

1716 W. Adams
Phoenix, AZ 85007

Phone:
(602) 926-5491
Fax:
(602) 926-5416



www.azleg.gov/jlbc.htm

"Year-to-date, base General Fund revenues ...are 3.9% above the prior year, and are \$32.2 million above forecast."

Summary

August 2015 collections of \$649.1 million were 1.4% above the prior year, and were \$(5.4) million below the enacted budget forecast.

The August forecast loss was due to mixed results in the state's largest revenue categories. Sales Tax continued its weak performance, only growing by 2.5%.

Individual Income Tax posted a 3.9% gain during the month, offset by modest losses in the Corporate Income Tax and Insurance Premium Tax category.

Year-to-date, base General Fund revenues (excluding Urban Revenue Sharing and Fund Transfers) are 3.9% above the prior year, and are \$32.2 million above forecast.

As mentioned in last month's *Monthly Fiscal Highlights*, the state began implementation of a new accounting system on July 1. Due to start-up problems, the Department of Revenue (DOR) and the Department of Administration (ADOA) have been unable to finalize either the July or August revenue numbers.

The data reported so far during FY 2016 should be viewed with caution, as certain tax categories have showed unusual collection patterns. Given only 2 months of data, however, it is unclear if these issues are related to the accounting system problems.

In addition, ADOA has been unable to report any state spending by agency for either July or August.

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 2015 is \$1.9 billion. In addition, the state's Budget Stabilization Fund has a balance of \$458.2 million.

Table of Contents

Summary	
August Revenues	2
Monthly Indicators	4
Summary of Recent Agency Reports	
• AHCCCS – Report on Hospital Assessment	7
• AHCCCS/DHS – Reconciliation Payments	7
• DCS – Foster Care Medicaid Report	7
• DCS – Monthly Report on Hiring	8
• DCS – Retention Pay Stipend Report	8
• SBE – K-6 Language/Literacy Pilot Program ...	8
• DEQ – Water Quality Assurance Fund	8
• DHS – Arnold v Sarn Report	9
• Homeland Security – Funding Report	10
• Supreme Court – Automation Projects.....	10
Tracking Arizona's Recovery	Appendix A

August Revenues

	<u>FY 2016 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2015</u>
August	\$ 649.1	\$ (5.4)	\$ 8.9
Year-to-Date	\$ 1,358.3	\$ 32.2	\$ 56.0

Sales Tax collections of \$353.7 million were 2.5% above August of last year and at forecast for the month.

Table 2 below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections.

The retail category, which makes up close to 50% of total sales tax collections, increased by 10.9% in August. Year to date, retail tax collections are up by 10.1%. August marked the seventh consecutive month with a year-over-year retail sales tax growth rate of 9% or higher.

Conversely, collections from contracting activity declined by (21.0)% in August. Year to date, contracting tax collections are down by (18.9)%. Collections from contracting activity have declined by (16.4)% over the last 7 months.

The simultaneous increase of retail sales tax collections and decline of contracting tax collections over the last 7 months appear to be related to "TPT Simplification" legislation enacted in 2013, under which the tax base for building materials changed from contracting to retail, beginning in 2015.

	<u>August</u>	<u>YTD</u>
Retail	10.9%	10.1%
Contracting	(21.0)%	(18.9)%
Use	(17.3)%	(7.3)%
Restaurant & Bar	11.3%	7.8%
Utilities	(0.6)%	(3.1)%

Individual Income Tax net revenues were an estimated \$287.8 million in August, which were \$10.8 million above the prior year and \$11.1 million above the forecast for the month. Year-to-date, revenue has grown 5.8% over the prior year to a level that is \$38.0 million above the budget forecast.

As indicated in Table 3, withholding increased by 9.6% for the month and was \$22.7 million above the forecast.

This marks the second consecutive month of significant withholding gains. Year-to-date withholding collections were \$57.2 million above the forecast.

August estimated and final payments of \$15.6 million were (16.7)% below last year and \$(0.4) million below the forecast. Year-to-date, payments are \$(5.2) million below the budget forecast.

August Individual Income Tax refunds totaled \$(23.6) million – this compares to \$(11.6) million in August 2014 and a forecasted amount of \$(12.5) million. Higher than expected refunds have led to a loss of \$(14.0) million compared to the enacted forecast.

	<u>August</u>	<u>YTD</u>
Withholding	9.6%	10.2%
Estimated + Final Payments	(16.7)%	(26.0)%
Refunds	103.5%	49.1%

Corporate Income Tax net collections were \$6.5 million in August, which was \$(7.5) million less than August of the prior year. Collections for the month were \$(7.8) million below the forecast. Year to date, net collections are \$6.3 million above the forecast. Amounts are preliminary estimates and are subject to revision.

As reported by the new accounting system, **Luxury Tax** collections appear to be unreliable and are therefore assumed to be at the forecast of \$4.1 million in August. Year-to-date, collections are \$(0.3) million below forecast.

Insurance Premium Tax collections of \$42.2 million in August were (2.5)% below the prior year, and \$(7.2) million below forecast. Year-to-date, collections are \$(7.2) million below forecast.

Highway User Revenue Fund (HURF) collections of \$108.5 million in August were up \$4.7 million, or 4.5% compared to August of last year. August collections were \$5.2 million above forecast while year-to-date collections are \$8.3 million above forecast.

Table 4

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

	Current Month					FY 2016 YTD (Two Months)				
	Actual August 2015	Change From August 2014		Budget Forecast		Actual August 2015	Change from August 2014		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$353,679,965	\$8,484,461	2.5 %	(\$12,513)	(0.0) %	\$702,359,549	\$18,163,819	2.7 %	(\$2,172,455)	(0.3) %
Income - Individual	287,812,557	10,761,199	3.9	11,128,810	4.0	618,782,660	33,751,821	5.8	38,029,488	6.5
- Corporate	6,451,467	(7,547,891)	(53.9)	(7,765,062)	(54.6)	33,874,664	7,346,813	27.7	6,302,257	22.9
Property	392,532	351,601	859.0	315,697	410.9	618,278	402,263	186.2	272,111	78.6
Luxury - Tobacco	1,915,439	(211,806)	(10.0)	0	0.0	3,771,289	(290,744)	(7.2)	(141,515)	(3.6)
- Liquor	2,217,921	126,194	6.0	0	0.0	5,182,507	223,522	4.5	(207,160)	(3.8)
Insurance Premium	42,246,723	(1,102,456)	(2.5)	(7,204,301)	(14.6)	85,273,557	229,238	0.3	(7,167,987)	(7.8)
Other Taxes	27,898	(392,835)	(93.4)	(264,503)	(90.5)	84,764	(780,698)	(90.2)	(600,154)	(87.6)
Sub-Total Taxes	\$694,744,502	\$10,468,467	1.5 %	(\$3,801,871)	(0.5) %	\$1,449,947,268	\$59,046,034	4.2 %	\$34,314,584	2.4 %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	3,801,838	1,306,041	52.3	910,836	31.5	5,367,011	578,108	12.1	159,034	3.1
Interest	(657)	(1,460)	--	(40,992)	--	432	(2,698)	(86.2)	(80,238)	(99.5)
Sales and Services	408,270	(812,876)	(66.6)	(943,180)	(69.8)	631,049	(1,200,999)	(65.6)	(1,542,512)	(71.0)
Other Miscellaneous	260,972	(2,367,049)	(90.1)	(1,909,985)	(88.0)	2,422,907	(3,228,355)	(57.1)	(1,513,215)	(38.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	375,561	60,116	19.1	375,561	--	862,813	238,321	38.2	862,813	--
Sub-Total Other Revenue	\$4,845,983	(\$1,815,229)	(27.3) %	(\$1,607,761)	(24.9) %	\$9,284,211	(\$3,615,624)	(28.0) %	(\$2,114,117)	(18.5) %
TOTAL BASE REVENUE	\$699,590,486	\$8,653,239	1.3 %	(\$5,409,632)	(0.8) %	\$1,459,231,479	\$55,430,409	3.9 %	\$32,200,467	2.3 %
Other Adjustments										
Urban Revenue Sharing	(50,469,525)	275,117	--	0	0.0	(100,939,050)	550,236	--	0	0.0
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	(50,469,525)	275,117	-- %	0	0.0 %	(100,939,050)	550,236	-- %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$649,120,961	\$8,928,356	1.4 %	(\$5,409,632)	(0.8) %	\$1,358,292,429	\$55,980,645	4.3 %	\$32,200,467	2.4 %
Non-General Funds										
Highway User Revenue Fund	\$108,455,706	\$4,671,802	4.5 %	\$5,168,041	5.0 %	\$220,653,604	\$10,916,953	5.2 %	\$8,333,147	3.9 %

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 3.7% in the second quarter of 2015. This estimate is a noticeable pick-up from the 0.6% growth in the first quarter of 2015. The acceleration was primarily due to increased consumption, exports, state and local government spending, and investment. These improvements were partly offset by increases in imports.

The Conference Board's **U.S. Consumer Confidence Index** rebounded to 101.5 in August, after having fallen to 91.0 in July. The latest reading is the highest recorded since January 2015. The monthly rebound may have been driven by calming of earlier fears over stock market volatility and poor international economic prospects. However, increased stock market volatility seen so far in September may reverse this trend.

Economists also think lower gas prices and a good August employment report contributed to greater optimism. Consumer confidence measured by this index has been highly volatile in 2015, during which 6 of the 8 months experienced monthly swings of 5.0% or greater.

The Conference Board's **U.S. Leading Economic Index** decreased by (0.2)% in July, breaking a 4-month string of gains. Despite the monthly decrease, the index stands 4.1% above its July 2014 reading. Of the index's 10 components, 8 made positive contributions, 1 was neutral, and 1 made a negative contribution. Movement in interest rates was once again the largest positive contributors to the index. Building permits provided the only negative contributions, as prior months' increases in multifamily permits proved to be temporary.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.1% in July, relative to June. Despite recent monthly growth, the measure stands at just 0.3% above the July 2014 level. The index's annual growth has been pulled well below the Federal Reserve Bank's 2% annual inflation target, largely due to a (15.7)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy), however, has grown by a steadier 1.2% through July.

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 3.3% compared to July 2014. Over the same time period, the U.S. coincident index increased by 3.5%. Currently, Arizona's rate of annual coincident index growth is 33rd in the nation. Last year at this time, Arizona's rate was 36th highest among states. *See Appendix A – Tracking Arizona's Recovery for additional historical information.*

Housing

The **median price of a single family home** was \$224,000 in August, a 1.9% increase from July. The price is 12.0% higher than August of last year.

Single-family housing construction is increasing, while multi-family construction has peaked. Arizona's 12-month total of **single-family building permits** is 20,081, or 14.5% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 6.5%. *See Appendix A – Tracking Arizona's Recovery for historical information.*

The 12-month total of multi-family building permits was increasing strongly compared to last year, but has recently leveled off. Arizona's total of 9,026 **multi-family building permits** is 4.4% above 2014. Arizona's rate of increase is now less than the comparable multi-family permit growth for the U.S. as a whole, which is 17.7% above 2014.

Employment

The state added a net total 38,100 **nonfarm jobs** from July to August. The comparable 10-year average net job increase is 42,900.

Compared to the same month in the prior year, Arizona added 52,600 net new jobs in August, which resulted in a year-over-year growth rate of 2.1%. The year-over-year job gains in August were concentrated to following 3 industries: education and health services (+14,200), professional and business services (+9,900), and leisure and hospitality (+9,200).

The state's seasonally adjusted **unemployment rate** increased to 6.3% in August from 6.1% in July. August marked the third consecutive increase of the state's

Monthly Indicators (Continued)

jobless rate. By contrast, the U.S. unemployment rate fell from 5.3% in July to 5.1% in August, which is the lowest reading since April 2008.

In July, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.6 hours. This workload is 1.2% above the July 2014 level. The **Average Hourly Earnings** received by these private sector workers was \$22.92, which is (0.1)% below the average in the prior month. July earnings were 0.3% above the average in July 2014.

Tourism

Revenue per available room reached \$54.24 in July, which was 11.0% above the amount in July 2014. Year to date, revenue per available room is 14.3% above the 2014 year-to-date amount through July. Ridership during July through Phoenix Sky Harbor Airport increased 6.3% above the level in July 2014.

State Agency Data

At the beginning of September 2015, the total **AHCCCS** caseload was 1.76 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 499,300 members.

Total monthly enrollment increased 2.7% during August. The overall August increase was concentrated primarily in the Traditional population of the lowest income parents and children. Enrollment in the Traditional population increased 39,900 during the month to a level of 1.10 million members. The August level represents an increase of 3.8% since last month and an 11.6% increase since last year.

This growth was partly offset by the enrolled Proposition 204 parent and child population, which saw enrollment decrease by (7.5)%, or (10,200) enrollees. The decrease is partly explained by federal changes to eligibility determination, which has caused many Proposition 204 child enrollees to be shifted to the Traditional program in recent months. The remaining portion is primarily the result of Proposition 204 parents also being shifted into the Traditional program, but the reasons for the shift are not well understood.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In August 2015, the childless adult population increased by 3,400, or 5.0%. At 293,000, this population is 13.6% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 3,400 in August and now totals 71,400 individuals. Enrollment is 151% higher than a year ago. The federal government is currently paying 100% of this cost.

Based on information the Department of Child Safety provided for May 2015, **reports of child maltreatment** totaled 50,773 over the last 12 months, an increase of 13.4% over the prior year. There were 17,839 **children in out-of-home care** as of May 2015, or 8.3% more than in May 2014. Compared to the prior month, the number of out-of-home children increased by 0.2%.

The Department of Economic Security (DES) reported that there were 23,754 **TANF recipients** in the state in July, representing a monthly caseload increase of 0.7% over June. While month-to-month caseloads increased, the year-over-year number of TANF recipients has declined by (20.3)%. 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 1,000,022 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 (5.1)%.

As of August 31, 2015, the Arizona Department of Correction (ADC) reported a total **inmate population** of 42,764. The population decreased by (0.1)% since July, and increased 1.7% from August 2015.

Table 5

MONTHLY 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				
<u>Employment</u>				
- Regular Unemployment Rate	August	6.3%	0.2%	(0.4)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2015	13.8%	(0.5)%	(2.1)%
- Initial Unemployment Insurance Claims	July	23,007	14.6%	(8.6)%
- Unemployment Insurance Recipients	July	24,386	(30.6)%	(42.1)%
- Non-Farm Employment - Total	August	2.60 million	1.5%	2.1%
Manufacturing	August	156,700	0.4%	(0.1)%
Construction	August	130,300	(0.1)%	4.1%
- Average Weekly Hours, Private Sector	July	34.6	(0.6)%	1.2%
- Average Hourly Earnings, Private Sector	June	\$22.92	(0.1)%	0.3%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	July	\$945.5 million	(6.6)%	11.1%
Furniture/Home Furnishings	July	\$328.6 million	1.3%	(1.8)%
Building Material/Lawn & Garden	July	\$393.6 million	5.5%	26.5%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	July	20,081	3.1%	14.5%
Multi-family	July	9,026	2.2%	4.4%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	August	5,402	(3.3)%	13.6%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	August	\$224,000	1.9%	12.0%
- Phoenix S&P/C Home Price Index (2000 = 100)	June	152.91	0.9%	4.1%
- Maricopa Pending Foreclosures	July	4,854	(3.8)%	(23.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	July	22,857	(2.1)%	(15.1)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	July	3.91 million	4.2%	6.3%
- National Park Visitors	May (revised)	1,243,123	10.1%	(3.1)%
- State Park Visitors	June	211,480	(10.7)%	23.1%
- Revenue Per Available Hotel Room	July	\$54.24	(4.6)%	11.0%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	3rd Q 2015	84.3	6.6%	17.7%
- Arizona Coincident Index (July 1992 = 100)	July	218.20	(0.1)%	3.3%
- Arizona Leading Index -- 6 month projected growth	July	2.2%	(2.1)%	(1.6)%
- Arizona Personal Income	1 st Q 2015	\$261.3 billion	3.8%	4.2%
- Arizona Population	July 2014	6.73 million	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	May '15	AA / Aa2	N/A	N/A
Outlook	May '15	Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	September 1 st	1,757,429	2.7%	11.1%
Acute Care Traditional		1,096,321	3.8%	11.6%
Prop 204 Childless Adults		293,287	3.4%	13.6%
Other Prop 204		124,809	(7.5)%	(25.2)%
Adult Expansion		71,447	5.0%	150.9%
Kids Care I		927	(2.4)%	(52.8)%
Long-Term Care – Elderly & DD		57,308	0.3%	2.5%
Emergency Services		113,330	3.6%	29.4%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	May 2015	50,773	0.6%	13.4%
DCS Out-of-Home Children	May	17,839	0.2%	8.3%
Filled Caseworkers (1406 Budgeted)	June	1,263	(64)	(20)
- ADC Inmate Growth	August	42,764	(0.1)%	1.7%
- Department of Economic Security				
- TANF Recipients	July	23,754	0.7%	(20.3)%
- SNAP (Food Stamps) Recipients	July	1,000,022	0.1%	(5.1)%
- Judiciary Probation Caseload				
Non-Maricopa	May	18,296	127	797
Maricopa County	May	26,833	(42)	1,821
United States				
- Gross Domestic Product	2 nd Q, 2015	\$16.3 trillion	3.7%	2.7%
(Chained 2009 dollars, SAAR)	(2 nd Estimate)			
- Consumer Confidence Index (1985 = 100)	August	101.5	11.7%	8.7%
- Leading Indicators Index (2010 = 100)	July	123.3	(0.2)%	4.1%
- Consumer Price Index, SA (1982-84 = 100)	July	238.1	0.1%	0.2%
- Personal Consumption Price Index (2009 = 100)	July	109.8	0.1%	0.3%

Summary of Recent Agency Reports

AHCCCS – Report on the FY 2015 Hospital Assessment – Pursuant to A.R.S. § 36-2901.08, the Arizona Health Care Cost Containment System (AHCCCS) is required to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of the Federal Poverty Level) and the entire Proposition 204 population. In addition, A.R.S. § 36-2903.08 requires AHCCCS to report by August 1 annually the amount each hospital contributed to the assessment.

The assessment is calculated by multiplying the number of discharges reported on each hospital's 2011 Medicare Cost Report by the hospital's per-inpatient discharge rate. In FY 2015, the average discharge rate for all providers was approximately \$369. From July 1, 2014 to June 30, 2015, AHCCCS collected \$270.5 million in assessments from 72 hospitals. *Table 6* below lists how much each peer hospital contributed since the assessment was enacted. The percentage splits for each hospital provider peer group roughly match the splits from FY 2014.

A.R.S. § 36-2903.08 additionally requires AHCCCS to report by August 1 annually the amount of estimated Medicaid payments each hospital received for services provided to populations whose coverage is funded by the assessment. Due to reporting lags between providers and AHCCCS health plan contractors, payments can take upwards of 3-6 months before paid claims appear in AHCCCS' database. Because of this lag, AHCCCS will report the FY 2015 estimated Medicaid payments each hospital received from coverage funded by the assessment by December 31, 2015.

As a result of the reporting lags mentioned above, AHCCCS' August 1, 2014 hospital assessment report did not include estimates of payments each hospital received in FY 2014 for coverage funded by the assessment. As part of their August 1, 2015 report, AHCCCS provided delayed estimates of payments for FY 2014. The agency estimates that hospitals received coverage payments of \$328.0 million or \$252.8 million above the \$75.2 million in assessments these hospitals paid. Out of 109 hospitals in the state, AHCCCS estimates that 102 received at least as much in coverage payments as they had paid in hospital assessments. The remaining 7 hospitals received an

estimated \$0.1 million less in payments than they had paid in assessments. (Jon Stall)

AHCCCS/Department of Health Services – Report on Reconciliation Payments - Pursuant to the FY 2015 General Appropriation Act (Laws 2014, Chapter 18), the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) submitted their reports on reconciliation payments and penalties received during FY 2015.

AHCCCS reports that during that 12-month period they deposited \$14.3 million into the General Fund and \$12.5 million into the Hospital Assessment Fund, and returned \$83.7 million to the federal government. DHS reported that Medicaid reconciliation payments and penalties in FY 2015 resulted in a deposit of \$3.2 million to the General Fund and \$6.6 million in refunded Federal Funds.

AHCCCS and DHS limit financial risks and profits for health plans and Regional Behavioral Health Authorities (RBHAs) for most Medicaid populations (the maximum percentage of loss and profit varies by Medicaid population). Reconciliation payments are made to health plans/RBHAs or the agency if losses or profits exceed the set level. A penalty, or sanction, may be assessed against health plans/RBHAs for the failure to demonstrate compliance with their contractual responsibilities.

Pursuant to A.R.S. § 35-142.01, AHCCCS and DHS are required to deposit monies received for reconciliation payments and penalties received into the General Fund or the fund from which the appropriation was originally made. (Jon Stall)

Department of Child Safety – Quarterly Report on Foster Care Medicaid - Pursuant to Laws 2013, Chapter 220, the Department of Child Safety (DCS) is required to report on foster care and Medicaid eligibility. During the fourth quarter of FY 2015, DCS reports the following trends on foster care and Medicaid eligibility:

1. There were 16,230 children eligible for Medicaid in foster care at the end of the fourth quarter, down

Table 6

Hospital Provider Peer Group (# of hospitals) ^{1/}	FY 2015 Contributions	% of Total
Urban Acute Providers (28)	\$ 164,711,253	60.9%
Medium Pediatric Intensive General Acute Hospitals (6)	47,260,782	17.5%
Non-CAH Rural Acute Providers (14)	32,563,726	12.0%
Pediatric-Intensive General Acute Hospitals (2)	20,513,024	7.6%
Critical Access Hospital (CAH) Providers (10)	3,284,435	1.2%
Large Psychiatric Provider (4)	1,828,329	0.7%
Long-Term Care Provider (8)	377,118	0.1%
TOTAL	\$ 270,538,667	100.0%

^{1/} In FY 2015, 72 hospitals participated in the hospital assessment.

Summary of Recent Agency Reports (Continued)

- (0.5)% from 16,317 at the end of the third quarter of FY 2015.
- The percentage of foster care children eligible for Medicaid declined from 96% at the end of the third quarter of FY 2015 to 95% at the end of the fourth quarter of FY 2015.
 - The amount of non-Medicaid behavioral health group home expenditures used by DCS to supplement Medicaid behavioral health placement services was \$1.9 million in the fourth quarter of FY 2015.
 - The amount of non-Medicaid behavioral health evaluation/counseling expenditures used by DCS to supplement Medicaid behavioral health services was \$130,779 in the fourth quarter of FY 2015. (Ben Beutler)

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 June 2015. Although this is the final monthly hiring report, special session legislation continues to require hiring reports as part of the quarterly benchmark report through FY 2016.

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) decreased by (64) to 1,263. The budgeted staffing level is 1,406. Compared to the 212 caseworkers added since January 2014, the number of staff directly working cases has increased by 42 FTE Positions to 1,025.

Non-Direct Line Child Safety Staff - Since January 2014, non-direct line child safety staff has increased by 243 to 1,304. The budgeted staffing level is 1,417 excluding Attorney General positions. In June 2015, staffing decreased by (26) FTE Positions from May 2015. (Ben Beutler)

Department of Child Safety (DCS) – Report on the Effectiveness of the Retention Pay Stipend - Pursuant to Laws 2014, 2nd Special Session, Chapter 2, DCS has reported on the impact of the retention pay program. Chapter 2 included \$1.7 million from the General Fund to provide retention stipends to caseworkers with the goal of reducing turnover.

DCS provides a 6-month comparison of the caseworker retention rate. During the 6-month period from December 2013 to May 2014 (prior to implementation of the retention stipend), the annualized caseworker retention rate was 77.9%. From December 2014 to May 2015 (after the implementation of the retention stipend), the 6-month caseworker retention rate declined to 70.4%, a (7.5)% reduction in the caseworker retention rate.

DCS has paid retention stipends to 333 caseworkers, including 273 caseworkers who reached the 18-month mark and 60 caseworkers who reached the 36-month mark. Of the 333 caseworkers who have received retention stipends through May 2015, 62 have since separated from DCS. (Ben Beutler)

State Board of Education – Report on K-6 Technology-Based Language Development and Literacy Pilot Program - Pursuant to A.R.S. § 15-217G, the State Board of Education (SBE) recently reported that it has awarded a contract for the 2015-2016 school year for the K-6 Technology-Based Language Development and Literacy Intervention Pilot Program authorized by A.R.S. § 15-217. The contract was awarded to Scientific Learning Corporation, which will develop the pilot in accordance with guidelines from the ADE Office of English Language Acquisition Services (OELAS). OELAS will provide recommendations for application procedures and selection criteria to the Board to facilitate the voluntary participation of school districts and charter schools this year. The pilot program originally was intended to start during the 2014-2015 school year, but the SBE indicates that it was not feasible to do so because enabling legislation did not become effective until after that school year had already begun. (Matt Beienburg)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2015 – 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 total FY 2015 expenditures at \$11.4 million. Unexpended funds

Table 7

Change in the Department of Child Safety Staff since January 2014

	January 2014	June 2015	Change thru January 2014
Direct Line Staff			
Caseworkers	983	1,025	42
Hotline Staff 1/	70	74	4
Staff in Training	137	164	27
Subtotal - Direct Line	1,190	1,263	73
Non-Direct Line Staff			
Asst. Program Managers	36	36	0
Unit Supervisors	168	206	38
Case Aides	211	282	71
OCWI	33	63	30
Other Non-Direct Line Staff 2/	613	717	104
Subtotal - Non-Direct Line	1,061	1,304	243
Grand Total	2,251	2,567	316

1/ Excludes 20 temporary staff.

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

Summary of Recent Agency Reports (Continued)

at the end of FY 2015 totaled \$5.6 million. Revenues totaled \$11.5 million, including \$7.0 million from Corporate Income Taxes, \$3.9 million in fees, \$510,600 recovered from responsible parties, and \$66,000 in other revenues.

At the end of FY 2015, there were 32 sites on the WQARF registry. DEQ also performed preliminary investigations on 32 other non-registry sites, at least 7 of which will be eligible for listing on the WQARF registry in the near future. Additionally, there are 70 other non-registry sites that have not yet been fully evaluated.

In FY 2015, 14 milestones were achieved: 6 final remediation investigations, 4 final feasibility studies, and 4 proposed remedial action plans. DEQ states it prioritized sites posing the greatest risk to human health and funded sites where treatment systems were actively operating and where installations of new remediation systems were deemed necessary.

In FY 2016, DEQ plans to spend \$15.5 million on the WQARF Program for 32 sites, including \$8.8 million for registry sites and preliminary investigations; \$5.4 million for administration; and \$1.3 million for aid to municipalities, transfers to the Department of Health Services and the Department of Water Resources, and for prior year adjustments. (Josh Hope)

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

The state has been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population. In January 2014, both parties filed a joint agreement with the court to terminate the lawsuit. The agreement, which received court approval in February 2014, requires expansion of certain services by June 2016. These services include Assertive Community Treatment (ACT), Peer Support, Supported Employment, and Supportive Housing.

The settlement establishes requirements for the quantity of each service that must be provided to residents of Maricopa County. DHS is currently exceeding these requirements in all 4 service categories. *Table 8* lists the numerical requirements by service category, along with the progress DHS has made in implementing each requirement.

The settlement also requires continuous monitoring of service quality and capacity. DHS uses a point-scoring system to assess the extent to which each service conforms to quality standards established by the Substance Abuse and Mental Health Services Administration (SAMHSA). *Table 8* shows the average share of possible points received by providers for each service category. The average scores ranged from a high of 89% for peer support providers to a low of 53% for supportive housing providers. The settlement does not establish minimum score requirements.

Assertive Community Treatment (ACT): The joint agreement requires DHS to establish 8 new ACT teams. ACT teams include more than 10 specialized health care professionals that provide services, such as substance abuse treatment and supported employment, which are tailored to the client's needs. DHS added 1 team in the fourth quarter of FY 2015, increasing the total number of ACT teams to 20.

Peer Support: The joint agreement requires DHS to provide peer support services to an additional 1,500 SMI clients. Peer support services are delivered in individual and group settings by individuals who have personal experience with mental illness, substance abuse or dependence, and recovery. DHS added 809 clients in the fourth quarter of FY 2015, increasing the total number of Class Members receiving peer support services to 3,663.

Supported Employment: The joint agreement requires DHS to provide supported employment services to an additional 750 SMI clients. Supported employment services include assistance in attaining employment, job coaching, transportation, specialized job training and individually tailored supervision. DHS added 128 clients in the fourth quarter of FY 2015, increasing the total number of Class Members receiving supported employment services to 1,313.

Service Category	<i>Arnold v. Sarn</i> Requirements	DHS Implementation of Requirements	Average Provider Score on Quality Reports
Assertive Community Treatment	8 Teams	20 Teams	74%
Peer Support	1,500 Class Members	3,663 Class Members	89%
Supported Employment	750 Class Members	1,313 Class Members	65%
Supportive Housing	1,200 Class Members	4,331 Class Members	53%

Summary of Recent Agency Reports (Continued)

Supportive Housing: The joint agreement requires DHS to provide supported housing services to an additional 1,200 SMI clients. Supportive housing includes financial assistance such as rental subsidies as well as support services to help clients obtain and maintain housing. DHS added 645 clients in the fourth quarter of FY 2015, increasing the total number of Class Members receiving supportive housing services to 4,331. (Patrick Moran)

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) 2011 through FFY 2014. The report indicates that 26.7% of the FFY 2014 allocation has been expended. Information for FFY 2011 - FFY 2014 is included in *Table 9* below.

The state was allocated and the Arizona Department of Homeland Security awarded \$23.1 million in Homeland Security grants for FFY 2014. The department reported total expenditures of \$6.2 million, leaving \$16.9 million unexpended. State agencies were awarded \$1.4 million, of which \$468,800 has been expended. Local governments were awarded \$21.7 million, of which \$5.7 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 2014 represented an increase from the amount received in FFY 2013 and FFY 2012, but did not reach the funding level of FFY 2011. Arizona received \$20.8 million in total combined state and local awards in FFY 2013, \$18.4 million in FFY 2012, and \$36.1 million in FFY 2011. Of the funds received, 99.9% have been expended for

FFY 2011, 100% have been expended for FFY 2012, and 90.1% have been expended for FFY 2013. (Krista MacGahan)

Supreme Court – Report on Current and Future Automation Projects - Pursuant to a FY 2016 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) has provided its FY 2016 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2016 will be approximately \$22.0 million. Of this amount, approximately \$728,800, or 3.2%, will be spent on 10 ongoing or new projects; \$13.9 million, or 63.2%, will be spent on shared infrastructure; and \$7.4 million, or 33.6%, will be spent on ongoing automation support in FY 2016. The 10 ongoing or new projects include:

- Updating outdated software within the statewide case management system in limited jurisdiction courts (\$191,300)
- Roll out new e-filing for general jurisdiction (Superior Court) case management system (\$14,500)
- Streamlining the processing of treatment payments to juvenile treatment providers (\$40,000)
- Increased capability for data sharing between counties for the online juvenile probation and dependency case management system (\$160,900)
- Increasing the effectiveness of the electronic case filing system (\$120,500)
- Improving the accuracy and timeliness of dispositions and warrants (costs would be incurred by Arizona Criminal Justice Commission)
- Delivery of new PCs and related equipment for courts statewide (\$47,900)
- Improving the communication between entities involved in collections processing (\$27,600)
- Constructing a central data repository for information requests (\$89,000)
- Streamlining and standardizing the E-Bench program that allows judges to access relevant electronic documents while on the bench (\$37,100) (Eric Billings)

	<u>FFY 2011</u>	<u>FFY 2012</u>	<u>FFY 2013</u>	<u>FFY 2014</u>
State Awards	\$ 3,022,700	\$ 1,763,500	\$ 1,495,500	\$ 1,354,000
Local Government Awards	<u>33,084,600</u>	<u>16,670,300</u>	<u>21,530,300</u>	<u>21,786,400</u>
Total Awards	\$36,107,300	\$18,433,800	\$23,025,800	\$23,140,400
State Expenditures	\$ 3,022,700	\$ 1,763,500	\$ 1,425,000	\$ 468,800
Local Government Expenditures	<u>33,084,000</u>	<u>16,670,300</u>	<u>19,330,100</u>	<u>5,709,200</u>
Total Expenditures	\$36,106,700	\$18,433,800	\$20,755,100	\$ 6,178,000
Percentage of Total Awards Currently Expended	99.9%	100%	90.1%	26.7%

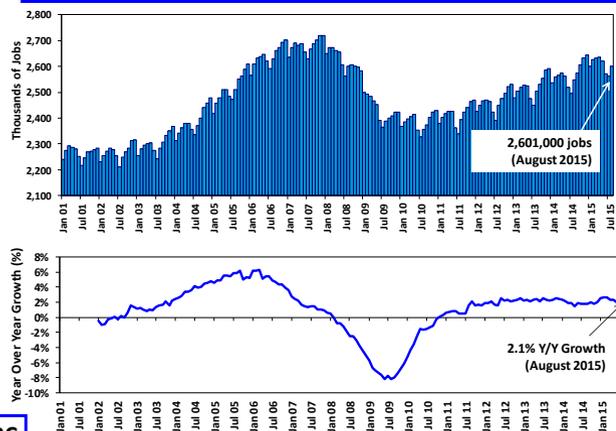
Tracking Arizona's Recovery

September 2015
Appendix A

Page:

- 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

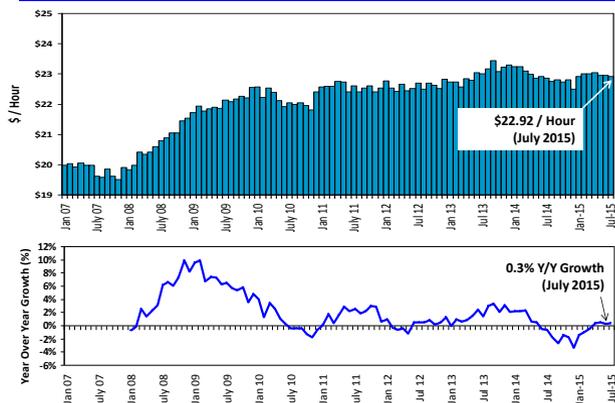
Total Non-Farm Employment



JLBC

2

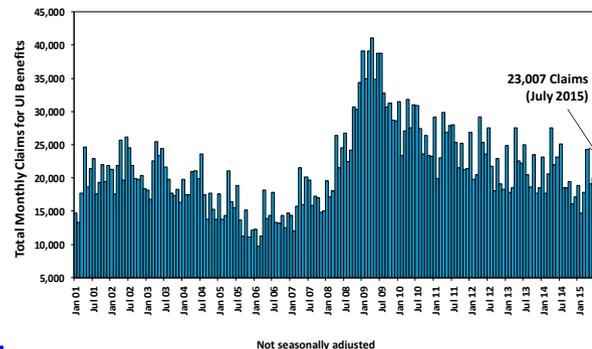
Average Hourly Earnings – Private Sector



JLBC

3

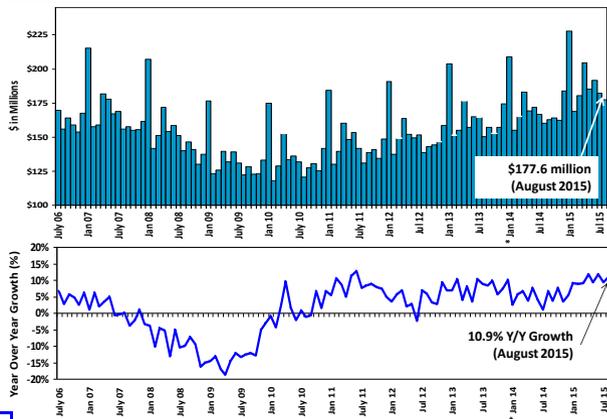
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



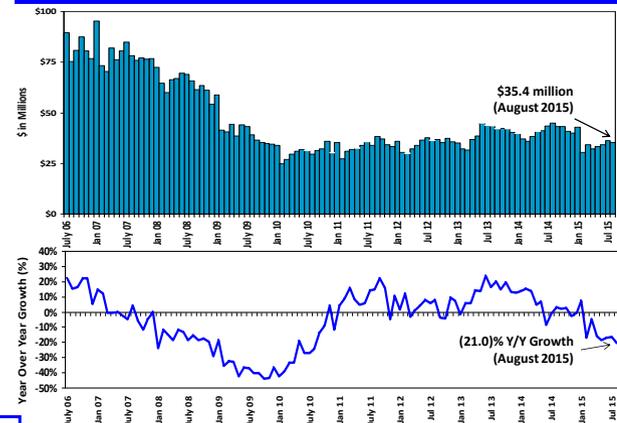
JLBC

Excludes temporary 1 ¢ sales tax

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

5

State Sales Tax Collections – Contracting Category

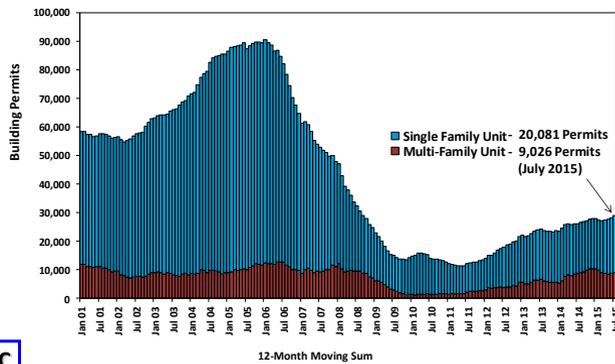


JLBC

Excludes temporary 1 ¢ sales tax

6

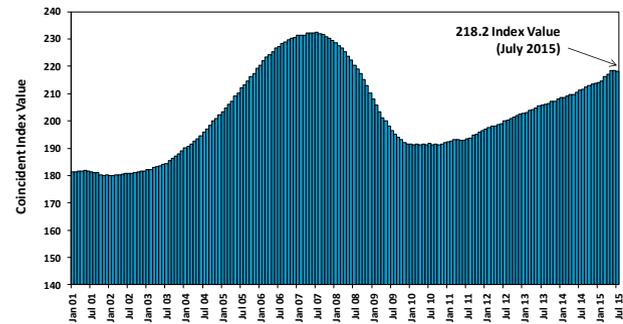
Residential Building Permits



JLBC

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.

8