

1716 W. Adams
Phoenix, AZ 85007

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



www.azleg.gov/jlbc.htm

“Year-to-date base revenues are 2.1% higher than FY 2013, and total General Fund collections through May are \$(55.4) million below forecast.”

Summary

May General Fund revenue collections totaled \$647.3 million. Base revenues, which exclude one-time adjustments, were 7.4% above May 2013. The year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

Overall May General Fund collections were \$(11.9) million below the enacted budget forecast. Year-to-date base revenues are 2.1% higher than FY 2013, and total General Fund collections through May are \$(55.4) million below forecast.

A decline in individual income tax withholding was the primary reason for the May forecast shortfall. Withholding fell by (0.8)% in May.

In comparison to revenue of \$647.3 million, May 2014 spending was \$537.5 million, which is a decrease of \$(23.1) million from the prior year.

Including the state's FY 2014 beginning balance, during the fiscal year General Fund revenues of \$8.35 billion have been offset by \$8.22 billion of expenditures.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance is at \$2.4 billion as of mid-May 2014. In addition, the state's Budget Stabilization Fund has a balance of \$455.1 million.

Operating Financing Requirements

During the past month, the Executive officially revised the terms of the \$1.4 billion operating debt financing, so as to avoid a mandatory early repayment.

In order to solve the FY 2010 budget shortfall, the state raised \$1.4 billion through: 1) a sale/leaseback agreement for existing state properties; and 2) the issuance of lottery revenue bonds. Because these transactions were issued as a tax-exempt deficit financing mechanism to pay for state operational expenses, the federal government required the state to agree to either of the following requirements:

- Working Capital Surplus Limitation – Limits the state's total cash reserve to 5% of General Fund spending for that fiscal year. Beginning with the FY 2015 balance, excess cash balances would be used for mandatory retirement of the financing, which would start in FY 2017.
- Investment Yield Restriction – Limits the investment return on a portion of the state's operating balance to approximately 4%. The state would be required to restrict the yield on the unpaid balance, which is still near \$1.4 billion.

When the financing was originally issued, the state agreed to the Working Capital Surplus limitation. Based on the projected FY 2015 balance, the state would have to start paying

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back more than \$100 million of debt in FY 2017. As a result, the Executive just completed the conversion to the Investment Yield Restriction in May 2014. The selection of this limitation is irrevocable for the duration of the financing.

Because the state is no longer subject to the mandatory repayment requirements of the Working Capital Surplus Limitation, the operating financing is not subject to prepayment by the state until FY 2020.

Child Safety Staff Report

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

Direct Line Child Safety Staff - The Legislature authorized DCS to hire 126 additional direct line child safety staff as part of the agencies' FY 2014 supplemental appropriation. Since January, the number of direct line child safety staff (caseworkers, caseworkers in training, and hotline staff) has increased by 58 FTE Positions to a level of 1,248 in May. In the last month, the number of direct line child safety staff has increased by 5. DCS has also hired 79 more individuals who will begin their employment by June and then enter training. DCS has funding to hire 1,320 total direct line child safety staff in FY 2014.

Non-Direct Line Child Safety Staff - The Legislature also authorized DCS to hire 66 non-direct line child safety staff. Since January, non-direct line child safety staff has increased by 45 to 1,106. In May, staffing decreased by (12) FTE Positions.

	<u>March</u>	<u>April</u>	<u>May</u>	<u>Change</u> <u>since January</u>
<u>Direct Line Staff</u>				
Caseworkers	1,006	1,003	995	12
Hotline Staff ^{1/}	76	75	76	6
Staff in Training	<u>151</u>	<u>165</u>	<u>177</u>	<u>40</u>
Subtotal - Direct Line	1,233	1,243	1,248	58
<u>Non-Direct Line Staff</u>				
Asst. Program Managers	34	34	32	(4)
Unit Supervisors	179	183	182	14
Case Aides	221	228	231	20
Other Non-Direct Line Staff	<u>678</u>	<u>673</u>	<u>661</u> ^{2/}	<u>15</u>
Subtotal - Non-Direct Line	1,112	1,118	1,106	45
Grand Total	2,345	2,361	2,354	103

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

May Revenues

Table 2

General Fund Revenues (\$ in Millions)			
	FY 2014 <u>Collections</u>	Difference From <u>Budget Forecast</u>	Difference <u>From FY 2013</u>
May	\$ 647.3	\$ (11.9)	\$ (57.9)
Year-to-Date	\$ 7,459.4	\$ (55.4)	\$ (645.9)

Sales Tax collections of \$336.6 million were 4.2% above May of last year and approximately equal to 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.

Year-to-date sales tax collections are 5.7% above the prior year and are \$5.4 million above the January forecast.

Table 3 displays the May growth rates for the largest sales tax categories.

Retail and contracting together account for over 60% of all sales tax revenues. May retail, which reflects April sales, increased by 7.6%. Year-to-date, retail sales are up 8.1%.

Contracting has shown double digit increases every month through the first 3 quarters of the current fiscal year, but has tapered off over the last 2 months, with an April increase of 4.4%, and May at 6.4%. Year-to-date, contracting has increased by 13.5% over the prior year.

Table 3

Sales Tax Growth Rates Compared to Prior Year		
	<u>May</u>	<u>YTD</u>
Retail	7.6%	8.1%
Contracting	6.4%	13.5%
Use	(0.5)%	(8.9)%
Restaurant & Bar	5.6%	4.6%

Individual Income Tax net revenues were \$267.3 million in May, which was \$38.1 million above the prior year. Collections were \$(9.3) million below the forecast for the month. Year-to-date, revenue is \$35.2 million above the prior year, and is \$(41.1) million below the January forecast.

The May increase of 16.6% compared to the prior year brings the year-to-date increase to a modest 1.1%.

As indicated in Table 4, withholding decreased by (0.8)% for the month and was \$(21.3) million below forecast. May results further reduce withholding tax collections for the fiscal year to 2.8% over the prior year. This year-to-date amount is \$(9.9) million below the January forecast.

May estimated and final payments were (23.1)% below last year and \$(2.9) million below forecast. Year-to-date, payments are down (3.8)% compared to the prior year, but are \$6.1 million above the January forecast.

May refunds were (49.7)% less than last year, resulting in a \$14.9 million forecast gain. Year-to-date, refunds are 1.1% greater than the prior year, and are \$37.3 million higher than the January forecast.

Table 4

Individual Income Tax Growth Rates Compared to Prior Year

	<u>May</u>	<u>YTD</u>
Withholding	(0.8)%	2.8%
Estimated + Final Payments	(23.1)%	(3.8)%
Refunds	(49.7)%	1.1%

Corporate Income Tax net collections were \$28.6 million in May, which is \$(2.1) million less than May of the prior year. Collections have been below the prior year in 6 of the preceding 11 months of the current fiscal year.

Year-to-date, collections are down (11.0)% compared to the prior year, and are \$(26.3) million below the January forecast.

Insurance Premium Tax revenues were \$42.3 million in May, which is \$1.4 million greater than May of the prior year and \$10.8 million above forecast.

Year-to-date, collections have increased 4.8% compared to the prior year, and are \$5.4 million above the January forecast.

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 \$101.6 million in May were up \$249,200, or 0.2%, compared to May of last year. Year-to-date revenues are 2.6% above collections in the prior year, and are \$17.6 million above forecast.

Table 5

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

	Current Month					FY 2014 YTD (Eleven Months)				
	Actual May 2014	Change From May 2013		January Forecast		Actual May 2014	Change from May 2013		January Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$336,552,864	\$13,708,906	4.2 %	\$145,107	0.0 %	\$3,688,461,200	\$198,003,222	5.7 %	\$5,441,136	0.1 %
Income - Individual	267,284,787	38,096,596	16.6	(9,267,759)	(3.4)	3,102,171,808	35,188,324	1.1	(41,059,418)	(1.3)
- Corporate	28,601,435	(2,133,969)	(6.9)	(7,659,732)	(21.1)	478,180,653	(59,252,764)	(11.0)	(26,296,637)	(5.2)
Property	2,339,596	813,568	53.3	339,596	17.0	18,388,895	7,212,431	64.5	5,445,466	42.1
Luxury - Tobacco	1,300,000	(259,040)	(16.6)	0	0.0	22,721,891	1,301,341	6.1	1,313,168	6.1
- Liquor	2,300,000	302,564	15.1	0	0.0	28,909,728	19,974	0.1	(503,265)	(1.7)
Insurance Premium	42,265,579	1,362,498	3.3	10,764,079	34.2	331,397,995	15,258,814	4.8	5,371,409	1.6
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	42,120	2,442	6.2	(32,880)	(43.8)	502,220	(1,020,517)	(67.0)	(1,022,780)	(67.1)
Sub-Total Taxes	\$680,686,381	\$51,893,565	8.3 %	(\$5,711,589)	(0.8) %	\$7,670,734,391	\$196,710,826	2.6 %	(\$51,310,920)	(0.7) %
Other Revenue										
Lottery	7,896,525	(1,304,675)	(14.2)	(1,603,475)	(16.9)	47,103,393	(1,281,907)	(2.6)	(1,683,475)	(3.5)
License, Fees and Permits	1,724,510	(827,871)	(32.4)	(1,275,490)	(42.5)	25,369,400	(920,561)	(3.5)	(2,648,942)	(9.5)
Interest	3,654	581,539	--	3,654	--	5,780	(6,813,476)	(99.9)	(4,006,061)	(99.9)
Sales and Services	1,808,946	(179,810)	(9.0)	(691,054)	(27.6)	25,293,108	(312,633)	(1.2)	(2,174,448)	(7.9)
Other Miscellaneous	607,874	(1,552,373)	(71.9)	(1,892,126)	(75.7)	14,280,550	(10,413,040)	(42.2)	(2,683,266)	(15.8)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	667,223	(1,091,126)	(62.1)	(1,332,777)	(66.6)	16,966,785	(14,210,920)	(45.6)	(14,181,968)	(45.5)
Sub-Total Other Revenue	\$12,708,732	(\$4,374,316)	(25.6) %	(\$6,791,268)	(34.8) %	\$129,019,016	(\$33,952,537)	(20.8) %	(\$27,378,160)	(17.5) %
TOTAL BASE REVENUE	\$693,395,113	\$47,519,249	7.4 %	(\$12,502,857)	(1.8) %	\$7,799,753,407	\$162,758,289	2.1 %	(\$78,689,080)	(1.0) %
Other Adjustments										
Urban Revenue Sharing	(46,709,330)	(3,910,660)	9.1	0	0.0	(514,291,863)	(43,506,493)	9.2	0	0.0
One-Time Transfers	44,279	(20,455,721)	(99.8)	44,279	--	165,724,745	109,224,745	193.3	15,033,184	10.0
Sales Tax - 1¢ Increase	533,084	(81,066,056)	(99.3)	533,084	--	8,237,401	(874,418,005)	(99.1)	8,237,401	--
Sub-Total Other Adjustments	(46,131,967)	(105,432,437)	-- %	577,363	(1.2) %	(340,329,717)	(808,699,753)	-- %	23,270,585	(6.4) %
TOTAL GENERAL FUND REVENUE	\$647,263,146	(\$57,913,188)	(8.2) %	(\$11,925,494)	(1.8) %	\$7,459,423,690	(\$645,941,465)	(8.0) %	(\$55,418,495)	(0.7) %
Non-General Funds										
Highway User Revenue Fund	\$101,630,557	\$249,151	0.2 %	(\$764,663)	(0.7) %	\$1,135,621,101	\$28,702,736	2.6 %	\$17,633,553	1.6 %

Recent Economic Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** decreased at an annual rate of (1.0)% in the first quarter of 2014. This represents the first decrease in GDP since the first quarter of 2011. The first quarter estimate was a significant deceleration from the 2.6% growth in the fourth quarter of 2013. 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. A portion 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** increased 1.6% in May and 11.7% since May 2013. The monthly increase restores a portion index's (2.6)% decrease in April. Recent gains were primarily driven by the index's component that measures consumer views of current job and economic circumstances.

The Conference Board's **U.S. Leading Economic Index** increased by 0.4% in April and 5.8% since April 2013. Of the index's 10 components, 6 increased during the month while 4 decreased. Improvements in building permit and credit components lead the increase, more than making up for slightly negative contributions in the average workweek, initial unemployment claims, manufacturing orders, and durable goods orders components.

Consumer prices, as measured by the U.S. **Consumer Price Index (CPI)**, increased 0.4% in May and 2.1% above May 2013 levels. The monthly increase was the largest since February of 2013 and included a 0.5% rise in prices for food, 0.9% in energy, and 0.3% for all other items. Year-over-year growth in prices have steadily increased from a reading of 1.1% in February to the 2.1% current reading. Annual inflation is expected to continue influencing the pace at which the Federal Reserve Bank reduces its 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.

Arizona's coincident index increased by 0.2% compared to the prior month. Since May 2013, the Arizona index has grown by 2.1%, which ranks 38th in the country. See *Appendix A – Tracking Arizona's Recovery* for additional historical information.

Housing

The total housing inventory in the Greater Phoenix area dropped by (2.2)% in May to 28,979. The inventory, however, is 46.8% higher than last year.

In the Metropolitan Phoenix area, the **median price of a single family home** continues to be relatively stable at \$204,900 in April. The price is, however, 13.0% higher than April of last year.

The housing construction recovery continues to be slow. The 3-month average of **single-family building permits** of 1,461 is a (6.5)% decrease from last year.

See *Appendix A – Tracking Arizona's Recovery* for historical information.

On the other hand, the 3-month average of multi-family building permits has grown significantly since last year. The 1,310 **multi-family building permits** is 225% above 2013.

Employment

The state's **nonfarm employment** growth has weakened over the last few months and the Department of Administration's job report for May showed further weakening in the labor market. Employers shed (15,000) jobs between April and May, the largest month-over-month May job loss since 2009. Almost 95% (or 14,200) of these job losses occurred in the government sector, especially among state and local government employees.

By way of comparison, the average job loss in the prior 10 years was (1,600). The reason for the record large reduction (available data goes back to 1990) in government employment is not yet clear. One plausible explanation is that some of the job losses in state and local government employment that typically occur in June may have been shifted to May. Next month's employment report may shed further light on this issue. The private sector, which typically expands its payrolls in May, shed (800) jobs, the first such job loss in 4 years.

Compared to May 2013, total nonfarm employment increased by 1.2%, or 31,000 jobs. This was a significant

Recent Economic Indicators (Continued)

deceleration from April's year-over-year growth rate of 1.7%, or 43,600 net new jobs. May's year-over-year job gain was the smallest since July 2011.

As noted earlier, it is likely that at least some of the large job loss in May is due to a timing issue (state and local government education employment losses that typically occur in June were shifted to May). This could explain why the year-over-year decline in private sector employment growth in May was less pronounced than overall nonfarm employment. (Year-over-year private sector employment growth fell from 2.2% in April to 2.0% in May.)

In terms of specific industries, the **construction** sector lost (200) jobs in May over April. For the first time since June 2011, construction employment decreased on a year-over-year basis (-0.2% or (900) jobs). All of the job losses occurred in residential and non-residential construction. Heavy construction (which includes road construction) and specialty trades added jobs. The **manufacturing** sector added 1,600 jobs in May over April, the largest month-over-month increase since February 2007. Year over year, manufacturing employment increased by 0.6% (or +900 jobs) in May.

Arizona's seasonally adjusted **unemployment rate** fell by (0.1)% in May, going from 6.9% in April to 6.8% in May. May's jobless rate of 6.8% was the lowest since August 2008 when the unemployment rate was 6.6%. For the nation as a whole, the unemployment rate remained unchanged at 6.3% in May.

State Agency Data

At the beginning of June, the total **AHCCCS** caseload was 1.47 million members. Since the federal health care expansion in January, the overall AHCCCS population has grown by 211,195 members.

The traditional acute care AHCCCS population of lower income children and their parents, grew by 15,057 in June to a level of 939,643. This level represents an increase of 1.6% since last month and 6.0% since last year. This growth, in part, is related to the January 2014 federal expansion to 133% of the federal poverty level (FPL).

Since January, childless adults have been again eligible for coverage. In the last month, the number of childless adults increased by 18,486. Since December, the childless adult population has increased by 147,972 to reach a level of 215,742.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Enrollment increased by 3,470 in June and now totals 19,789 individuals.

There were 28,966 **TANF recipients** in the state in April, a monthly caseload decrease of (1.9)%. Year-over-year, the number of TANF recipients has declined by (21.4)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In April, 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 (5.6)%.

The 3-month average count of the **Department of Corrections (ADC) inmate population** increased to 41,509 inmates in May 2014. Relative to the prior 3-month period, the population has increased by 59 inmates. Compared to a year ago, the population has increased by 1,178 inmates, or 2.9%.

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)	May	6.8%	(0.1) %	(1.2)%
- Initial Unemployment Insurance Claims	April	27,528	33.8%	(0.1)%
- Unemployment Insurance Recipients	April	38,892	8.8%	(6.1)%
- Non-Farm Employment - Total	May	2.55 million	(0.6)%	1.2%
Manufacturing	May	156,100	1.0%	0.6%
Construction	May	121,700	(0.2)%	(0.7)%
- Average Weekly Hours, Manufacturing	April	40.9	(0.2)%	(1.7)%
- Contracting Tax Receipts (3-month average)	March-May	\$38.4 million	3.6%	7.8%*
- Retail Sales Tax Receipts (3-month average)	March-May	\$172.6 million	1.9%	5.9%*
- Residential Building Permits (3-month moving average)				
Single-family	Feb-Apr	1,461	7.4%	(6.5)%
Multi-family	Feb-Apr	1,310	19.8%	224.9%
- Greater Phoenix Home Sales				
Single-Family	April	7,728	9.4%	(16.3)%
Townhouse/Condominium	April	1,392	18.4%	(11.6)%
- Greater Phoenix Median Home Price				
Single-Family	April	\$204,900	0.2%	13.0%
Townhouse/Condominium	April	\$125,000	(7.2)%	4.3%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	March	144.81	0.5%	11.1%
- Foreclosure Activity, Maricopa County	May	4,487	(4.4)%	(49.2)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	May	28,979	(2.2)%	46.8%
- Phoenix Sky Harbor Air Passengers	March	3.59 million	(1.0)%	5.3%
- Revenue Per Available Hotel Room	March	\$99.86	17.8%	10.4%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	March	\$5.74	(6.2)%	4.4%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2014	75.1	9.0%	7.9%
- Arizona Coincident Index (July 1992 = 100)	April	185.63	0.2%	2.1%
- Arizona Leading Index -- 6 month projected growth rate	Feb-Apr	2.3%	(0.4)%	(0.2)%
- 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	June	1,469,337	3.1%	15.3%
Acute Care Traditional		939,643	1.6%	6.0%
Prop 204 Childless Adults		215,742	9.4%	185.2%
Other Prop 204		158,109	2.2%	6.9%
Adult Expansion		19,789	17.5%	-
Kids Care I		2,008	(3.6)%	(72.1)%
Kids Care II		0	(100.0)%	(100.0)%
Long-Term Care -- Elderly & DD		55,247	0.3%	3.0%
Emergency Services		78,799	4.2%	16.6%
- TANF Recipients	April	28,966	(1.9)%	(21.4)%
- SNAP (Food Stamps) Recipients	April	1,037,497	0.1%	(5.6)%
- ADC Inmate Growth (3-month average)	Mar-May	41,509	59 inmates	1,178 inmates
- Probation Caseload				
Non-Maricopa	April	17,541	(1)	(181)
Maricopa County	April	25,360	101	81
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	1 st Quarter 2014 (Second Est.)	\$15.9 trillion	(1.0)%	2.1%
- Consumer Confidence Index (1985 = 100)	May	83.0	1.6%	11.7%
- Leading Indicators Index (2004 = 100)	April	101.4	0.4%	5.8%
- U.S. Semiconductor Billings (3-month moving average)	Feb.-Apr.	\$5.0 billion	(1.6)%	14.7%
- Consumer Price Index, SA (1982-84 = 100)	May	237.1	0.4%	2.1%

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

JLBC Meeting

At its June 19, 2014 meeting, the Joint Legislative Budget Committee considered the following issues:

Attorney General – Review of Quarterly Reports on Legal Settlements – The Committee gave a favorable review of the \$9.1 million allocation of legal settlements for the third quarter of FY 2014. Of the \$9.1 million total, \$2.0 million went to the Consumer Protection – Consumer Fraud (CPCF) Revolving Fund, \$1.3 million to the Restitution Subaccount, and \$5.8 million to the Remediation Subaccount.

Monies in the CPCF Revolving Fund are used to pay for operations of the Consumer Protection Division. Monies in the Restitution Subaccount are used to compensate identifiable entities who suffer economic loss from consumer fraud. Monies in the Mediation Subaccount are deposited when there are no identifiable entities resulting from consumer fraud.

Automobile Theft Authority – Review of the Reimbursable Program – The Committee gave a favorable review of the proposal to spend up to \$10,000, to be donated by the National Insurance Crime Bureau (NICB), to support the Arizona Vehicle Theft Task Force in an ongoing investigation.

AHCCCS/Department of Health Services – Review of Proposed Transfer – The Committee gave a favorable review to transfer \$13.0 million from AHCCCS to the Department of Health Services (DHS) for expenditures associated with Medicaid Behavioral Health Services.

DHS projects June 2014 enrollments will exceed budgeted enrollments by 2.1%, or 27,400 enrollees. The \$13.0 million is the maximum amount for transfer permitted under the FY 2015 General Appropriation Act.

Arizona Department of Education – Review of AELAS Expenditure Plan for FY 2015 – The Committee gave a favorable review to the Department of Education's (ADE) spending plan of \$12.0 million for the Arizona Education and Learning Accountability System.

ADE must still receive approval for spending components from the Information Technology Authorization Committee (ITAC) and the Arizona Strategic Enterprise Technology (ASET).

Department of Public Safety – Review of the GIITEM Expenditure Plan – The Committee gave a favorable review to the Department of Public Safety's spending plan for the Gang and Immigration Intelligent Team Enforcement Mission (GIITEM). Monies will be divided between 4 programs: Detention Liaison Officers Program, Border County Officers Program, Pima County Borders Crime Unit, and Border Security and Law Enforcement Grants.

Arizona Department of Administration/Department of Environmental Quality – Review of Phase 2 Web Portal – The Committee gave a favorable review to the spending plan with certain provisions.

The \$6.8 million will be used for myDEQ Phase 2, an automation project covering 22 business services previously done on paper.

Department of Child Safety – Review of Transition Funding Expenditure Plan – The Committee gave a favorable review to \$3.6 million in transition funding for the Department of Child Services (DCS) in the first quarter. While originally budgeted as a one-time expense, this funding would support 40 permanent administrative FTE Positions and on-going software licensing costs, with the following provisions:

- 1) DCS receive any necessary ADOA approvals for information technology expenses.
- 2) DCS submit a listing of all 99 administrative FTE Positions transferred from DES and a listing of all 40 new FTE Positions.
- 3) The favorable review does not reflect Committee endorsement of a particular staffing level.

Department of Child Safety – Review of Quarterly Benchmarks and Expenditure Plan – The Committee gave a favorable review to DCS's quarterly benchmark and expenditure plan. The plan estimates that all of the budgeted 1,406 caseworker positions will be filled by the end of the first quarter of FY 2015. DCS also plans to determine by December 2014 whether the 13,000 backlog cases as of June 2 will need further investigation. Backlog cases are defined as those with no case action in the last 60 days. DCS plan to finish any investigation on these cases by the end of FY 2015.

Department of Child Safety – Review of FY 2015 Intensive Family Services Expenditure Plan – The Committee gave a favorable review to DCS's Intensive Family Services Expenditure plan, with the condition that DCS update the Committee on the Request for Information and Request for Proposals process regarding its service delivery mechanism. DCS will spend this year's funds in the same manner as in FY 2014 by supplementing in-home services.

Attorney General – Review of Allocation of Settlement Monies – State v. GlaxoSmithKlin, LLC. – The Committee gave a favorable review to the Attorney General's allocation plan for the \$3.1 million settlement in the State v. GlaxoSmithKline, LLC case. An amount of \$650,000 of the settlement will be put into the CPCF Revolving Fund and the remaining \$2.4 million will be spent on childhood obesity prevention efforts via a competitive grants process.

JCCR Meeting

At its June 19, 2014 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Review of FY 2015 Building Renewal Allocation Plan – The Committee gave a favorable review to the Arizona Department of Administration (ADOA) proposed Building Renewal Plan totaling \$11.8 million. The favorable review included the provision that ADOA report on actual FY 2015 spending by project and appropriation source on December 31, 2014, June 30, 2015, and June 30, 2016. The plan will fund a variety of projects including fire alarm repairs, HVAC repairs, new roofing, and demolition.

Arizona Department of Corrections – Review of FY 2015 Building Renewal Allocation Plan – The Committee gave a favorable review to the Arizona Department of Corrections proposed Building Renewal plan totaling \$8,464,3000. The plan will fund a variety of projects including replacing obsolete locking and control systems, converting evaporative coolers to air conditioning, and work on 2 wells.

Arizona Exposition and State Fair Board – Review of Capital Improvement Expenditures -The Committee gave a favorable review to the Arizona Exposition and State Fair's proposed plan for 9 capital improvement projects totaling \$731,000. The plan will fund a variety of projects including fire alarm repairs, asphalt and sidewalk improvements, and new roofing.

East Valley Institute of Technology – Consider Approval of Proposed JTED Lease – The Committee approved the East Valley Institute of Technology (EVIT) proposal to lease 3 Career and Technical Training buildings from the Apache Junction Unified School District.

Arizona State University – Review of System Revenue Bond Refund and Building Acquisition - The Committee gave a favorable review to Arizona State University's (ASU) request to issue a \$15.7 million revenue bond to refund a privately-issued revenue bond for Las Casas Residence Hall-West campus and to acquire the property.

Northern Arizona University – Review of Indirect Financing Project - The Committee gave a favorable review to Northern Arizona University's plan to enter into a ground lease agreement for a new Student and Academic Services Building at its Flagstaff campus. The project would be built by a 3rd party and is estimated to cost \$38.8 million.

Arizona Department of Transportation – Review of Vehicle Wash Systems Project – The Committee gave a favorable review to the Arizona Department of Transportation's \$2.4 million expenditure plan for 6 new vehicle wash system buildings.

Arizona State University - Review of Indirect Financing for New Washington, DC Facility – The Committee gave a favorable review to ASU's request to enter into a master lease agreement with the ASU Foundation for a multi-use office building in Washington, DC. The total cost for the project is approximately \$11.5 million.

Summary of Recent Agency Reports

Arizona Department of Administration – Report on State Surplus Materials Revolving Fund Excess Revenue –

Pursuant to a FY 2014 General Appropriation Act footnote, all State Surplus Materials Revolving Fund revenues received by the Arizona Department of Administration (ADOA) in excess of the \$2.4 million appropriation from the State Surplus Materials Revolving Fund in FY 2014 are appropriated to ADOA. Prior to expending the additional State Surplus Materials Revolving Fund receipts, ADOA is required to report the intended use of the monies to the Joint Legislative Budget Committee.

Monies appropriated to the State Surplus Property Sales Proceeds line item are used to reimburse agencies for the sale of surplus materials and are funded out of the State Surplus Materials Revolving Fund. ADOA has reported that an additional \$575,000 from the State Surplus Materials Revolving Fund will be used in FY 2014 to reimburse agencies for the sale of surplus materials, and that current revenues to the fund can sustain the increased amount of reimbursements.

In addition, last year ADOA reported that the Surplus Property Management Program experienced an increase in proceeds from the sale of materials and that the Surplus Materials Revolving Fund would receive \$325,000 above the appropriated amount in FY 2013. ADOA has reported that it was only necessary for the program to utilize \$238,000 of the projected \$325,000 increase in expenditure authority in FY 2013. (Ben Henderson)

AHCCCS – Report on Health Insurance Exchange Interaction and Eligibility Modifications –

Pursuant to an FY 2014 General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report on the progress made on their automation interaction with the Federally-Facilitated Marketplace (health insurance exchange) and eligibility modifications as part of the Affordable Care Act (ACA).

This is the third quarterly report regarding AHCCCS' enrollment system, known as Health-e-Arizona Plus (HEAplus). As of June 11, 2014, AHCCCS reports that it continues to meet the requirements to obtain enhanced federal funding for their eligibility requirements. In addition, AHCCCS reports that it continues to complete the transferring of accounts of applicants with incomes too high for AHCCCS to the federal exchange in order to be evaluated for the Premium Tax Credit (PTC) program which offers federal subsidies for purchase through the Federally-Facilitated Marketplace (FFM).

AHCCCS further reports that they continue to refine IT processes and are waiting on federal government coordination before completing remaining changes. To date, a couple of known issues include:

1. Federal exchange data continues to have defects and deficiencies causing bottlenecks in processing HEAplus account transfers. AHCCCS will provide a summary in the next quarterly report on the status of

these reconciliations as account transfers have only been occurring on a limited basis since January 22, 2014.

2. The integration of the security check for state workers, community assisters, and state vendors has not yet been integrated with the federal exchange since the federal exchange has not made testing of the integration available. During the interim, AHCCCS and DES are using an alternative process. (Andrew Smith)

Department of Child Safety (DCS) – Foster Care Medicaid Report/Quarterly Report on Individuals in the Comprehensive Medical and Dental Program (CMDP) -

Pursuant to Laws 2013, Chapter 220, DCS is required to report on foster care and Medicaid eligibility. These reports are required quarterly until December 31, 2015. During the third quarter of FY 2014, DCS reports the following trends on foster care and Medicaid eligibility:

1. There were 14,391 children eligible for Medicaid in foster care at the end of the third quarter, up from 13,309 at the end of the second quarter.
2. The percentage of foster care children eligible for Medicaid grew from 97% at the end of the second quarter to 98% at the end of the third quarter.
3. The amount of non-Medicaid behavioral health group home expenditures used by DCS to supplement Medicaid behavioral health placement services was \$1.8 million in the third quarter compared to \$1.9 million in the second quarter.
4. The amount of non-Medicaid behavioral health evaluation/counseling expenditures used by DCS to supplement Medicaid behavioral health services declined from \$164,000 in the second quarter to \$127,300 in the third quarter. (Ben Beutler)

Department of Child Safety (DCS) - Monthly Financial and Program Accountability Report -

Pursuant to Laws 2013, Chapter 1, DCS has submitted the April financial and program accountability report. According to the report, out-of-home placements increased from 15,337 in January 2014 to 15,538 in February 2014. Caseloads are above the department's goals, and turnover for DCS case managers for the month was 1.6%. The highlights of this report are summarized below.

- The DCS training academy had 118 new DCS case managers in training as of February, or (19) fewer than in January.
- DCS reports that monthly case manager turnover during February was 1.6%, down from a 3.2% rate in January.
- In addition to the 3,512 continuing in-home cases, an increase of 66 year over year, there were 1,939 new in-home cases in February, a decrease of (111) year over year. The number of closed in-home cases in February was 1,743, compared to 1,615 for the same month in 2013.
- There were 1,359 new out-of-home children in February, a decrease of (14) year over year. The total number of continuing out-of-home children

Summary of Recent Agency Reports (Continued)

increased to 14,179 in February from 12,785 for the same month in 2013. The number of children who left DCS care in February was 1,158, which is down by (152) year over year.

- The ratio of filled supervisor positions to filled DCS case manager positions remained at 1:7 in January and February. (Ben Beutler)

Economic Estimates Commission – Report on the Budget Stabilization Fund – Pursuant to A.R.S. § 35-144F, the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn from the Budget Stabilization Fund (BSF). The EEC estimate is calculated based on a formula that compares the growth rate of real adjusted Arizona personal income in the most recent calendar year to the average in the last 7 calendar years (hereafter referred to as the “trend” growth rate).

Since the calendar year 2013 growth rate exceeded the trend growth rate by 1.23%, EEC reported on May 29, 2014 that the formula calls for a BSF deposit of \$112.2 million at the end of FY 2014. EEC calculations under the formula, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal. The FY 2015 budget does not include an appropriation of these monies into the BSF. The BSF, however, does have a balance of about \$455 million as the result of large deposits in FY 2012 and FY 2013. As session law, Laws 2014, Chapter 9 (SB 1487) appropriates \$1 million of BSF interest income to the Arizona Commission on the Arts in FY 2015. (Hans Olofsson)

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 1st quarter of calendar year (CY) 2014, DES reports that the UI Trust Fund had a beginning balance of \$23.6 million, revenues of \$53.6 million, and fund outlays of \$74.2 million, resulting in a \$2.9 million ending balance, a decrease of \$(0.9) million from its previous estimate of \$3.8 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 CY 2014, DES is now projecting a negative UI Trust Fund balance of \$(26.5) million in the 1st quarter of CY 2015. (Tom Ritland)

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2014. In that report, ADE estimates that it will experience a \$3.1 million funding surplus for formula programs for FY 2014. (Laws 2014, Chapter 18 provided ADE with \$47 million in supplemental funding for FY 2014 in order to prevent it from experiencing a Basic State Aid shortfall in the current year.) ADE’s final actual formula costs through the end of FY 2014 will not be known until the final (June 30th) state aid payment for the year has been completed. (Steve Schimpp)

Department of Education – Report on Empowerment Scholarship Accounts – Pursuant to A.R.S. § 15-2403G, the Arizona Department of Education (ADE) provided an estimate of how much it will cost to fund Empowerment Scholarship Accounts (ESAs) for FY 2015. In its report, ADE estimates that it will cost \$16.5 million to fund ESAs in FY 2015, which would be \$6.3 million above its current estimate for FY 2014. ADE likewise estimates that program enrollment will grow by 910 students in FY 2015, increasing from 761 students in FY 2014 to 1,671 in FY 2015. The net cost of the ESA program above what participating students would receive through Basic State Aid if they were not ESA participants is unknown because an unknown portion of ESA recipients would attend private schools rather than public schools apart from the program. Those students would not generate offsetting Basic State Aid costs for the program.

In its report, ADE notes that statute (A.R.S. 15-2402C) authorizes it to retain up to 4% of ESA funding (estimated at \$660,000 for FY 2015) for ESA administrative costs, but that the FY 2015 budget gives it authority to spend only \$200,000 of those monies. ADE indicates that it will need to spend more than \$200,000 on ESA administration in FY 2015 due to expanding caseloads, the need for an automated data system for accountability purposes, and a new law that requires ADE to contract with an independent 3rd party to determine whether individual students are eligible to spend ESA monies on special education services. ADE’s current ESA report therefore requests an increase in the amount of retained monies that are appropriated for use for ADE’s ESA administrative costs for FY 2015. (Steve Schimpp)

May Spending

May 2014 General Fund spending of \$537.5 million was \$(23.1) million lower than May 2013. Year-to-date, spending is \$8.22 billion, which is \$229.2 million or 2.9% above last year.

(See Tables 7 & 8).

- Year-to-date, the Department of Education has spent \$271.7 million more than the prior year due to increased enrollment, increased per-pupil costs, and school district charter conversions. The enacted budget included a \$47.0 supplemental to the Department in FY 2014 due to increased funding requirements.
- Department of Economic Security expenditures are \$70.2 million greater through May. The agency received significant funding increases in FY 2014 for child safety staff and services.

Table 7

	General Fund Spending (\$ in Millions)			
	<u>May 14</u>	<u>Change From May 13</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 13</u>
Agency				
AHCCCS	83.5	(36.7)	1,079.3	(40.2)
Corrections	74.6	(22.1)	872.0	20.4
Economic Security	7.5	11.2	692.2	70.2
Education	259.9	20.0	3,445.1	271.7
Health Services	31.8	14.3	547.6	(18.7)
Public Safety	2.2	0.1	48.6	7.6
School Facilities Board	(1.3)	(1.5)	191.5	18.0
Universities	41.6	1.5	691.3	23.2
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>37.7</u>	<u>(9.9)</u>	<u>570.0</u>	<u>77.0</u>
Total	537.5	(23.1)	8,221.7	429.2
Budget Stabilization Fund Deposit	0.0	0.0	0.0	(200.0)
Grand Total	537.5	(23.1)	8,221.7	229.2

General Fund Spending				
(\$ in Thousands)				
Agency	May 14	Change from May 13	Year-to-Date	YTD Change from FY 13
Dept. of Admin./Automation Projects Fund	4,654.2	3,225.4	61,039.3	33,352.7
ADOA – Sale/Leaseback Debt Service	-	-	84,119.8	-
Office of Administrative Hearings	63.1	(10.6)	798.1	39.9
Department of Agriculture	566.0	(291.4)	7,308.0	244.7
AHCCCS	83,528.0	(36,741.9)	1,079,314.6	(40,186.3)
Attorney General	3,634.3	959.5	20,303.5	(6.9)
AZ Capital Post Conviction Public Defender	-	-	-	(4.4)
State Board of Charter Schools	42.4	(45.5)	736.3	33.4
AZ Commerce Authority	2,625.0	-	28,875.0	-
Community Colleges	-	-	69,513.4	580.6
Corporation Commission	42.0	(22.0)	468.9	(80.1)
Department of Corrections	74,646.1	(22,130.8)	872,026.6	20,389.6
County Funding	-	-	7,150.5	7,150.5
AZ State Schools for the Deaf & Blind	494.7	(2,043.5)	21,154.5	279.4
Department of Economic Security	7,490.6	11,150.1	692,150.5	70,243.3
Department of Education	259,905.8	20,026.2	3,445,124.6	271,737.6
DEMA	124.2	(323.5)	6,725.8	(359.2)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	1.0	(86.9)	183.7	28.1
State Board of Equalization	28.4	(12.0)	470.8	12.9
Board of Executive Clemency	78.9	(19.1)	752.6	4.6
Department of Financial Institutions	239.5	(105.6)	2,717.3	64.4
Department of Fire, Bldg and Life Safety	109.6	(8.7)	1,772.7	107.2
State Forester	1,190.3	(1,219.6)	7,137.4	242.1
Arizona Geological Survey	53.9	(39.5)	870.9	65.3
Governor/OSPB	618.8	(480.9)	8,169.4	161.8
Department of Health Services	31,829.5	14,250.8	547,597.9	(18,726.2)
Arizona Historical Society	215.5	(72.3)	2,910.3	42.6
Prescott Historical Society of AZ	49.8	(15.5)	660.9	39.1
Independent Redistricting Comm.	127.3	(494.5)	1,233.0	(1,124.6)
Commission of Indian Affairs	2.2	(3.4)	50.9	2.7
Department of Insurance	351.6	(204.5)	4,859.5	330.4
Judiciary				
Supreme/Superior Court	10,327.3	(1,000.6)	90,929.8	1,676.5
Court of Appeals	1,073.0	(581.6)	12,906.0	296.1
Department of Juvenile Corrections	2,555.2	(1,345.7)	35,763.6	(1,309.1)

Table 8 (Continued)				
Agency	May 14	Change from May 13	Year-to-Date	YTD Change from FY 13
State Land Department	932.1	644.8	10,890.7	9,724.8
Law Enforcement Merit System	-	(8.7)	-	(63.5)
Legislature				
Auditor General	1,446.9	(480.4)	17,426.9	1,513.3
House of Representatives	946.5	(522.7)	11,591.3	666.8
Joint Legislative Budget Comm.	151.4	(56.5)	1,865.2	119.7
Legislative Council	374.7	(131.3)	5,938.7	(339.1)
Senate	634.1	(331.0)	7,724.9	315.1
Mine Inspector	79.6	(43.7)	1,081.7	45.6
Nav. Streams & Adjudication	17.9	4.5	157.9	47.2
State Board of Nursing	150.0	150.0	150.0	150.0
Occupational Safety and Health Review	-	-	2.3	2.3
Phoenix Convention Center	-	-	20,449.0	14,854.0
Pioneers' Home	5.5	(47.8)	1,604.7	486.5
Comm. for Postsecondary Ed.	-	(0.1)	1,396.8	-
Department of Public Safety	2,184.4	146.2	48,611.3	7,579.8
Public Safety Personnel Retirement System	-	-	5,000.0	5,000.0
Arizona Department of Racing	-	(2.8)	1,983.9	3.7
Radiation Regulatory Agency	65.1	(12.0)	1,399.3	31.2
Real Estate Department	176.8	(59.5)	2,239.0	(2.2)
Department of Revenue	1,095.6	(3,361.7)	40,792.7	2,948.4
School Facilities Board	(1,341.2)	(1,494.3)	191,531.9	17,968.3
Secretary of State	791.5	(122.8)	10,662.9	(4,382.7)
Tax Appeals Board	17.1	(10.3)	242.7	3.5
Office of Tourism	-	(556.4)	8,112.9	3,698.5
Department of Transportation	-	(1.1)	6.4	(14.5)
Commission on Uniform State Laws	-	-	75.0	75.0
Universities				
Board of Regents	(118.7)	(984.8)	21,569.9	(15,519.7)
Arizona State University	19,640.4	2,259.2	306,620.1	24,851.3
Northern Arizona University	6,562.5	638.3	102,682.5	7,021.5
University of Arizona	15,498.4	(381.4)	260,391.9	6,874.9
Department of Veteran Services	463.9	(149.2)	4,789.2	(276.3)
Department of Water Resources	903.1	(486.7)	9,855.0	838.8
Department of Weights & Measures	129.5	20.5	1,126.1	(305.7)
Other - JP Salaries Distribution	26.6	(7.0)	841.9	(117.9)
Other	1.6	(1.8)	132.8	61.5
Total	537,503.4	(23,078.2)	8,221,743.8	429,188.6
Budget Stabilization Fund Deposit	-	-	-	(200,000.0)
Grand Total	537,503.4	(23,078.2)	8,221,743.8	229,188.6

Tracking Arizona's Recovery

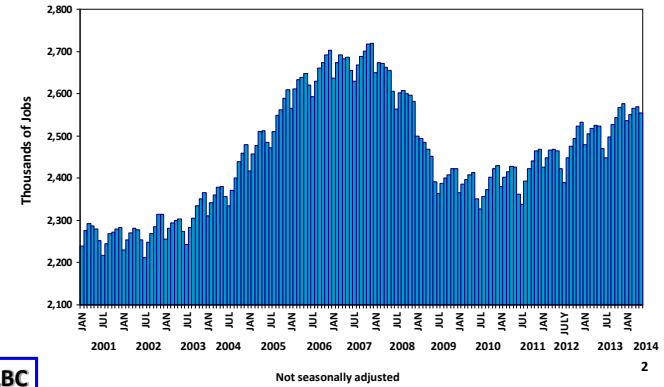
June 2014
Appendix A

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

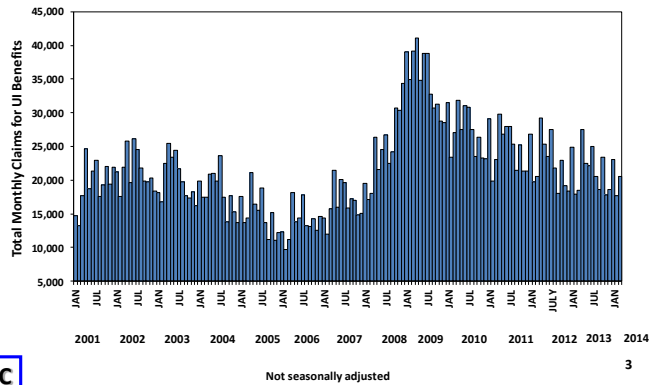
JLBC

Total Non-Farm Employment



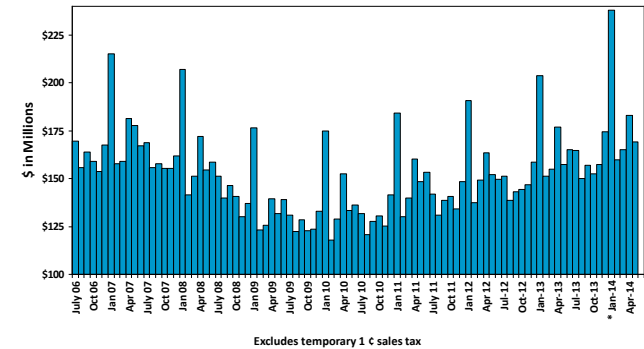
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Initial Claims for Unemployment Insurance



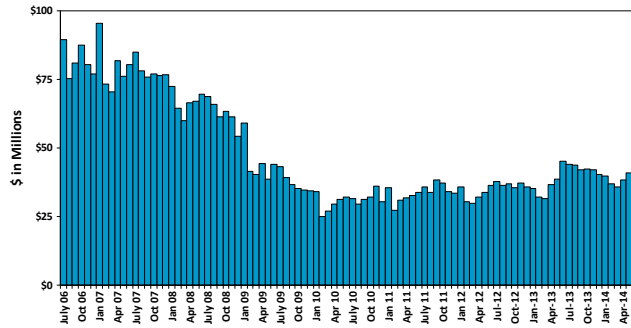
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State Sales Tax Collections – Retail Category



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State Sales Tax Collections – Contracting Category

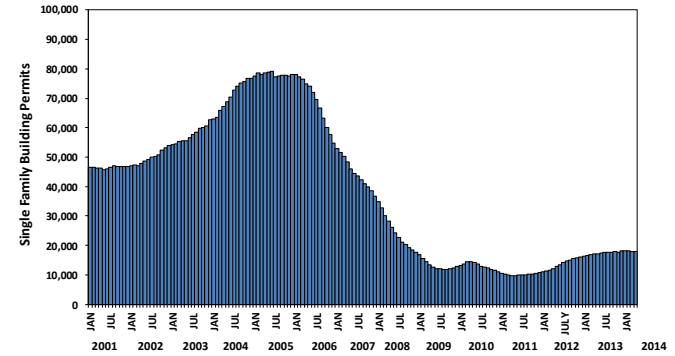


Excludes temporary 1 ¢ sales tax

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Single Family Building Permits

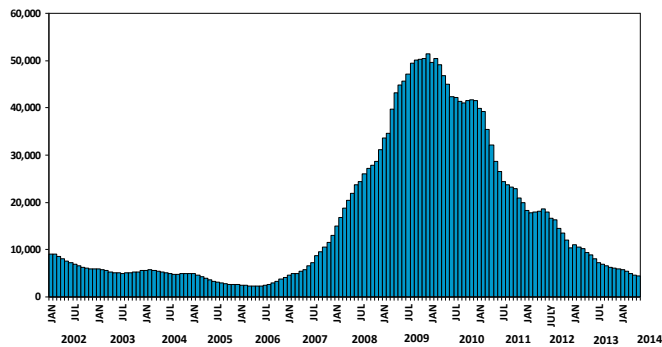


12-Month Moving Sum

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Maricopa County Pending Foreclosures

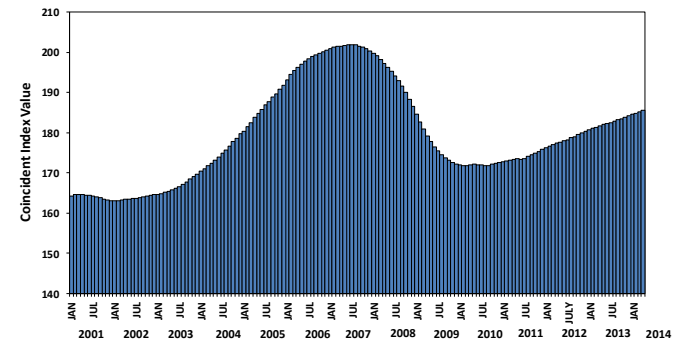


An initial notice of trustee sale has been recorded but final sale has not yet occurred

JLBC

7

Economic Activity Index



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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