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**“Year-to-date
... FY 2018
General Fund
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7.7% above
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forecast.”**

Summary

January 2018 General Fund revenue collections totaled \$1.08 billion, an amount which was 16.3% above the prior year and \$105.2 million above forecast. The January forecast gains were mostly due to significant growth in the Individual Income Tax (IIT) category.

In the December *Monthly Fiscal Highlights*, JLBC Staff noted there could be several explanations for the recent surge in income tax payments including: 1) Taxpayers increasing payments prior to the cap of State and Local Tax (SALT) deductions taking place in federal Tax Year 2018; 2) Capital gains due to the approximate 25% growth in stock market values during 2017; and 3) An increase in the profitability of "pass-through" businesses, whose income tax is mostly paid through quarterly tax payments. These all remain potential factors in explaining the recent payment growth, and may become more apparent after additional data during the upcoming tax filing season.

In December, we also suggested the possibility that the December payment growth may be a timing issue in terms of the artificial distinction between payments being posted in December compared to January. This turned out not to be the case, as the state's Income Tax payments grew by 22% in January compared to the prior year.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, FY 2018

General Fund revenues are 7.7% above the prior year and are \$247.4 million above forecast.

Beginning with this February report, the *Monthly Fiscal Highlights* compares actual revenue collections to the Baseline forecast published last month. The Baseline forecast is based on the 4-sector consensus estimates that were presented at the January Finance Advisory Committee meeting.

In comparison to January revenues of \$1.08 billion, January 2018 spending was \$786.6 million, which is an increase of \$22.6 million above the prior year.

Fiscal year-to-date, General Fund revenues of \$5.92 billion have been exceeded by \$6.61 billion of expenditures.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-February 2018 is \$1.93 billion.

In addition to the state's operating fund, the Budget Stabilization Fund (BSF) has a balance of \$455.7 million.

Year-to-Date Results and Implications for the Budget Forecast

As noted above, year-to-date through January, the state's revenue collections are \$247 million above forecast. The year-to-date forecast gain by category is displayed below:

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Summary (Continued)

Table 1
YTD Results By Revenue Category

	<u>YTD % Growth</u>	<u>YTD \$ Gain (\$ M)</u>
Sales Tax	5.8%	\$46
Individual Income		
Withholding	6.2	63
Payments	29.5	135
Refunds	2.4	11
Subtotal - IIT	11.1	209
Corporate Income	(12.4)	12
Insurance Premium	(0.3)	(11)
Other	12.5	(9)
Total	7.7%	\$247

Given the magnitude of the forecast gain through 7 months, fiscal year-end revenues will most likely exceed JLBC's January Baseline forecast for FY 2018, as well as the Executive forecast (which was only \$10 million higher than the JLBC forecast). Determining the ongoing portion of the forecast gain remains challenging.

As noted above, several factors may account for the 29.5% growth in Individual Income Tax payments. For example, the new \$10,000 SALT federal deduction cap does not change a taxpayer's 2017 state tax liability. The cap, however, may have incentivized taxpayers to shift their estimated payments from January to December to avoid the 2018 cap. In that circumstance, those taxpayers' April 2018 tax return payments may be less than expected. As a result, a portion of the IIT payment gain may be offset by forecast shortfalls in the spring.

Nonetheless, at least some portion of the current \$247 million forecast gain is likely ongoing and could potentially be incorporated into budget considerations. While the IIT payment growth has attracted the most attention, the state's core revenue categories, Sales Tax and Income Tax withholding, have performed well year-to-date. Through January, Sales Tax collections are up 5.8% while withholding has increased 6.2% above the prior year. In combination, these 2 categories are currently \$109 million above forecast. These categories tend to be more stable over time and these gains are more likely to be ongoing.

The amount of any potential forecast revision will depend on further analysis of revenue results over the next several months. We will need to monitor not only the overall size of the state's forecast gain, but also its relative mix across revenue categories.

As a starting point, however, we currently believe that a \$109 million ongoing revenue adjustment may be reasonable. This estimate is not an official forecast revision, but reflects the reality that current revenues are outpacing the Baseline forecast.

The next official forecast revision will be presented at the April Finance Advisory Committee meeting, based on a revised 4-sector consensus revenue estimate.

Across FY 2018 and FY 2019, this type of possible adjustment would increase overall revenues by \$218 million (\$109 million for each year). If that adjustment is ultimately used in the budget process, however, that does not equate to \$218 million in available resources for allocation. The JLBC Baseline had a shortfall of \$(20) million in FY 2018 and \$(108) million shortfall in FY 2019. In that context, the adjustment would bring the General Fund to a \$90 million cash balance at the end of FY 2019.

Even a \$90 million projected FY 2019 balance, however, creates budgetary challenges. A single Executive proposal, the \$100 million increase in K-12 additional assistance, would use all the available funds prior to considering any other elements of the Executive Budget.

State Appropriations Limit Report

JLBC Staff is required to annually report by February 15 on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Total FY 2018 state appropriations (both General and Other Funds) are \$17.25 billion, or 5.78% of personal income. Under the JLBC Baseline, projected FY 2019 spending is \$17.38 billion, which would be 5.49% of personal income.

Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2019, as required by A.R.S. § 41-1276. Due to the growth in values for new properties being lower than expected, the cost of the FY 2019 Basic State Aid formula will be \$3.3 million higher than the JLBC Baseline. The purpose of TNT is to offset the annual change in the value of existing property statewide with proportional Qualifying Tax Rate and State Equalization Tax Rate changes.

January Revenues

Table 2

General Fund Revenues (\$ in Millions)			
	<u>FY 2018 Collections</u>	<u>Difference From Enacted Forecast</u>	<u>Difference From FY 2017</u>
January	\$ 1,077.6	\$ 105.2	\$ 151.0
Year-to-Date	\$ 5,917.5	\$ 247.4	\$ 439.1

Sales Tax collections of \$449.0 million were 4.9% above January 2017 and \$2.7 million above the forecast for the month. Year to date, collections have increased by 5.8% and are \$46.3 million above forecast.

The 5 major categories of the state's sales tax shown in *Table 3* account for approximately 90% of total collections. January collections, which reflect December sales, showed very modest retail growth of 2.8% during the holiday season. In contrast, restaurant/bar and prime contracting categories showed strong growth, increasing year over year by 10.6% and 8.6%, respectively.

Table 3

Sales Tax Growth Rates Compared to Prior Year		
	<u>January</u>	<u>YTD</u>
Retail	2.8%	4.3%
Contracting	8.6%	12.7%
Use	6.5%	9.4%
Restaurant & Bar	10.6%	6.3%
Utilities	1.1%	2.0%

Individual Income Tax net revenues of \$632.2 million in January were \$79.1 million more than in the prior year and \$86.7 million above the forecast for the month. Year to date, revenue has grown 11.1% over the prior year.

As indicated in *Table 4*, January withholding revenues increased by 10.1% from last year and were \$48.2 million above the forecast. Collections during the month were likely helped by an increase in the number of processing days compared to January 2017. A portion of the monthly increase may also reflect impacts of increasing the state minimum wage by \$0.50 (to \$10.50) on January 1, 2018. Year-to-date withholding collections are 6.2% above FY 2017.

In addition, the growth in January withholding may have been helped by employee bonuses. While there is no specific data on how this impacted withholding collections, there was anecdotal evidence of employee bonuses being announced in late December and early January at companies with a significant employment presence in Arizona.

January estimated and final payments of \$215.9 million were 22.5% above last year and \$29.2 million above the forecast. Year to date, payments are 29.5% above FY 2017 and \$135.2 million above the forecast. As discussed in the summary section, there are several potential reasons for the large year-to-date increase in payments,

such as a recent federal limit placed on State and Local Tax deductions and strong stock market growth in 2017. The primary cause of high year-to-date payment growth may not be clear until the April tax season concludes.

January Individual Income Tax refunds totaled \$(10.5) million – this compares to \$(10.7) million in January 2017 and a forecasted amount of \$(19.7) million. Year to date, refunds have led to a \$10.9 million revenue increase compared to the enacted forecast.

Table 4

Individual Income Tax Growth Rates Compared to Prior Year		
	<u>January</u>	<u>YTD</u>
Withholding	10.1%	6.2%
Estimated/Final Payments	22.5%	29.5%
Refunds	(1.9)%	2.4%

Corporate Income Tax net collections were \$8.1 million in January, which was \$26.8 million more than in the prior year and \$19.4 million above the forecast. Year to date, collections are \$(22.0) million below prior year collections and \$11.8 million above the enacted forecast.

Insurance Premium Tax collections of \$(0.6) million in January resulted from refunds processed during the month. January collections were \$(6.9) million below the prior year and \$(9.5) million below the forecast. Year to date, collections are (0.3)% below last year.

The **Lottery Commission** reports that January ticket sales were \$93.9 million, which is \$21.0 million, or 28.8%, above sales in January 2017. Ticket revenues during the month were driven by a high jackpot available for Powerball and strong Scratch game sales. Year-to-date sales are 21.2% above the prior year. In terms of General Fund collections, year-to-date lottery revenues are \$24.6 million above the prior year.

Due to delays in reporting final December revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For January, DOR has decreased the amount of prior General Fund revenue collections by \$(0.1) million, and the adjustment has been included in the reported year-to-date results.

Table 5

General Fund Revenue: Change from Previous Year and Budget Forecast January 2018

	Current Month					FY 2018 YTD (Seven Months)				
	Actual January 2018	Change From January 2017		Baseline Forecast		Actual January 2018	Change from January 2017		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$449,027,011	\$20,775,410	4.9 %	\$2,746,757	0.6 %	\$2,757,686,434	\$150,952,570	5.8 %	\$46,338,995	1.7 %
Income - Individual	632,238,007	79,054,822	14.3	86,650,118	15.9	3,019,827,909	302,576,286	11.1	209,325,903	7.4
- Corporate	8,134,808	26,836,330	--	19,395,408	--	154,546,420	(21,964,248)	(12.4)	11,844,858	8.3
Property	1,870,074	382,449	25.7	1,038,423	124.9	20,392,360	780,614	4.0	(1,750,224)	(7.9)
Luxury - Tobacco	1,852,560	(63,960)	(3.3)	0	0.0	13,163,130	(61,473)	(0.5)	(324,291)	(2.4)
- Liquor	3,522,793	(114,207)	(3.1)	0	0.0	20,717,082	550,990	2.7	899,237	4.5
Insurance Premium	(596,330)	(6,914,074)	--	(9,505,881)	--	208,030,365	(698,435)	(0.3)	(10,574,140)	(4.8)
Other Taxes	958,957	852,788	803.2	899,380	--	1,213,119	(145,197)	(10.7)	(593,197)	(32.8)
Sub-Total Taxes	\$1,097,007,881	\$120,809,560	12.4 %	\$101,224,203	10.2 %	\$6,195,576,819	\$431,991,107	7.5 %	\$255,167,140	4.3 %
<u>Other Revenue</u>										
Lottery	24,250,850	24,250,850	--	1,699,732	7.5	51,316,237	24,572,194	91.9	6,193,204	13.7
License, Fees and Permits	3,452,113	(603,276)	(14.9)	(963,927)	(21.8)	24,141,881	1,664,333	7.4	3,862,713	19.0
Interest	4,636	81,626	--	(220,211)	(97.9)	271,038	176,981	188.2	(70,229)	(20.6)
Sales and Services	1,588,290	1,649,245	--	1,068,556	205.6	10,865,024	(17,367)	(0.2)	(1,964,559)	(15.3)
Other Miscellaneous	3,917,360	3,721,560	--	918,638	30.6	14,403,449	(6,409,599)	(30.8)	(9,896,800)	(40.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,123,673	2,566,332	164.8	1,460,660	54.8	17,993,424	(1,698,759)	(8.6)	(5,894,278)	(24.7)
Sub-Total Other Revenue	\$37,336,922	\$31,666,337	558.4 %	\$3,963,447	11.9 %	\$118,991,053	\$18,287,783	18.2 %	(\$7,769,949)	(6.1) %
TOTAL BASE REVENUE	\$1,134,344,803	\$152,475,897	15.5 %	\$105,187,650	10.2 %	\$6,314,567,872	\$450,278,890	7.7 %	\$247,397,191	4.1 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(56,730,840)	(1,432,326)	2.6	0	0.0	(397,115,880)	(10,026,282)	2.6	0	(0.0)
One-Time Transfers	0	0	--	0	--	0	(1,191,548)	(100.0)	0	--
Sub-Total Other Adjustments	(56,730,840)	(1,432,326)	2.6 %	0	0.0 %	(397,115,880)	(11,217,830)	2.9 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$1,077,613,963	\$151,043,571	16.3 %	\$105,187,650	10.8 %	\$5,917,451,992	\$439,061,060	8.0 %	\$247,397,191	4.4 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$121,124,818	\$2,167,713	1.8 %	\$49,514	0.0 %	\$835,780,527	\$27,968,531	3.5 %	(\$4,459,246)	(0.5) %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 2.6% in the fourth quarter of 2017. This estimate reflects a slow down from the +3% growth during the prior 2 quarters. The modest slowdown was primarily due to a decrease in inventory investment. Declining performance in that category was partly offset by a pick up in consumption expenditures, exports, business investment, and government spending.

The Conference Board's **U.S. Consumer Confidence Index** increased by 1.9% to 125.4 in January. The increase helped the index recover a portion of the (4.3)% loss incurred during the prior month. The latest reading is 12.4% above the index in January 2017. The increase in January reflected greater consumer optimism about near-term economic expectations, partly offset by a reduced assessment of current conditions. Economists expect the monthly increase may have represented a reversal of a temporary decrease in the prior month caused by the then uncertain outcome of federal tax law changes.

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 December. Monthly growth was driven by core inflation (all items less food and energy), which rose 0.2% during the month. Despite the monthly increase, the index's year-over-year growth rate decreased from 1.8% in November to 1.7% during the month. That rate remains below the Federal Reserve Bank's (Fed) 2.0% annual inflation target. The index for core inflation (all items less food and energy) was 1.5% above the reading in December 2016.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.5% in January and increased 2.1% above January 2017 prices. The monthly index increase had a wide variety of positive contributors including the indexes for gasoline, shelter, apparel, medical care and food. Core inflation (all items less food and energy) increased 0.3% for the month, along with increases in the indexes for motor vehicle insurance and personal care. The indexes for airline fares and new vehicles saw decreases for the month.

The Conference Board's **U.S. Leading Economic Index** increased 0.6% in December to 107.0 and stands 5.7% above its December 2016 reading. The Board has changed the base year of the index from 2010 to 2016. The strongest positive contributor for the month was once again the Institute for Supply Management (ISM)

new orders index, followed by the indexes for money supply and stock prices. The average weekly initial claims index had a negligible impact on the index, compared to last month's negative contribution. Of the index's 10 components, 9 made positive contributions for the month.

ARIZONA

Housing

Single-family housing construction is increasing. In December, Arizona's 12-month total of **single-family building permits** was 27,466, or 13.3% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 9.7%.

The 12-month total of multi-family building permits has been up and down. In December, Arizona's total of 10,016 **multi-family building permits** was (12.0)% less than in 2016. Nationwide multi-family permits were 2.0% more than in 2016.

Tourism

Revenue per available room was \$58.69 in December, which was 5.5% above the amount in December 2016. **Ridership** through Phoenix Sky Harbor Airport during the month was up 1.7% compared to December 2016.

Employment

Due to the annual revision of employment date (also known as "benchmarking"), January's employment and unemployment figures will not be released until the second week of March. For this reason, this month's issue of *Monthly Fiscal Highlights* does not include these employment statistics.

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the "regularly" unemployed, the measure also includes persons who are available to work but stopped looking for a job ("discouraged workers"), and persons who had to settle for part-time employment ("underemployed workers").

The Arizona rate averaged 9.5% during the 4 quarters of 2017. This rate is (0.4)% below the reading issued for the prior period. The state's 9.5% rate was the ninth highest of any state. The national average for the measure was 8.5% during the quarter.

In December, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.9 hours. This workload was the same as the level during the prior month, as well as 1.5% above the level in December 2016.

Monthly Indicators (Continued)

The **Average Hourly Earnings** received by private sector workers was \$25.54, which is (0.2)% below the average in the prior month. Year-over-year growth in earnings accelerated from 5.2% in November to 6.2% in December. Year-over-year growth remained above 5.0% for the sixth consecutive month.

State Agency Data

At the beginning of February 2018, the total **AHCCCS caseload** was 1.81 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 550,700 members.

Total monthly enrollment decreased by (33,900) during January and is (3.3)% lower than a year ago. The monthly decrease was spread across most populations. The Traditional and Proposition 204 populations of low income parents and children comprised the largest part of the decrease, collectively falling (22,400), or (1.8)%.

Laws 2016, Chapter 112 reopened enrollment in KidsCare program in September 1, 2016. Following the enrollment freeze in January 2010, the KidsCare caseload had dropped to 500 members by August 2016. Through February 1, 2018, enrollment in the program was 23,700, or (1,100) less than the prior month's enrollment.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (2,100) in January and now totals 78,200 individuals. Enrollment is (4.5)% lower than a year ago. The federal share of this population's cost decreased from 95% to 94% in January 2018.

There were 15,927 TANF **recipients** in the state in January, representing a (5.7)% monthly caseload decrease from December. The year-over-year number of TANF recipients has declined by (14.3)%. 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 January, 865,751 people received food stamp assistance in the state, representing a (2.0)% decrease over December caseloads. Compared to January caseloads last year, the level of food stamp participation has declined by (8.0)%.

The **inmate population** was 41,763 as of January 31, 2017. This is a (0.4)% decrease since December, and a (1.1)% decrease since last January.

Based on information the Department of Child Safety provided for December 2017, **reports of child maltreatment** totaled 47,424 over the last 12 months, a decrease of (1.8)% over the prior year. There were 15,360 **children in out-of-home care** as of November 2017, or (11.8)% less than in November 2016. Compared to the prior month, the number of out-of-home children decreased by (2.6)%.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County probation caseload was 28,286 as of December 2017. This was an increase of 3 above the prior month, and a 487 increase since last December. In addition, the state's non-Maricopa County probation caseload was 19,076. This was a decrease of (74) below the prior month, and a 141 increase since last December. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

Table 6

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				
<i>Employment</i>				
- Regular Unemployment Rate	December	4.5%	0.2%	(0.5)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2017	9.5%	(0.4)%	(1.3)%
- Initial Unemployment Insurance Claims	December	14,339	(7.7)%	(7.8)%
- Unemployment Insurance Recipients	December	20,478	(10.5)%	(13.6)%
- Non-Farm Employment - Total	December	2,815,500	0.2%	1.5%
Manufacturing	December	167,700	1.8%	3.5%
Construction	December	142,500	0.4%	6.3%
- Average Weekly Hours, Private Sector	December	34.9	0.0%	1.5%
- Average Hourly Earnings, Private Sector	December	\$25.54	(0.2)%	6.2%
<i>Sales</i>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	April	\$1,117 million	15.3%	5.4%
Furniture/Home Furnishings	April	\$342.9 million	4.1%	4.3%
Building Material/Lawn & Garden	April	\$463.6 million	26.6%	9.3%
<i>Building</i>				
- Residential Building Permits (12-month avg)				
Single-family	December	27,466	0.4%	13.3%
Multi-family	December	10,016	(6.6)%	(12.0)%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	December	3,736	(29.3)%	(31.3)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	December	\$265,550	0.2%	8.4%
- Phoenix S&P/C Home Price Index (2000 = 100)	November	173.46	(0.1)%	5.6%
- Maricopa Pending Foreclosures	December	3,048	5.5%	(7.9)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	December	20,009	(8.4)%	(11.2)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	December	3,721,252	3.4%	1.7%
- National Park Visitors	November	924,653	(28.6)%	18.8%
- State Park Visitors	December	176,182	(22.0)%	20.1%
- Revenue Per Available Hotel Room	December	\$58.69	(21.1)%	5.5%
<i>General Measures</i>				
- Arizona Leading Index -- 6 month projected growth	December	0.6%	(5.9)%	(2.3)%
- Arizona Personal Income	3rd Q 2017	\$290.2 billion	0.7%	2.4%
- Arizona Population	July 2017	7,016,270	N/A	1.6%
- State Debt Rating				
Standards & Poor's/Moody's	May	AA / Aa2	N/A	N/A
Outlook	May	Stable	N/A	N/A
<i>Agency Measures</i>				
- AHCCCS Recipients	February 1 st	1,808,856	(1.8)%	(3.3)%
Acute Care Traditional		1,039,590	(1.7)%	(5.1)%
Prop 204 Childless Adults		307,730	(1.7)%	(3.3)%
Other Prop 204		183,234	(2.6)%	0.6%
Adult Expansion		78,162	(2.7)%	(4.5)%
Kids Care I		23,656	(4.5)%	71.8%
Long-Term Care – Elderly & DD		61,055	0.1%	3.6%
Emergency Services		115,429	(2.6)%	(4.2)%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	December	47,424	(0.3)%	(1.8)%
DCS Out-of-Home Children	November	15,360	(2.6)%	(11.8)%
Filled Caseworkers (1406 Budgeted)	January	1,308	(13)	(28)
- ADC Inmate Growth	January	41,763	(0.4)%	(1.1)%
- Department of Economic Security				
- TANF Recipients	January	15,927	(5.7)%	(14.3)%
- SNAP (Food Stamps) Recipients	January	865,751	(2.0)%	(8.0)%
- Judiciary Probation Caseload				
Non-Maricopa	December	19,076	(74)	141
Maricopa County	December	28,286	3	487
United States				
- Gross Domestic Product	4 th Q, 2017 (1 st Estimate)	\$17.3 trillion	2.5%	2.6%
(Chained 2009 dollars, SAAR)				
- Consumer Confidence Index (1985 = 100)	January	125.4	1.9%	12.4%
- Leading Indicators Index (2016 = 100)	December	107.0	0.6%	5.7%
- Consumer Price Index, SA (1982-84 = 100)	January	249.3	0.5%	2.1%
- Personal Consumption Price Index (2009 = 100)	December	113.6	0.1%	1.7%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Motor Vehicle Fleet – Pursuant to A.R.S. § 41-803R, the Arizona Department of Administration reported on the FY 2017 year-end inventory of state-owned alternative fuel vehicles. Of the 12,286 state vehicles, 5,169 or 42% are subject to the alternative fuel vehicle requirements. (Law enforcement and certain other vehicles are exempt.)

Of the 5,169 state vehicles subject to the alternative fuel vehicle requirements, 3,749, or 73% are alternative fuel vehicles. This percentage is the same as the prior year and exceeds the 40% target established by statute. Statute also requires 90% of the state vehicles in Maricopa County to be capable of using alternative fuels. The state reports that 81% of its Maricopa County vehicles are alternative fuel vehicles. This is a decrease of (1)% from the prior year.

A.R.S. § 41-803G additionally requires that 75% of new vehicle purchases in Maricopa and Pima Counties be capable of using alternative fuels for models year 2001 or later. Of the 1,522 eligible vehicles purchased in these counties in 2017, 92% were capable of using alternative fuels.

Notwithstanding the number of vehicles capable of using alternative fuel, only 1.7% of the state fleet's fuel budget was spent on alternative fuels. (Rebecca Perrera)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures – A.R.S. § 41-199 requires the Attorney General (AG) to report quarterly on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund receives an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age-restricted areas. Monies in the fund are utilized to support the ICAC Task Force, housed within the Phoenix Police Department, which works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the second quarter of FY 2018, \$225,000 in lottery revenues have been deposited into the ICAC Enforcement Fund. A total of \$133,100 was expended in the second quarter of FY 2018 to help pay for the operating costs of the ICAC Task Force. These expenditures are in addition to \$295,500 expended in the previous quarter, bringing total FY 2018 expenditures to \$428,600.

The FY 2018 expenditure plan for the ICAC Enforcement Fund allocates monies to fund 4 positions within the Phoenix Police Department; equipment costs including cameras, computers, subscriptions to forensic tools, and other information technology equipment; and law enforcement training.

As of December 31, 2017, the ICAC Enforcement Fund had a fund balance of \$1,864,300 and encumbrances of \$766,900. (Sam Beres)

Attorney General – Quarterly Reports on Legal Settlements – Statute requires the Attorney General (AG) to report quarterly to the JLBC on the receipts to, and disbursements from, the Antitrust Enforcement Revolving Fund, the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.

In the second quarter of FY 2018, the AG deposited a total of \$853,400 into various consumer accounts. Of that amount, \$721,400 was deposited into the Antitrust Enforcement Revolving Fund, \$46,900 was deposited into the CPCF Revolving Fund, \$58,900 into the Consumer Restitution Subaccount, and \$26,200 into the Consumer Remediation Subaccount. No monies were deposited into the General Fund this quarter. Only the \$26,200 deposit to the Consumer Remediation Subaccount requires JLBC review prior to expenditure.

Deposits to the Antitrust Enforcement Revolving Fund

The AG deposited \$721,400 in the second quarter of FY 2018 to the appropriated Antitrust Enforcement Revolving Fund to pay for antitrust enforcement expenses undertaken by the AG. This amount was derived from legal settlement with Cephalon, Inc., which the AG had accused of engaging in illegal practices to protect the monopoly status of its sleep disorder drug Provigil. The AG's investigation determined that Cephalon's practices delayed the release time of generic drugs intended to compete with Provigil.

Deposits to the CPCF Revolving Fund

The AG deposited \$46,900 in the second quarter of FY 2018 to the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by statute. This amount was derived from small legal settlements under \$250,000 in value.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$58,900 in the second quarter of FY 2018 to the non-appropriated Consumer

Summary of Recent Agency Reports (Continued)

Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. The full amount of these deposits came from small legal settlements under \$250,000 in value and interest income.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$26,200 of interest income in the second quarter of FY 2018 to the partially-appropriated Consumer Remediation Subaccount to rectify violations of consumer protection laws. An expenditure plan must be reviewed by the JLBC before any of these funds are spent from this account. That review has not yet occurred. (Sam Beres)

Department of Child Safety – DCS/ECDHB Joint Report –

Pursuant to a provision in the FY 2018 Human Services Budget Reconciliation Bill (Laws 2017, Chapter 311), the Department of Child Safety (DCS) and the Early Childhood Development and Health Board (ECDHB) reported on the level of coordination among DCS, ECDHB, and community groups to promote the well-being of children and families that are identified in reports of abuse or neglect. The systemic collaborative efforts include:

- Court Teams Program: ECDHB funds teams that are intended to improve how the courts, child welfare, and child serving organizations work together to protect infants and toddlers in the child welfare system from further harm. The agencies estimate that a total of 6,000 infants and toddlers were impacted by the court teams in FY 2017.
- Child Care Funding and Quality Improvement: ECDHB provided \$30.0 million of matching dollars to draw down \$37.6 million of matching federal monies in federal fiscal year (FFY) 2017. These monies provide child care scholarships to low-income families to reduce instances of abuse or neglect associated with children being cared for in unsafe environments. ECDHB also reports that the number of child care providers with at least a 3-star quality rating increased from 25% in FY 2013 to

71% in FY 2017, which it attributes to its Quality First initiative.

- Early Childhood Mental Health Consultations (ECMHC): ECDHB operates the ECMHC program, which provides children with socio-emotional and behavioral issues, including DCS-involved children, with consultation from trained mental health professionals to reduce the incidence of poor classroom behaviors and lower expulsion rates from preschool and child care. The program also provides training to teachers of children with socio-emotional or behavioral issues. In FY 2017, 433 child and preschool providers received a consultation from the program in an effort to prevent child expulsions and 199 children were referred to services to address their behavioral health needs.

Aside from these system-level collaborations, DCS and ECDHB collaborate in other programs as well. For example, the Healthy Families Arizona program, which is a home visitation program for families during the first 5 years of a child’s life, is funded jointly by ECDHB, DCS, and the Department of Health Services (DHS). In FY 2017, 4,460 families were served statewide. (Patrick Moran)

Department of Child Safety – Monthly Report on Hiring

– Pursuant to a FY 2018 General Appropriation Act footnote, the Department of Child Safety (DCS) reported on its progress in hiring and retaining child safety staff through January 2018. (See Table 7 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,308 in January, or (98) fewer staff than the number of funded positions. Most of the difference between funded positions and filled positions was driven by lower-than-budgeted staffing of caseworkers, which was partly

Table 7

DCS Filled FTE Positions as of January 2018

	<u>Funded</u>	<u>January</u>	<u>Difference</u>
Caseworkers	1,190	1,056	(134)
Hotline Staff	76	66	(10)
Staff in Training	140	186	46
<i>Subtotal - Direct Line</i>	<i>1,406</i>	<i>1,308</i>	<i>(98)</i>
<i>Subtotal - Non-Direct Line Staff</i>	<i>1,511</i>	<i>1,403</i>	<i>(108)</i>
Grand Total ^{1/}	2,917	2,711	(206)

^{1/} Excludes 276.2 Attorney General Staff.

Summary of Recent Agency Reports (Continued)

offset by higher-than-budgeted staff in training. Total direct line staff decreased by (13) since December. There were also 1,403 non-direct line child safety staff in January, or (108) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions increased by 3 compared to December. (Patrick Moran)

Department of Child Safety (DCS) – Semi-Annual Progress Report – Pursuant to A.R.S. § 8-818, DCS has submitted its semi-annual financial and program accountability report covering the period of July 2017 through December 2017. The contents of this report, covering the first 6 months of FY 2018, are summarized below.

- The Training Academy had 331 new caseworkers in training as of December 2017. During the time period from July 2017 to December 2017, 342 caseworkers graduated from the Training Academy, or 113 more graduates than in the previous 6-month period. Employee satisfaction with the training academy was 4.26 on a five-point scale.
- Caseworker workload was 22% above the workload standard, compared to 36% in December of last year (see *Table 8*). Caseworker turnover averaged approximately 35% over the 6-month period.
- The number of dependency cases that were denied or dismissed by the courts was 0.4%. The percent of Office of Administrative Hearings decisions affirming DCS case findings was 85.72%. The percent of complaints validated by the Ombudsman was 24.74%.
- The number of children in licensed foster homes, kinship care, or other family-style placements was 11,833 as of December 2017.
- The number of congregate care placements was 2,267. There were 568 of these children in shelter care for at least 3 weeks. As of December 2017, there were 2 children aged 0-3 in shelter care and the number of children age 0 to 6 in group homes declined from 68 in June 2017 to 55. (Patrick Moran)

State Board of Education – Report on Proposed Changes to Minimum Course of Study and Competency Requirements – Pursuant to A.R.S. § 15-203A12 and 13, the State Board of Education (SBE) must report on the fiscal impact of any proposed changes to the minimum course of study or competency requirements for the promotion of students from grades 3, 8, and 12.

Based on input from the Arizona Department of Education (ADE) and school district and charter representatives, SBE anticipates no fiscal impact resulting from the following proposed changes:

- Re-naming the "Foreign or native American Language" subject area to "World and Native Languages" subject and making it optional rather than mandatory.
- Including computer science, economics, career and technical education (CTE), or science and arts classes as options for mathematics credit in place of Algebra II.
- Eliminate a requirement that special education courses be notated on a student's transcript (to comply with federal law related to student privacy).
- Requiring social studies instruction to include civics.
- Additional labeling/technical changes.

Regarding the foreign language requirement, SBE reports that districts have expressed difficulty in filling teacher positions for second languages and prefer to focus more on English language arts, mathematics, and science. (Matt Beienburg)

Office of the Governor – Report on Donations to the Youth Education Success Fund – Pursuant to Laws 2016, Chapter 248, the Office of the Governor reported the receipt of \$172,020 in philanthropic donations to the Youth Education Success Fund to improve education outcomes for foster youth.

Table 8

Caseworker Workload

	<u>Dec.</u> <u>2008</u>	<u>Dec.</u> <u>2009</u>	<u>Dec.</u> <u>2010</u>	<u>Dec.</u> <u>2011</u>	<u>Dec.</u> <u>2012</u>	<u>Dec.</u> <u>2013</u>	<u>Dec.</u> <u>2014</u>	<u>Dec.</u> <u>2015</u>	<u>Dec.</u> <u>2016</u>	<u>Dec.</u> <u>2017</u>
Investigations	15	15	15	15	15	16	16	25	18	17
In-Home Cases	28	27	30	32	33	47	42	43	39	33
Out-of-Home Children	24	23	25	27	36	25	29	30	28	25
Percent Above Workload Standard	9%	9%	15%	22%	48%	28%	37%	54%	36%	22%
Total Case-Carrying Caseworkers	818	761	764	781	750	983	1,019	953	975	975
Caseworkers Required by Standard	890	829	879	955	1,107	1,263	1,397	1,466	1,329	1,185

Summary of Recent Agency Reports (Continued)

Chapter 248 appropriates \$500,000 to the Office of the Governor to be used as matching funds for philanthropic donations to the Youth Education Success Fund, provided that an accounting of the donations be made to the JLBC by the Office of the Governor. The donations were determined to have qualified for matching funds. As a result, the reported donations will be matched with \$172,020 in General Fund monies. After including donations from earlier this year, an additional \$177,980 in General Fund monies is available to match additional donations received. The donations and General Fund matching monies are in addition to the \$1,000,000 appropriation from the General Fund for deposit in the Youth Education Success Fund also provided in Chapter 248. (Patrick Moran)

Arizona Department of Revenue – Report on Data Center Equipment Upgrade – Pursuant to A.R.S. § 18-104A1(g), the Department of Revenue (DOR) submitted a quarterly report from Gartner Inc. on the status of the department's data center equipment upgrade project. Gartner Inc. reported that, in addition to receiving a favorable review of phase 2 of the project from the Committee, DOR engaged in the following activities during the reporting period:

- Troubleshooting the jumbo frame networking.
- Installing new fiber cabling at the Monroe Street data center.
- Planning for application migration.
- Working on the final stages of dependency mapping. (Sam Beres)

Supreme Court – Report on Criminal Case Proceedings, Enforcement of Court Orders, and State Aid to Courts Fund Expenditures – Pursuant to A.R.S. § 12-102.01D, the Supreme Court reported to the JLBC on the progress of criminal case processing projects and the enforcement of court orders including the collection of court ordered fees, fines, penalties, sanctions and forfeitures. Additionally, pursuant to A.R.S. § 12-102.02D, the Supreme Court reported to the JLBC on the expenditure of monies from the State Aid to the Courts Fund for the prior fiscal year and the progress made in improving criminal case processing.

Since 2003, the Supreme Court has contracted with an outside vendor to increase compliance with court orders, resulting in total collections of \$44.9 million from backlogged cases in FY 2017, or (3.6)% below FY 2016. Additionally, the Supreme Court utilizes a debt setoff program to match outstanding criminal fines or fees to outstanding tax and governmental liabilities. Tax and lottery interceptions in the debt setoff program were \$14.3 million in FY 2017, or (4.7)% below FY 2016.

Expenditures from the State Aid to the Courts Fund were \$2.9 million in FY 2017. These monies were disbursed to Superior and Justice Courts for the processing of criminal cases.

The Supreme Court reported that criminal case processing was enhanced by using State Aid to the Courts Fund monies for computer equipment, video conferencing equipment, case management systems, early resolution and deferred incarceration programs, and staff. (Geoffrey Paulsen)

January Spending

January 2018 General Fund spending was \$786.6 million, which is an increase of \$22.6 million above January 2017. (See Tables 9 & 10).

- Year-to-date, Department of Education (ADE) spending has increased by \$40.2 million compared to the prior year.
- School Facilities Board spending has increased by \$90.3 million so far during FY 2018 compared to the prior year. The agency received additional funding for the construction of 6 schools in the FY 2018 budget.

	<u>Jan 18</u>	<u>Change From Jan 17</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 17</u>
Agency				
AHCCCS	154.9	(39.0)	1,123.9	59.5
Corrections	118.5	34.5	660.8	56.6
Child Safety	32.7	(11.9)	219.1	(13.6)
Economic Security	12.1	6.6	516.6	48.0
Education	273.8	(25.1)	2,845.2	40.2
Health Services	8.9	2.0	56.5	2.6
Public Safety	17.2	0.7	65.8	4.4
School Facilities Board	50.6	50.4	261.5	90.3
Universities	58.1	(2.6)	412.6	12.5
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>59.8</u>	<u>7.0</u>	<u>362.6</u>	<u>8.3</u>
Total	786.6	22.6	6,608.7	308.8

General Fund Spending				
(\$ in Thousands)				
Agency	January 18	Change from January 17	Year-to-Date	YTD Change from FY 17
Dept. of Admin./Automation Projects Fund	2,000.6	(1,613.3)	24,383.9	(1,583.9)
ADOA – Sale/Leaseback Debt Service	-	-	84,115.1	(2.3)
Office of Administrative Hearings	134.6	40.7	590.9	67.8
Commission of African-American Affairs	13.6	5.4	82.1	16.0
Department of Agriculture	1,051.6	308.7	5,961.9	446.5
AHCCCS	154,856.6	(38,958.1)	1,123,859.4	59,544.2
Attorney General	2,429.9	836.8	15,000.4	1,629.8
State Board of Charter Schools	114.3	42.5	631.0	41.6
Department of Child Safety	32,741.5	(11,874.2)	219,088.9	(13,571.1)
AZ Commerce Authority	1,791.7	(300.0)	10,900.2	(300.0)
Community Colleges	12,721.8	(919.3)	40,625.0	1,081.6
Corporation Commission	76.6	32.8	1,350.5	775.2
Department of Corrections	118,518.6	34,452.8	660,823.6	56,610.3
County Funding	-	-	15,650.7	1,650.2
AZ State Schools for the Deaf & Blind	3,788.8	2,646.6	14,826.6	942.1
Office of Economic Opportunity	49.5	49.5	295.8	(442.4)
Department of Economic Security	12,114.5	6,615.8	516,617.8	47,960.0
State Board of Education	59.7	(11.9)	638.7	85.2
Department of Education	273,753.6	(25,076.9)	2,845,180.6	40,171.6
DEMA	481.8	(497.4)	5,982.2	336.4
DEQ – WQARF	-	-	2,823.6	-
Office of Equal Opportunity	19.4	(7.9)	115.0	(9.5)
State Board of Equalization	35.2	12.7	367.1	(14.7)
Board of Executive Clemency	84.1	27.3	593.0	130.7
Department of Financial Institutions	237.7	24.5	1,216.8	(445.6)
Department of Fire, Bldg and Life Safety	-	-	-	2.4
Department of Forestry and Fire Management	1,046.7	409.3	6,180.8	2,195.3
Department of Gaming	-	(75.0)	1,779.5	(75.0)
Governor/OSPB	1,558.1	791.3	7,462.3	1,665.9
Department of Health Services	8,911.7	2,047.1	56,538.2	2,574.5
Arizona Historical Society	265.6	(88.2)	1,499.3	(488.4)
Prescott Historical Society of AZ	81.4	19.9	502.8	36.0
Department of Housing	(2.9)	(71.2)	246.0	(274.6)
Independent Redistricting Comm.	0.0	(83.5)	0.8	(717.2)
Department of Insurance	643.1	317.4	3,322.8	521.4
Judiciary				
Supreme/Superior Court	10,082.8	405.9	58,067.6	1,250.7
Court of Appeals	1,626.9	593.7	8,690.6	725.7
Department of Juvenile Corrections	3,302.4	968.9	13,016.8	(616.7)

Table 10 (Continued)				
Agency	January 18	Change from January 17	Year-to-Date	YTD Change from FY 17
State Land Department	1,031.4	333.2	6,972.4	811.5
Legislature				
Auditor General	2,390.2	923.9	13,190.5	1,938.2
House of Representatives	1,650.6	577.9	8,318.5	979.9
Joint Legislative Budget Comm.	253.3	59.2	1,496.5	148.0
Legislative Council	656.5	30.8	3,951.4	(86.6)
Senate	1,107.1	391.9	5,496.7	521.5
Mine Inspector	120.6	45.1	725.9	65.6
Nav. Streams & Adjudication	12.1	3.8	78.6	4.0
Phoenix Convention Center	-	-	22,499.0	2,050.0
Comm. for Postsecondary Ed.	823.4	127.7	1,646.8	254.8
Department of Public Safety	17,220.5	662.4	65,812.3	4,440.4
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	23.8	(176.2)	646.6	(581.4)
Real Estate Department	258.4	94.3	1,575.9	21.4
Department of Revenue	2,444.4	640.4	17,453.3	364.9
School Facilities Board	50,569.5	50,364.8	261,536.1	90,337.0
Secretary of State	1,450.1	(1,149.2)	9,393.5	(9,504.1)
Tax Appeals Board	45.4	27.2	181.9	29.2
Office of Tourism	1,422.4	142.2	6,400.8	213.6
Department of Transportation	0.9	0.9	29.0	28.3
Governor's Office on Tribal Relations	2.1	(4.4)	16.3	(19.2)
Universities				
Board of Regents	22.7	(6,345.8)	5,559.4	(13,716.1)
Arizona State University	26,688.2	2,020.2	186,817.7	14,092.5
Northern Arizona University	9,051.1	614.7	63,357.5	4,352.4
University of Arizona	22,384.2	1,072.6	156,903.5	7,722.7
Department of Veteran Services	609.3	138.7	3,369.8	71.3
Department of Water Resources	1,555.7	732.7	9,474.1	3,405.6
Department of Weights & Measures	-	(0.8)	(1.0)	(1.8)
Other - State Treasurer/JP Salaries	183.5	(130.4)	670.8	(21.1)
Other - ADOT Capital	-	-	-	(1,500.0)
Other	62.5	314.2	125.0	425.0
Total	786,635.4	22,588.9	6,608,731.6	308,771.4

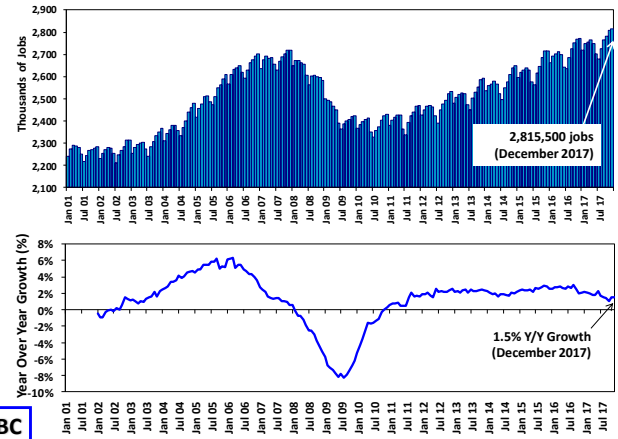
Arizona Economic Trends

February 2018
Appendix A

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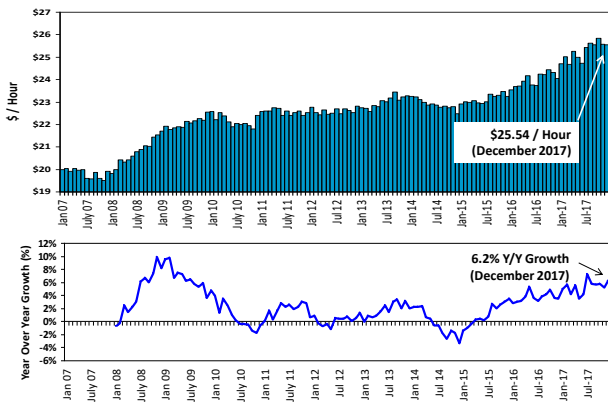
- 2.....Total Non-Farm Employment
- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits

Total Non-Farm Employment



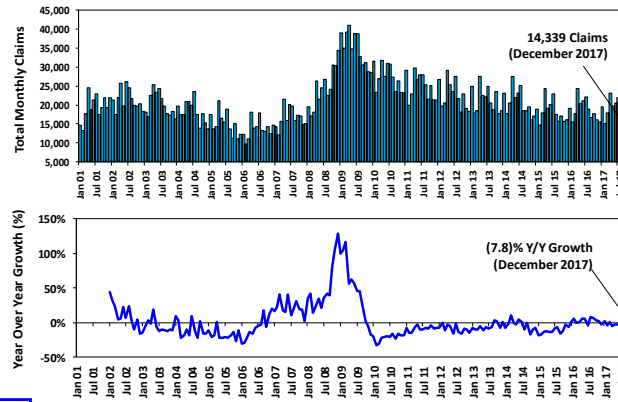
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Average Hourly Earnings – Private Sector



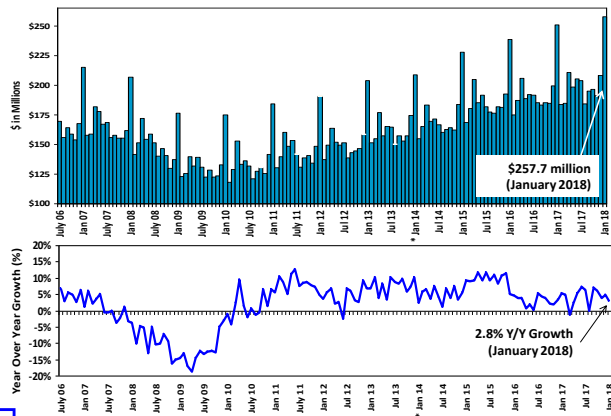
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Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



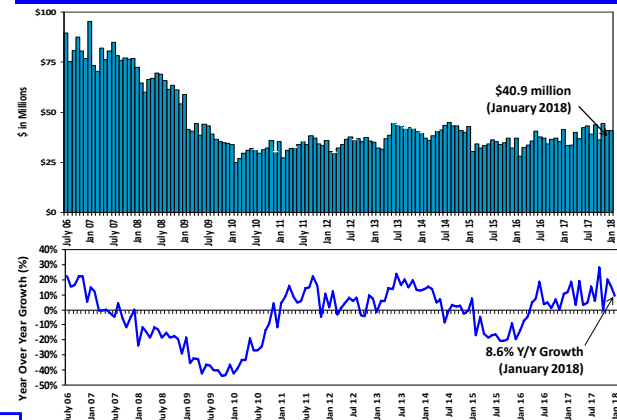
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Excludes temporary 1 c sales tax

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

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State Sales Tax Collections – Contracting Category

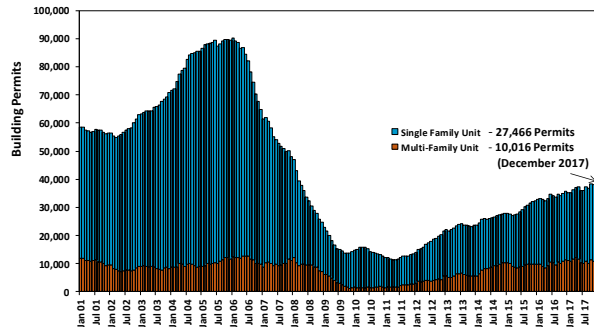


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Excludes temporary 1 c sales tax

6

Residential Building Permits



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12-Month Moving Sum

7