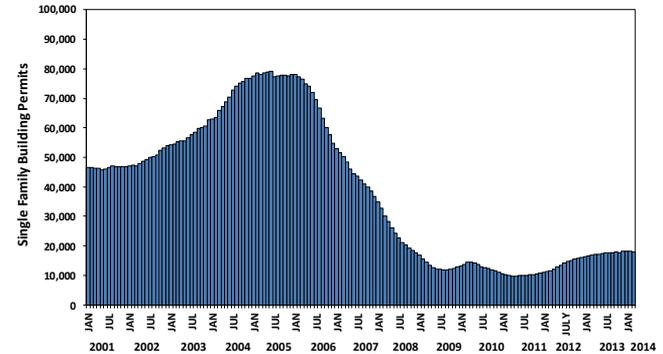


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Excludes temporary 1 ¢ sales tax

5

Single Family Building Permits

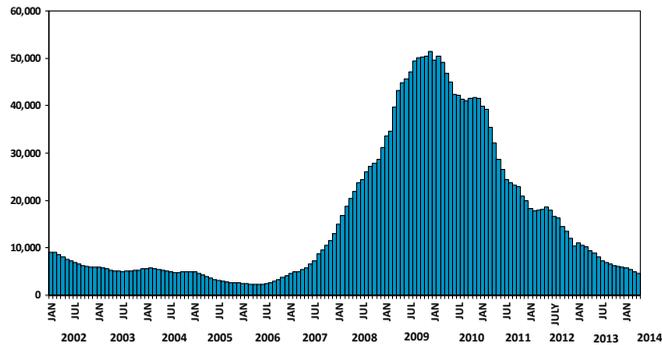


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12-Month Moving Sum

6

Maricopa County Pending Foreclosures

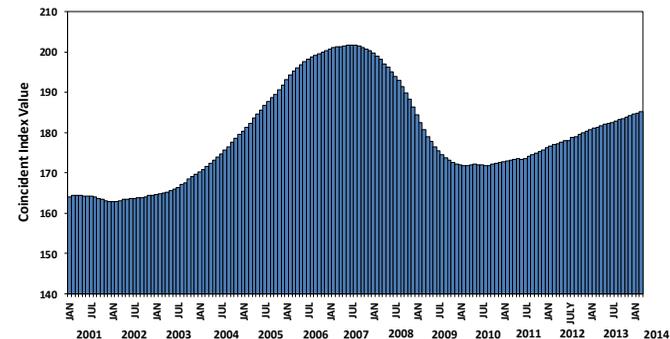


JLBC

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

7

Economic Activity Index



JLBC

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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