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***“Collections [are] \$(60.2) million below the enacted forecast so far in FY 2015.”***

## Summary

The recent trend of weak General Fund revenue collections continued in August. General Fund revenues during the month totaled \$639.8 million, which represented an increase of 1.4% above August 2013. August General Fund collections were \$(25.2) million below the forecast, leading to the 5th consecutive month where revenues failed to meet the enacted budget projection.

Combining the July and August results, General Fund revenues have remained essentially flat compared to the prior year, growing at a rate of only 0.3%. This has resulted in collections being \$(60.2) million below the enacted forecast so far in FY 2015.

The primary cause of the weak August collections was another slow withholding month. Withholding only grew 0.8% over last year and is actually negative for July and August combined. Sales Tax collections grew by a moderate 4.5%.

In comparison to revenue of \$639.8 million, August 2014 spending was \$725.6 million which is a decrease of \$(54.3) million from the prior year.

The state’s fiscal health can also be measured by the operating fund balance. The state pays its bill out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-September 2014 is \$1.7 billion. In addition, the state’s Budget Stabilization Fund has a balance of \$455.9 million.

### FY 2014 Preliminary Ending Balance Report

As required by the General Appropriation Act, the General Accounting Office (GAO) has issued its first report on the estimated FY 2014 ending balance. After adjusting for late arriving revenues, the adjusted GAO FY 2014 ending balance would be \$577 million. This amount is comparable to the projection in last month’s *Monthly Fiscal Highlights*.

As a result, the JLBC Staff’s shortfall projections remain unchanged at \$(282) million in FY 2015 and \$(765) million in FY 2016.

These projections, however, will be updated at the upcoming Finance Advisory Committee (FAC) meeting on October 7<sup>th</sup> (compared to the previously reported date of October 3<sup>rd</sup>).

### Child Safety Staff Report

Pursuant to statute, the Department of Child Safety (DCS) has submitted the August report on its progress in hiring child safety staff.

*Direct Line Child Safety Staff* - The Legislature authorized DCS to hire 212 additional direct line child safety staff. The number of direct line child safety staff (caseworkers, caseworkers in training, and hotline staff) has grown by 116 FTE Positions between January and August. The number of case-carrying caseworkers has declined by (4), while training and hotline staff have grown by 115 and 5, respectively.

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on September 19, 2014.

## Summary (Continued)

DCS also revised downward the number of filled direct line child safety staff in July by (28) positions. Of its 1,406 authorized caseworker positions, DCS filled 1,306 in August, or 25 above its revised July estimate.

*Non-Direct Line Child Safety Staff* - The Legislature has also authorized DCS to hire 240 non-direct line child safety staff. Non-direct line child safety staff has grown by 117 to 1,178 since January. From July to August, staffing grew by 33 FTE Positions.

*Backlog of Non-Active Cases* - One of the main purposes of the 2<sup>nd</sup> Special Session was to reduce the non-active case backlog. These cases have had no documentation entered into the DCS computer system for 60 days or more.

DCS reported that as of June 2, 2014 there were 13,024 backlog cases. As of August 31, 2014, there were 6,295 total backlog cases, although the figure is preliminary. The 6,295 figure includes backlog cases added post-June 2.

**Table 1**

**Change in the Department of Child Safety  
Staff since January 2014**

	<u>January</u>	<u>Original July</u>	<u>Revised July</u>	<u>August</u>	<u>Change since January</u>
<b>Direct Line Staff</b>					
Caseworkers	983	990	970	979	(4)
Hotline Staff <sup>1/</sup>	70	77	77	75	5
Staff in Training	<u>137</u>	<u>242</u>	<u>234</u>	<u>252</u>	<u>115</u>
<b>Subtotal - Direct Line</b>	<b>1,190</b>	<b>1,309</b>	<b>1,281</b>	<b>1,306</b>	<b>116</b>
<b>Non-Direct Line Staff</b>					
Asst. Program Managers	36	36	36	36	0
Unit Supervisors	168	203	203	209	41
Case Aides	211	243	243	251	40
OCWI	33	38	38	44	11
Other Non-Direct Line Staff	<u>613</u>	<u>625</u>	<u>625</u>	<u>638</u> <sup>2/</sup>	<u>25</u>
<b>Subtotal - Non-Direct Line</b>	<b>1,061</b>	<b>1,145</b>	<b>1,145</b>	<b>1,178</b>	<b>117</b>
<b>Grand Total</b>	<b>2,251</b>	<b>2,454</b>	<b>2,426</b>	<b>2,484</b>	<b>233</b>

<sup>1/</sup> Excludes 20 temporary staff.

<sup>2/</sup> There are an estimated 180 unit secretaries included in this figure.

## August Revenues

	<u>FY 2015 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2014</u>
August	\$ 639.8	\$ (25.2)	\$ 5.6
Year-to-Date	\$ 1,301.4	\$ (60.2)	\$ (88.0)

**Sales Tax** collections of \$345.2 million were 4.5% above August of last year and \$1.5 million above the forecast for the month. Year-to-date, collections are up by 2.1% and are \$(18.2) million below forecast.

Although August's sales tax revenue growth of 4.5% was an improvement over July's decline of (0.1)%, the current trend of modest growth remains essentially unchanged. Sales tax growth in each of the last 5 months has been below 5%.

Table 3 below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections. As indicated in Table 3, the retail category, which makes up roughly half of sales tax collections, grew by 6.6% in August compared to the same month in the prior year. Although the use tax grew by 10.0% in August, it remains (0.6)% below last year's collections on a year-to-date basis. Collections from contracting activity and sales of utility services (electricity, natural gas, and water) remained weak in August, with growth rates of 2.7% and (3.1)%, respectively.

	<u>August</u>	<u>YTD</u>
Retail	6.6%	3.7%
Contracting	2.7%	0.6%
Use	10.0%	(0.6)%
Restaurant & Bar	5.0%	5.1%
Utilities	(3.1)%	(1.4)%

**Individual Income Tax** net revenues were \$277.1 million in August, which was \$2.5 million above the prior year. Collections were \$(15.4) million below the forecast for the month. Year-to-date, revenue has grown 0.7% over the prior year to a level that is \$(16.5) million below the budget forecast.

As indicated in Table 4, withholding increased by 0.8% for the month. This slight increase follows on a (1.0)% decrease in July. Year-to-date withholding collections are \$(15.1) million below the budget forecast.

August estimated and final payments of \$18.7 million were (2.9)% below last year, and were \$(2.1) million below the forecast. Year-to-date, payments are \$(0.6) million below the budget forecast.

August refunds were (7.6)% below last year, and were \$1.0 million above forecast. Year-to-date, refunds are \$(0.8) million below the budget forecast.

	<u>August</u>	<u>YTD</u>
Withholding	0.8%	(0.2)%
Estimated + Final Payments	(2.9)%	4.6%
Refunds	(7.6)%	(9.5)%

August **Corporate Income Tax** collections are always relatively low. This year the state collected \$14.0 million in August, which was \$3.5 million more than August 2013. Collections for the month were \$0.3 million above the forecast. Year-to-date, net collections are down (25.5)% compared to the prior year, and are \$(12.9) million below the budget forecast.

**Insurance Premium Tax** collections were \$43.3 million in August, which represents a decrease of \$(3.0) million, or (6.4)% compared to August 2013. Collections for August were \$(3.0) million below forecast. Year-to-date collections are \$(2.5) million below the budget forecast.

**Highway User Revenue Fund (HURF)** collections of \$103.8 million in August were up \$4.5 million, or 4.5% compared to August of last year. August collections were \$2.5 million above forecast. Year-to-date collections are \$1.6 million above the forecast.

Table 5

## General Fund Revenue: Change from Previous Year and Budget Forecast August 2014

	Current Month					FY 2015 YTD (Two Months)				
	Actual August 2014	Change From August 2013		Budget Forecast		Actual August 2014	Change from August 2013		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$345,173,344	\$14,719,461	4.5 %	\$1,501,305	0.4 %	\$684,068,344	\$14,395,672	2.1 %	(\$18,157,955)	(2.6) %
Income - Individual	277,051,358	2,478,261	0.9	(15,375,860)	(5.3)	585,030,838	3,872,880	0.7	(16,512,160)	(2.7)
- Corporate	13,999,358	3,455,829	32.8	248,849	1.8	26,527,851	(9,097,186)	(25.5)	(12,900,813)	(32.7)
Property	40,931	453	1.1	931	2.3	216,015	7,673	3.7	76,015	54.3
Luxury - Tobacco	2,127,245	(438,460)	(17.1)	101,682	5.0	4,062,033	(363,144)	(8.2)	326,470	8.7
- Liquor	2,091,727	706,794	51.0	(28,288)	(1.3)	4,958,985	(95,933)	(1.9)	(831,030)	(14.4)
Insurance Premium	43,349,179	(2,970,678)	(6.4)	(2,972,324)	(6.4)	85,044,319	2,119,855	2.6	(2,462,029)	(2.8)
Other Taxes	33,802	4,649	15.9	(101,198)	(75.0)	89,442	8,685	10.8	(180,558)	(66.9)
<b>Sub-Total Taxes</b>	<b>\$683,866,944</b>	<b>\$17,956,309</b>	<b>2.7 %</b>	<b>(\$16,624,903)</b>	<b>(2.4) %</b>	<b>\$1,389,997,827</b>	<b>\$10,848,502</b>	<b>0.8 %</b>	<b>(\$50,642,060)</b>	<b>(3.5) %</b>
<b>Other Revenue</b>										
Lottery	0	(3,318,025)	(100.0)	(4,000,000)	(100.0)	0	(3,318,025)	(100.0)	(4,000,000)	(100.0)
License, Fees and Permits	2,495,797	(350,785)	(12.3)	(504,203)	(16.8)	4,788,903	(426,974)	(8.2)	(711,097)	(12.9)
Interest	803	796	--	803	--	3,130	2,095	202.4	3,130	--
Sales and Services	1,221,146	(6,241)	(0.5)	(278,854)	(18.6)	1,832,048	(230,638)	(11.2)	(667,952)	(26.7)
Other Miscellaneous	2,628,021	(453,785)	(14.7)	(1,371,979)	(34.3)	5,651,262	1,834,702	48.1	651,262	13.0
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	315,445	(4,606,047)	(93.6)	(2,434,555)	(88.5)	624,492	(4,951,494)	(88.8)	(4,875,508)	(88.6)
<b>Sub-Total Other Revenue</b>	<b>\$6,661,212</b>	<b>(\$8,734,087)</b>	<b>(56.7) %</b>	<b>(\$8,588,788)</b>	<b>(56.3) %</b>	<b>\$12,899,835</b>	<b>(\$7,090,334)</b>	<b>(35.5) %</b>	<b>(\$9,600,165)</b>	<b>(42.7) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$690,528,156</b>	<b>\$9,222,222</b>	<b>1.4 %</b>	<b>(\$25,213,691)</b>	<b>(3.5) %</b>	<b>\$1,402,897,662</b>	<b>\$3,758,168</b>	<b>0.3 %</b>	<b>(\$60,242,225)</b>	<b>(4.1) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(50,744,642)	(3,586,849)	7.6	0	0.0	(101,489,286)	(7,581,393)	8.1	(2)	0.0
One-Time Transfers	0	0	--	0	--	0	(81,541,148)	(100.0)	0	--
Sales Tax - 1¢ Increase	0	0	--	0	--	0	(2,611,367)	(100.0)	0	--
<b>Sub-Total Other Adjustments</b>	<b>(50,744,642)</b>	<b>(3,586,849)</b>	<b>7.6 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(101,489,286)</b>	<b>(91,733,908)</b>	<b>-- %</b>	<b>(2)</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$639,783,514</b>	<b>\$5,635,373</b>	<b>0.9 %</b>	<b>(\$25,213,691)</b>	<b>(3.8) %</b>	<b>\$1,301,408,376</b>	<b>(\$87,975,740)</b>	<b>(6.3) %</b>	<b>(\$60,242,227)</b>	<b>(4.4) %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$103,783,904	\$4,507,025	4.5 %	\$2,521,488	2.5 %	\$209,736,652	\$5,660,856	2.8 %	\$1,579,341	0.8 %

## Monthly Indicators

### NATIONAL

#### 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 4.2% in the second quarter of 2014. This represents a 0.2% upward revision from the original second quarter estimate and a strong turnaround from a (2.1)% decrease during the first quarter of the year. The growth was primarily due to increases in inventory investment, exports, consumption, nonresidential fixed investment, state and local government spending, and residential fixed investment. Some of the large increase in the second quarter likely represents a rebound following a harsh winter and other temporary issues in the first quarter.

The Conference Board's **U.S. Consumer Confidence Index** rose by 2.3% in August and 13.0% above a year earlier. The index now stands at 92.4, the highest reading since October 2007. The August increase was the 4<sup>th</sup> consecutive month of growth, the first time the index has sustained consecutive gains for this long since early 2011. Recent gains were the result of significant improvement in people's outlook on the short term economic environment, partially offset by a worsening view of the economic environment 6 months into the future.

The Conference Board's **U.S. Leading Economic Index** increased by 0.9% in July and 7.0% since July 2013. This month marked the fifth consecutive monthly increase in the index. Of the index's 10 components, 7 improved while 3 remained the same or decreased. The low levels of unemployment insurance claims was the largest positive contributor to the index while a reduction in average hours worked provided the largest negative contribution. After dragging on the index the prior several months, building permit increases provided a positive contribution to the index in July.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** rose 0.1% in July and 1.6% above July 2013 levels. While the year-over-year growth rate has dipped slightly since reaching 1.8% in May, it is still well above the 1.0% rate in February. Inflation as tracked by the PCEPI is the Federal Reserve Bank's preferred inflation measure for determining the pace at which monetary stimulus to the economy is reduced. The Bank generally aims to maintain annual inflation of 2% over the medium term. Since the start of 2014, the Bank has reduced its monthly purchases of bonds, from \$85 billion to \$15 billion. The Fed continues to issue short-term loans at nearly 0% interest rates.

Consumer prices, as measured by the U.S. **Consumer Price Index (CPI)**, decreased (0.2)% in August, but were 1.7% above August 2013 levels. The monthly decline, which was the first since April of 2013, was largely due to a (2.6)% drop in energy prices. Gasoline prices fell (4.1)% while core inflation (all items less food and energy) remained flat during the month.

### ARIZONA

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

Arizona's coincident index increased by 2.4% compared to July 2013. Over the same time period, the U.S. coincident index which measures economic growth of the entire country increased by 3.2%. *See Appendix A – Tracking Arizona's Recovery* for additional historical information.

#### Housing

The total housing inventory in the Greater Phoenix area is 26.6% larger than August of last year, suggesting a slower market.

The **median price of a single family home** decreased to \$200,000 in August. The price is 11.2% higher than August of last year. *(Note: Some of our housing information was previously provided by Arizona State University Center for Real Estate Theory. Since they have started to charge a fee to access their home sales data, home sales statistics are based on data available through the Arizona Regional Multiple Listing Service.)*

Single-family housing construction continues to be a drag on Arizona's economy. The 12-month total of **single-family building permits** is 17,541, or (0.1)% less than last July. Arizona's single-family sector is considerably weaker than it was at its peak in June 2005, when building permits totaled 79,283. *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. The 8,642 **multi-family building permits** is 30.1% above 2013. This total is less than the peak in June 2006 when annual permits of multi-family buildings was 12,699.

## Monthly Indicators (Continued)

### Employment

The state's regular **unemployment rate** increased from 7.0% in July to 7.1% in August. This marked the third consecutive month with 0.1% increase of the jobless rate. Compared to the same month in the prior year, however, the state's unemployment rate is down by (1.0)%. The U.S. unemployment rate decreased in August, going from 6.2% to 6.1%.

According to the latest employment report released by the Department of Administration, the state added 39,500 **Nonfarm jobs** in August compared to the prior month. This was slightly less than the average increase of 40,800 jobs for August in the prior 10 years. Job gains are typical in August when most schools start up their new academic year. About 81% of August's employment increase (or 32,000 jobs) was attributable to state and local education. The private sector added 10,100 jobs between July and August, the smallest August gain since 2010.

In terms of specific industries, 7 of 11 sectors gained jobs while 4 lost jobs from July to August. The largest month-over-month gains in private industries were concentrated in Education and Health Services (+6,100), Leisure and Hospitality (+1,900), and Professional and Business Services (+1,800). The greatest job losses occurred in the Information sector (-300).

Compared to the same month in the prior year, nonfarm employment in August was up 2.1%, or 51,400 jobs. While this amount represents a drop from the July year-over-year growth of 2.5%, it still exceeds the 1.9% average over the first 8 months of 2014.

Jobs have increased in all industries since August 2013, except in construction (-6,600) and information (-200). Gains since last year are almost exclusively coming from 5 of the private service-providing sectors of the Arizona economy: Education and Health Services (+17,800), Professional and Business Services (+12,100), Leisure and Hospitality (+10,000), Financial Services (+8,400), and Trade (+6,200).

### State Agency Data

At the beginning of September, the total **AHCCCS** caseload was 1.6 million members. Since the federal health care expansion in January, the overall AHCCCS population has grown by 323,540 members. The enacted budget assumed the AHCCCS population would grow by 245,205 members through September 2014.

Total monthly enrollment growth increased 1.9% in September, a deceleration from growth of 2.6% in August and 3.0% in July. New enrollment from the expansion may be gradually phasing down, which would continue to reduce the pace of monthly caseload increases.

The Proposition 204 childless adult category accounts for much of this growth above forecast. In January, the state started accepting new enrollment in this program. Since that time, the childless adult population has increased by 190,399 to reach a level of 258,169. This is compared to a budgeted level of 178,057. The state share of the Proposition 204 cost is paid through a hospital assessment and not the General Fund.

In September the number of childless adults increased by 9,381, or 3.8% above August. The September monthly gain is the lowest of the calendar year.

The state also opted to expand adult Medicaid coverage to 133% of FPL. The 100% - 133% enrollment increased by 1,196 in September and now totals 28,477 individuals enrolled since January 2014 (versus a budgeted caseload of 37,413). The federal government is currently paying 100% of this cost.

The traditional acute care AHCCCS population of lower income children and their parents grew by 11,894 in September to a level of 982,791 (versus a budgeted caseload of 987,091). The September level represents an increase of 1.2% since last month and 9.7% since last year.

**Reports of child maltreatment** grew by 2.8% in FY 2014, based on preliminary data from the Department of Child Safety. There were 16,556 **children in out-of-home** care in June 2014, up by 0.5% from May. Year-over-year, the number of out-home-children grew by 14.2%.

For August 2014, the **Arizona Department of Corrections** (ADC) reported an inmate population of 42,052. This was a 0.3% increase from the previous month, and a 3.3% increase since August 2013.

The Department of Economic Security (DES) reported that there were 28,819 **TANF recipients** in the state in July, representing a monthly caseload increase of 3.6% over June. While month-to-month caseloads increased, the year-over-year number of TANF recipients has declined by (18.5)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In July, there were a total of 1.1 million food stamp recipients in the state, a 0.6% increase over the prior month. Compared to the same month last year, food stamp participation was down by (5.0)%.

Table 6

## MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	August	7.1%	0.1%	(1.0)%
- Total Unemployment Rate (discouraged/underemployed)	2 <sup>nd</sup> Q 2014	15.9%	(0.2)%	0.2%
- Initial Unemployment Insurance Claims	August	18,501	(26.5)%	(9.8)%
- Unemployment Insurance Recipients	June	42,214	7.3%	1.8%
- Non-Farm Employment - Total	August	2.55 million	1.6%	2.1%
Manufacturing	August	155,600	(0.1)%	0.3%
Construction	August	127,000	0.1%	(5.2)%
- Average Weekly Hours, Private Sector	July	34.2	(2.0)%	(0.9)%
- Average Hourly Earnings, Private Sector	July	\$22.94	0.2%	(0.3)%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	July	\$851.1 million	(9.0)%	1.0%
Furniture/Home Furnishings	July	\$334.5 million	16.4%	(3.8)%
Building Material/Lawn & Garden	July	\$311.0 million	(2.5)%	3.5%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	July	17,541	(0.6)%	(0.1)%
Multi-family	July	8,642	1.7%	30.1%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	August	4,757	(10.4)%	(19.5)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	August	\$200,000	(3.4)%	11.2%
- Phoenix S&P/C Home Price Index (2000 = 100)	June	146.90	0.6%	6.9%
- Maricopa Pending Foreclosures	August	6,215	(2.1)%	(35.0)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	27,066	0.5%	26.6%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	June	3.59 million	0.1%	3.0%
- National Park Visitors	May	1,177,331	21.9%	(4.6)%
- State Park Visitors	June	171,864	(43.6)%	(5.6)%
- Revenue Per Available Hotel Room	June	\$51.64	(17.7)%	5.2%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	3 <sup>rd</sup> Q 2014	71.6	(4.7)%	(1.2)%
- Arizona Coincident Index (July 1992 = 100)	July	188.80	0.2%	2.4%
- Arizona Leading Index -- 6 month projected growth	July	3.7%	0.4%	2.0%
- Arizona Personal Income	1 <sup>st</sup> Q 2014	\$249.0 billion	3.6%	4.0%
- Arizona Population	July 2013	6.63 million	N/A	1.2%
- 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	September	1,581,682	1.9%	23.1%
Acute Care Traditional		982,791	1.2%	9.7%
Prop 204 Childless Adults		258,169	3.8%	258.4%
Other Prop 204		166,781	1.8%	12.0%
Adult Expansion		28,477	4.4%	-
Kids Care I		1,966	(1.2)%	(71.0)%
Kids Care II		0	0.0%	(100.0)%
Long-Term Care – Elderly & DD		55,901	0.6%	3.4%
Emergency Services		87,597	4.0%	28.3%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	June 2014	45,365	1.3%	2.8%
DCS Out-of-Home Children	June	16,556	0.5%	14.2%
Filled Caseworkers (1,406 Budgeted)	August	1,306	25	115
- ADC Inmate Growth	August	42,052	0.3%	3.3%
- Department of Economic Security				
- TANF Recipients	July	28,819	3.6%	(18.5)%
- SNAP (Food Stamps) Recipients	July	1,053,738	0.6%	(5.0)%
- Judiciary Probation Caseload				
Non-Maricopa	May	17,499	(42)	(249)
Maricopa County	May	25,012	(348)	(316)
<b>United States</b>				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	2 <sup>nd</sup> Q, 2014	\$16.0 trillion	2.5%	4.2%
- Consumer Confidence Index (1985 = 100)	August	92.4	2.3%	13.0%
- Leading Indicators Index (2004 = 100)	July	103.3	0.9%	7.0%
- Consumer Price Index, SA (1982-84 = 100)	August	237.4	(0.2)%	1.7%
- Personal Consumption Price Index (2009 = 100)	July	109.1	0.1%	1.6%

## Summary of Recent Agency Reports

**Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2014** – Pursuant to a General Appropriation Act footnote, the Department of Environmental Quality (DEQ) is required to report annually by September 1 to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program and is designed to remediate contaminated groundwater at specified sites. The report lists FY 2014 expenditures at \$14.9 million. Unexpended funds at the end of FY 2014 totaled \$5.6 million.

At the end of FY 2014, there were 34 sites on the WQARF Registry plus 1 undergoing evaluation for registry placement. During FY 2014, DEQ removed its second site from the registry after completing its remedy. The department also decommissioned 2 groundwater remediation systems and completed a residential indoor air assessment/vapor intrusion study. DEQ moved 12 WQARF sites through the Remedial Investigation phase of the WQARF process.

DEQ prioritized sites where treatment systems were actively operating and curtailed other WQARF activities (groundwater monitoring, feasibility studies, design and construction of remediation systems). In FY 2015, program expenditures for the 32 listed WQARF site budgets that remain active are projected to be \$7.9 million. (Josh Hope)

**School Facilities Board - Report on Costs for New Construction at the Arizona State Schools for the Deaf and the Blind** - The School Facilities Board (SFB) is required to biennially report on the resources needed to fulfill the new construction requirements for the Arizona State Schools for the Deaf and the Blind (ASDB). ASDB operates 2 campuses, a campus in Phoenix and a campus in Tucson. According to SFB, new construction costs would total \$17.7 million for ASDB to meet minimum space requirements. This cost pertains to a space deficiency at the ASDB Phoenix campus, which has capacity for 169 students and a current enrollment of 306 students. The ASDB Tucson campus does not have a space deficiency, as it has capacity for 397 students and a current enrollment of 176 students. (Josh Hope)

**Supreme Court – Report on Current and Future Automation Projects** – Pursuant to a FY 2015 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) has provided its FY 2015 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2015 will be approximately \$22.0 million. Of this amount, approximately \$4.6 million, or 21%, will be spent on 6

ongoing or new projects; \$10.4 million, or 47%, will be spent on shared infrastructure; and \$7.1 million, or 32%, will be spent on ongoing automation support in FY 2015 (numbers do not sum due to rounding). The 6 ongoing or new projects include:

- Updating outdated software within the statewide case management system in limited jurisdiction courts (\$1,065,800)
- Increasing the effectiveness of the electronic case filing system (\$1,597,200)

Streamlining and standardizing the E-Bench program that allows judges to access relevant electronic documents while on the bench (\$1,070,000) (Eric Billings)

**Arizona Department of Homeland Security – Report on Homeland Security Funding** – Pursuant to A.R.S. § 41-4255, the Arizona Department of Homeland Security has submitted an annual report detailing grant allocations and expenditures for Homeland Security grants from Federal Fiscal Year (FFY) 2010 through FFY 2013. The report indicates that 21.4% of the FFY 2013 allocation has been expended. Information for FFY 2010 - FFY 2013 is included in *Table 7* below.

The state was allocated and the Arizona Department of Homeland Security awarded \$23.0 million in Homeland Security grants for FFY 2013. The department reported total expenditures of \$4.9 million, leaving \$18.1 million unexpended. State agencies were awarded \$1.6 million, of which \$292,800 has been expended. Local governments were awarded \$21.4 million, of which \$4.6 million has been expended. The largest local grantee was the Pima County Sheriff's Department (\$1.5 million). The largest state grantee was the Department of Public Safety (\$1.3 million). The largest individual grant of \$1.2 million went to the Pima County Sheriff's Department for overtime and mileage payments while working in support of U.S. Customs and Border Protection border security efforts.

Total combined state and local awards for FFY 2013 represented an increase from the amount received in FFY 2012, but did not reach the funding level of FFY 2011 or FFY 2010. Arizona received \$18.6 million in total combined state and local awards in FFY 2012, \$36.3 million in FFY 2011, and \$51.1 million in FFY 2010. Of the funds received, 99.9% have been expended for FFY 2010, 93.3% have been expended for FFY 2011, and 86.2% have been expended for FFY 2012. (Krista MacGahan)

## Summary of Recent Agency Reports (Continued)

**Table 7**

**Awards and Expenditures by Homeland Security Grant Recipients**

	<u>FFY 2010</u>	<u>FFY 2011</u>	<u>FFY 2012</u>	<u>FFY 2013</u>
State Awards	\$5,056,900	\$3,027,000	\$1,768,700	\$1,586,000
Local Government Awards	<u>46,044,600</u>	<u>33,271,500</u>	<u>16,842,400</u>	<u>21,384,500</u>
<b>Total Awards</b>	<b>\$51,101,500</b>	<b>\$36,298,500</b>	<b>\$18,611,100</b>	<b>\$22,970,500</b>
State Expenditures	\$5,056,800	\$2,982,100	\$1,763,500	\$292,800
Local Government Expenditures	<u>46,044,600</u>	<u>30,875,900</u>	<u>14,284,200</u>	<u>4,637,300</u>
<b>Total Expenditures</b>	<b>\$51,101,400</b>	<b>\$33,858,000</b>	<b>\$16,047,700</b>	<b>\$4,930,100</b>
Percentage of Total Awards Currently Expended	99.90%	93.30%	86.20%	21.40%

## August Spending

August 2014 General Fund spending of \$725.6 million was \$(54.3) million less than August 2013. Year-to-date, spending is \$3.2 billion, or \$155.8 million above last year.

(See Tables 8 & 9).

- Due to the state accounting system, at this time Department of Economic Security and Department of Child Safety expenditures cannot be displayed separately.
- Year-to-date, the Department of Education has spent \$21.1 million more than the prior year.
- Year-to-date, Department of Health Services spending has increased by \$61.9 million compared to the prior year. This increase is in part due to the expansion of adult Medicaid coverage to 133% of FPL, which is entirely paid for with General Fund monies in the Department of Health Services.

**Table 8**

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

Agency	<u>Aug 14</u>	Change From <u>Aug 13</u>	<u>Year-to-Date</u>	YTD Change <u>from FY 14</u>
	AHCCCS	72.2	(35.4)	197.1
Corrections	78.2	(2.2)	160.4	5.9
Economic Security/Child Safety	1.8	1.8	479.9	68.1
Education	144.2	(66.9)	1,390.5	21.1
Health Services	341.5	47.1	460.7	61.9
Public Safety	(0.5)	(2.1)	22.5	12.5
School Facilities Board	0.1	(0.2)	151.0	(1.7)
Universities	45.7	1.4	90.4	6.1
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>42.4</u>	<u>2.2</u>	<u>126.4</u>	<u>3.2</u>
<b>Total</b>	<b>725.6</b>	<b>(54.3)</b>	<b>3,163.0</b>	<b>155.8</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>Aug 14</b>	<b>Change from Aug 13</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 14</b>
Dept. of Admin./Automation Projects Fund	5,792.3	4,260.0	6,314.4	2,539.9
ADOA – Sale/Leaseback Debt Service	-	-	84,123.7	3.9
Office of Administrative Hearings	104.5	19.9	169.5	23.3
Department of Agriculture	585.3	(448.0)	1,284.3	(353.5)
AHCCCS	72,180.5	(35,395.4)	197,081.2	(21,276.5)
Attorney General	1,662.9	(1,671.2)	3,983.0	(865.3)
State Board of Charter Schools	60.0	(124.2)	104.8	(135.8)
AZ Commerce Authority	2,625.0	-	5,250.0	-
Community Colleges	-	(212.3)	16,521.5	405.4
Corporation Commission	46.9	3.3	90.2	4.6
Department of Corrections	78,183.8	(2,238.6)	160,449.8	5,943.1
AZ State Schools for the Deaf & Blind	2,485.0	(100.3)	4,152.2	(166.4)
Dept. of Econ. Security/Dept. of Child Safety	1,756.0	1,842.3	479,874.7	68,058.6
Department of Education	144,237.5	(66,867.9)	1,390,491.9	21,103.2
DEMA	341.2	(83.0)	1,134.2	(52.1)
Office of Equal Opportunity	12.3	(2.3)	26.3	(6.1)
State Board of Equalization	34.0	4.0	144.7	5.0
Board of Executive Clemency	148.7	15.9	214.8	24.5
Department of Financial Institutions	382.2	195.1	565.2	7.6
Department of Fire, Bldg and Life Safety	319.8	14.5	403.4	(27.6)
State Forester	273.0	(67.2)	623.4	33.7
Arizona Geological Survey	41.6	(19.0)	100.2	(24.4)
Governor/OSPB	718.8	(32.4)	1,319.3	(74.0)
Department of Health Services	341,531.7	47,097.7	460,685.9	61,861.9
Arizona Historical Society	582.4	43.6	882.9	37.6
Prescott Historical Society of AZ	64.4	14.4	132.0	14.0
Independent Redistricting Comm.	98.7	(73.2)	133.4	(209.6)
Commission of Indian Affairs	5.7	2.8	10.8	3.8
Department of Insurance	462.3	(242.3)	829.0	(269.9)
Judiciary				
Supreme/Superior Court	6,984.9	1,764.1	21,721.6	437.7
Court of Appeals	1,013.3	(380.6)	2,041.1	(365.0)
Department of Juvenile Corrections	3,148.5	(247.5)	6,487.3	(82.8)

<b>Table 9 (Continued)</b>				
<b>Agency</b>	<b>Aug 14</b>	<b>Change from Aug 13</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 14</b>
State Land Department	1,524.2	519.6	2,316.2	546.4
Legislature				
Auditor General	1,454.2	(251.1)	2,910.2	(140.4)
House of Representatives	864.6	7.0	1,826.2	(1.2)
Joint Legislative Budget Comm.	163.4	(20.6)	334.6	1.0
Legislative Council	516.5	140.0	1,482.3	411.0
Senate	586.2	11.6	1,244.6	27.1
Mine Inspector	164.2	6.7	270.7	16.8
Nav. Streams & Adjudication	37.0	27.8	46.1	28.2
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	59.5	14.9	474.0	61.0
Comm. for Postsecondary Ed.	599.4	555.4	698.4	654.4
Department of Public Safety	(454.6)	(2,099.2)	22,499.3	12,450.2
Arizona Department of Racing	-	-	1,779.5	-
Radiation Regulatory Agency	88.1	(29.7)	343.0	(31.4)
Real Estate Department	196.3	(237.6)	364.8	(227.5)
Department of Revenue	4,715.8	(2,253.6)	8,724.2	(2,810.0)
School Facilities Board	142.5	(244.6)	150,957.9	(1,741.3)
Secretary of State	924.3	225.5	1,577.4	171.0
Tax Appeals Board	17.5	(31.8)	34.4	(32.7)
Office of Tourism	0.4	(156.9)	3,186.3	2,864.3
Universities				
Board of Regents	1,340.1	515.8	1,608.3	691.3
Arizona State University	20,396.8	1,916.6	40,793.5	3,924.7
Northern Arizona University	7,315.5	261.4	14,631.1	1,506.0
University of Arizona	16,666.4	(1,254.2)	33,332.8	(49.5)
Department of Veteran Services	398.0	(33.1)	820.1	(75.3)
Department of Water Resources	766.6	(29.1)	1,616.8	(14.9)
Water Infrastructure Finance Authority	1,000.0	1,000.0	1,000.0	1,000.0
Department of Weights & Measures	91.3	5.9	158.8	(12.5)
Other - JP Salaries Distribution	123.9	60.1	123.9	60.1
Other	-	-	4.0	4.0
<b>Total</b>	<b>725,582.2</b>	<b>(54,347.1)</b>	<b>3,162,955.6</b>	<b>155,833.1</b>

## Tracking Arizona's Recovery

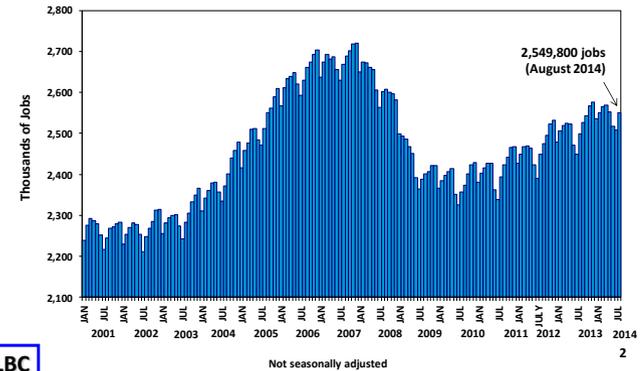
September 2014  
Appendix A

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

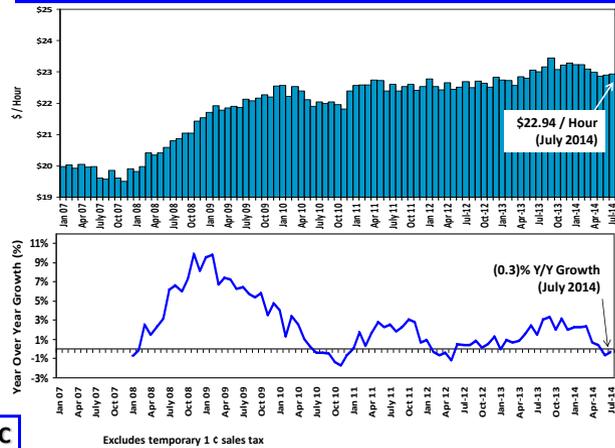
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## Total Non-Farm Employment



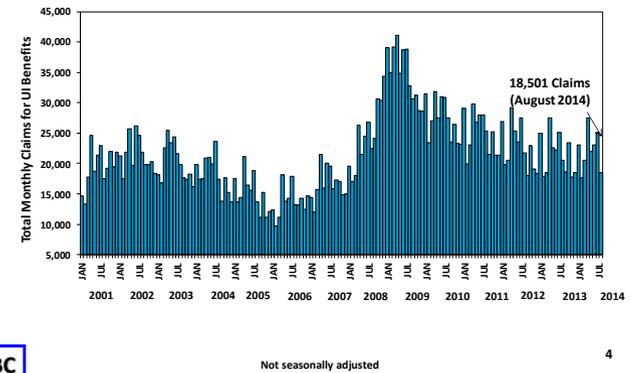
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## Average Hourly Earnings – Private Sector



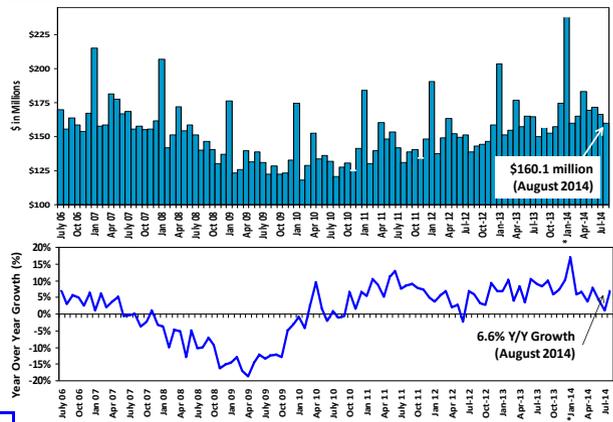
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## Initial Claims for Unemployment Insurance



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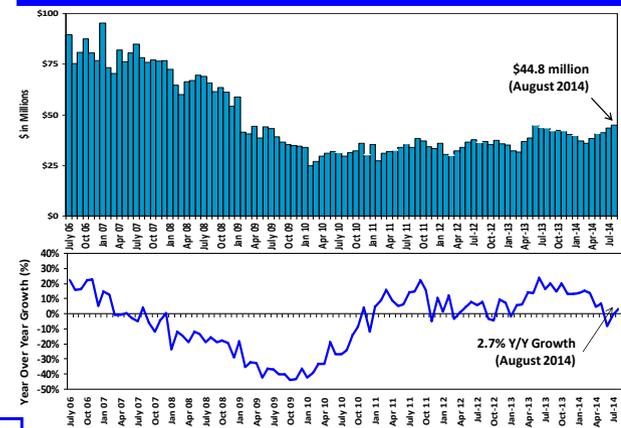
## State Sales Tax Collections – Retail Category



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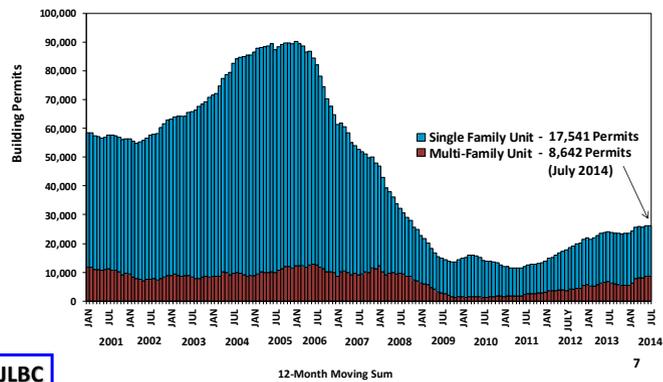
## State Sales Tax Collections – Contracting Category



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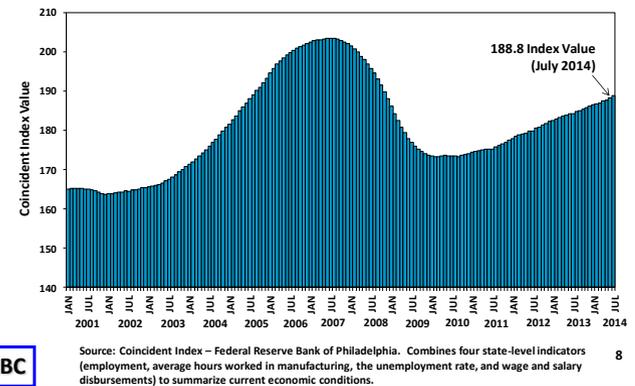
## Residential Building Permits



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## Economic Activity Index



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