

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 3.8% higher than last year. In total, year-to-date General Fund collections are \$27.5 million above the January Base line forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on April 19, 2013.

Summary

March General Fund revenue collections totaled \$563.4 million. Excluding one-time adjustments, revenues were (1.7)% below the prior year.

As is typically seen, the March results are difficult to interpret due to the continued processing of income tax returns. A growth in Individual Income Tax refunds contributed to the March decline in revenues.

In addition, a technical timing issue related to the Insurance Premium Tax (the state’s 4th largest General Fund revenue source) further caused base revenues to decline compared to the prior year.

Year-to-date, base revenues are 3.8% higher than last year. In total, year-to-date General Fund collections are \$27.5 million above the January Base line forecast.

Whether revenues remain above forecast through the remainder of the budget year will largely depend on the April revenue results. The state processes the bulk of its Individual and Corporate Income Tax payments and refunds during this month and May. In particular, the Federal fiscal cliff incentivized taxpayers to take capital gains last December, which adds further uncertainty to collections in April and the remainder of FY 2013.

In comparison to revenue of \$563.4 million, March 2013 General Fund spending was \$363.6 million, or \$17.7 million above last year.

Fiscal year-to-date, General Fund revenues of \$6.3 billion have been offset by \$6.9 billion in General Fund spending.

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. As of mid-April 2013, the operating balance is \$2.0 billion.

April FAC Summary

The Finance Advisory Committee (FAC) met on April 11, 2013 to update its 4-sector revenue forecast. The FAC is a 15-member panel of private and public sector economists and their views serve as one of the 4 equal inputs into JLBC’s Consensus Base line revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) models. The Consensus forecast provides a perspective on base revenue, which reflects underlying economic conditions and does not include factors such as tax law changes and Urban Revenue Sharing.

The FAC heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. The JLBC Staff provided members with revised [FY 2013 - FY 2016 fiscal estimate](#) based on the updated 4-sector revenue forecast and future spending estimates as previously outlined in the JLBC Base line released in January.

The overall revenue forecast from the April FAC meeting declined slightly from the prior January meeting. Of the 4 inputs, 3 (JLBC, UA Base, and FAC) showed declines compared to the January projections, with the decreases ranging from (0.1)% to (0.6)%. In contrast, the UA “low risk” forecast increased by 0.5%. The final result of the offsetting changes is that the FY 2014 Consensus forecast remained unchanged from the January FAC meeting at a level of 4.9%.

Table of Contents

Summary

- April FAC Summary1
- Classroom Site Fund Report2

March Revenues2

Economic Indicators4

JLBC Meeting7

JCCR Meeting7

Summary of Recent Agency Reports

- AHC CCS – Interstate Agreement..... 8
- AHC CCS/DES/DHS - Capitation Increase..... 8
- DES – Report on CPS..... 8
- DHS – Report on Arnold v. Sam 8

March Spending 9

Tracking Arizona’s Recovery.....Appendix A

Summary (Continued)

In general, the FAC panels acknowledged that while underlying economic conditions had improved, sequestration and other federal budget issues continue to pose challenges.

Table 1 below outlines a comparison of these projections:

	<u>FY 13</u>	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>
January 4-Sector	4.0%	4.9%	5.9%	6.2%
April 4-Sector	4.0%	4.9%	6.1%	5.6%

The net result of the April forecast would be to reduce the 4-year General Fund revenue forecast (FY 2013 – FY 2016) by \$(30) million when compared to the January Baseline projections.

March Revenues

	<u>FY 2013</u> <u>Collections</u>	<u>Difference From</u> <u>Baseline Forecast</u>	<u>Difference</u> <u>From FY 2012</u>
March	\$ 563.4	\$ 11.8	\$ (62.9)
Year-to-Date	\$ 6,312.4	\$ 27.5	\$ (43.5)

Sales Tax collections of \$374.6 million were 0.6% above March 2012 and \$(11.9) million below the Baseline forecast for the month.

Year-to-date, sales tax collections are 4.3% above the prior year and are \$5.5 million above forecast.

Table 3 displays the March growth rates for the largest categories.

	<u>March</u>	<u>YTD</u>
Retail	3.8%	6.1%
Contracting	5.7%	3.1%
Utilities	(11.6)%	1.9%
Use	(12.3)%	(2.5)%
Restaurant & Bar	0.7%	5.7%

Retail and contracting together account for almost 60% of all sales tax revenues. March

Classroom Site Fund Report

The JIBC Staff is annually required to determine by March 30 the estimated K-12 Classroom Site Fund (CSF) per pupil amount for the upcoming budget year. The CSF is funded from the Proposition 301 0.6¢ sales tax. Public schools will receive \$310 per weighted pupil from the CSF for FY 2014 from both a cash and "budget capacity" perspective.

The \$310 per pupil amount would be substantially higher than the \$257 cash and \$227 "budget capacity" FY 2013 per pupil amounts because of projected growth in Proposition 301 sales tax revenues, higher endowment earning distributions under Proposition 118 and lower SFB Proposition 301 bond debt service costs due to a recent refinancing.

retail, which reflects February sales, increase by 3.8%.

Individual Income Tax net revenues were \$65.8 million in March, which was \$(6.5) million less than the prior year. Collections were \$27.7 million greater than the Baseline forecast. Year-to-date, revenues have grown 7.9% and are \$38.3 million above forecast. It is difficult to interpret year-to-date income tax collections in the middle of tax-filing season.

As indicated in Table 4, withholding was up 4.3% in March. The March increase brings withholding tax collections for the fiscal year to 3.7% over the prior year. This amount is \$7.0 million above the Baseline forecast.

Total estimated and final payments of \$52.7 million were 12.3% above last year, and were \$0.9 million above forecast. Year-to-date, payments are \$(7.7) million below the forecast.

Refunds of \$(281.6) million were \$24.3 million greater than last year's amount. Year-to-date, refunds are \$39.0 million below forecast.

"It is difficult to interpret year-to-date income tax collections in the middle of tax-filing season."

March Revenues (Continued)

Table 4
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>March</u>	<u>YTD</u>
Withholding Estimated + Final Payments	4.3%	3.7%
Refunds	12.3%	3.0%
	9.5%	(7.5)%

Corporate Income Tax net collections were \$75.4 million in March, which is \$9.5 million greater than the prior year's net collections. Collections for the month were \$6.3 million above the forecast. Year-to-date, collections are down (6.7)% and are \$(3.5) million below forecast.

The **Lottery Commission** reports that March ticket sales were \$70.0 million, which is \$(8.4) million, or (10.7)%, less

than sales in the prior year. Year-to-date ticket sales are \$505.5 million, which is 4.3% above last year's sales. While year-to-date sales have increased, net General Fund revenues actually declined due to an increase in the payment of debt service for the Lottery Revenue Bonds issued in FY 2010.

Non-General Fund

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 \$100.3 million in March were down \$(2.8) million, or (2.8)%, compared to March of last year. Year-to-date revenues are (0.6)% below collections in the prior year.

Table 5

General Fund Revenue: Change from Previous Year and January Baseline Forecast March 2013

	Current Month					FY 2013 YTD (Nine Months)				
	Actual March 2013	Change From		Baseline Forecast		Actual March 2013	Change from		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$298,125,466	\$953,629	0.3 %	(\$13,084,541)	(4.2) %	\$2,825,925,064	\$109,868,513	4.0 %	(\$5,251,868)	(0.2) %
- Lic Increase*	76,430,417	1,211,604	1.6	1,213,733	1.6	713,351,753	37,081,462	5.5	10,789,576	1.5
Income - Individual	65,790,079	(6,501,288)	(9.0)	27,748,861	72.9	2,318,012,286	168,739,260	7.9	38,323,491	1.7
- Corporate	75,400,429	9,512,205	14.4	6,319,572	9.1	404,476,410	(28,962,011)	(6.7)	(3,480,308)	(0.9)
Property	615,671	(192,907)	(23.9)	(384,329)	(38.4)	9,082,374	(2,193,445)	(19.5)	(1,352,908)	(13.0)
Luxury - Tobacco	1,891,419	(39,566)	(2.0)	0	0.0	18,384,640	(1,684,862)	(8.4)	(886,322)	(4.6)
- Liquor	2,872,322	443,518	18.3	0	0.0	23,616,518	1,633,636	7.4	(806,669)	(3.3)
Insurance Premium	67,711,409	(18,449,422)	(21.4)	(12,288,591)	(15.4)	220,585,957	(28,377,187)	(11.4)	(17,899,557)	(7.5)
Estimate	0	0	--	0	--	0	(200,825)	(100.0)	0	--
Other Taxes	1,063,213	(123,574)	(10.4)	3,660	0.3	1,409,891	(139,540)	(9.0)	(90,109)	(6.0)
Sub-Total Taxes	\$589,900,425	(\$13,185,801)	(2.2) %	\$9,528,365	1.6 %	\$6,534,844,893	\$255,765,001	4.1 %	\$19,345,326	0.3 %
Other Revenue										
Lottery	5,019,040	(442,700)	(8.1)	19,040	0.4	31,628,960	(8,653,960)	(21.5)	580,760	1.9
License, Fees and Permits	2,164,740	(537,470)	(19.9)	(235,260)	(9.8)	21,813,049	908,666	4.3	756,986	3.6
Interest	2,561	(163)	(6.0)	(7,439)	(74.4)	4,909,228	2,801,522	132.9	4,866,583	--
Sales and Services	2,184,002	31,098	1.4	84,002	4.0	21,342,508	832,595	4.1	571,016	2.7
Other Miscellaneous	3,890,960	1,856,230	91.2	390,960	11.2	21,692,848	(3,270,308)	(13.1)	(368,310)	(1.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,473,647	1,992,082	413.7	1,973,647	394.7	10,362,269	(2,333,647)	(18.4)	1,705,058	19.7
Sub-Total Other Revenue	\$15,734,950	\$2,899,077	22.6 %	\$2,224,950	16.5 %	\$111,748,862	(\$9,715,132)	(8.0) %	\$8,112,093	7.8 %
TOTAL BASE REVENUE	\$605,635,375	(\$10,286,724)	(1.7) %	\$11,753,315	2.0 %	\$6,646,593,755	\$246,049,869	3.8 %	\$27,457,419	0.4 %
Other Adjustments										
Urban Revenue Sharing	(42,798,670)	(7,430,050)	21.0	0	0.0	(385,188,030)	(66,870,450)	21.0	0	0.0
Budget Plan Transfers	534,670	(45,157,392)	(98.8)	0	0.0	50,960,597	(209,801,778)	(80.5)	0	0.0
Tax Amnesty	0	0	--	0	--	0	(12,867,428)	(100.0)	0	--
Sub-Total Other Adjustments	(42,264,000)	(52,587,442)	-- %	0	0.0 %	(334,227,433)	(289,539,656)	647.9 %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$563,371,375	(\$62,874,166)	(10.0) %	\$11,753,315	2.1 %	\$6,312,366,322	(\$43,489,787)	(0.7) %	\$27,457,419	0.4 %
Non-General Funds										
Highway User Revenue Fund	\$100,260,463	(\$2,836,151)	(2.8) %	(\$3,454,731)	(3.3) %	\$896,316,747	(\$5,614,755)	(0.6) %	(\$11,026,344)	(1.2) %

* Total March collections including the temporary license increase approved by the voters in May 2010 were \$374.6 million. This amount is \$2.2 million, or 0.6%, above March 2012 and \$(11.9) million, or (3.1)%, below forecast.

Recent Economic Indicators

NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** shrank by (12.2)% in March, erasing most of its February gains. The decrease also represents the largest year-over-year percentage drop since October 2011. Most of the index's sub-indices decreased in March, though fears about federal sequester impacts and rising gas prices were thought to be the largest drags on confidence.

The Conference Board's **U.S. Leading Economic Index** increased by 0.5% in February and 2.0% above the measure in February 2012. While 8 of 10 sub-indices increased during the month, the index's gain was mostly the result of increased building permits and an improved interest rate spread. Consumer expectations and orders of non-defense capital goods were the only 2 components of the indicator to worsen during February.

The Semiconductor Industry Association (SIA) reported that Semiconductor Billings (3-month moving average) in the Americas decreased (6.2)% in February, to \$4.48 billion. While a monthly decrease is consistent with seasonality of sales, this represents the largest monthly percentage decrease since December 2008. Semiconductors are Arizona's largest international export industry.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, decreased (0.2)% in March though still grew 1.5% above the prior year. Gas prices retreated by (4.4)% in March after growth of 9.1% in the prior month. The impact of the month's gas price decreases was partially offset by a 0.1% increase in core inflation (all prices except for food and energy).

ARIZONA

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

In February, 45 out of 50 states had increases in the coincident indexes. Arizona's coincident index increased by 0.2% compared to the prior month. Year-over-year, the Arizona index is 1.9% above last year, which is the thirty-sixth highest growth rate in the country. While this is a

significant improvement, Arizona's index is still (10.7)% below its peak, which occurred in August 2007. *See Appendix A – Tracking Arizona's Recovery* for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that forecasts economic conditions for the next 6 months. In addition to the coincident index, Arizona's leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national manufacturing delivery times, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona's leading index projects that state GDP will grow at an annualized rate of 2.3% over the next 6 months. This is unchanged from the revised 2.3% growth projection in January and lower than the 3.3% projection in February 2012.

Housing

The number of Maricopa County **pending foreclosures** decreased from 10,596 in February to 10,189 in March. The March total is significantly below the peak in December 2009 (51,466). *See Appendix A – Tracking Arizona's Recovery*.

The total housing inventory in the Greater Phoenix area decreased from 21,863 in March 2012 to 20,729 in March 2013, a (5.2)% decrease. This continues the decline in inventory that started in January 2011. As the supply of housing has declined, the price has increased. In the Metropolitan Phoenix area, the **median price of a single family home** was \$170,000 in February. This represents a 4.3% increase from January and a 36.5% increase from February of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through February, a total of 1,174 **single-family building permits** had been issued statewide, a 21.0% increase from last year. While permitting activity has seen gains, the current level of permitting remains far below a more normal 3-month average of 3,000 to 4,000 permits. *See Appendix A – Tracking Arizona's Recovery*.

“[The] U.S. Consumer Confidence Index shrank by (12.2)% in March, erasing most of its February gains.”

Recent Economic Indicators (Continued)

The multi-family housing sector has also seen gains, with the 3-month period ending in February resulting in a total of 753 **multi-family building permits** being issued in the state. However, this figure remains well below the peak of activity in April 2007.

Employment

The state gained a total of 16,600 **nonfarm jobs** between February and March. The private sector added a net of 17,900 jobs in March whereas the government sector lost (1,300) jobs. The largest contributions to March's month-over-month net job gain came from the following sectors: leisure and hospitality (+7,100), professional and business services (+2,900), construction (+2,600), and trade, transportation and utilities (+2,400).

Compared to March 2012, **nonfarm employment** was up by 1.8%, or 45,100 jobs. This is the second month of below 2%, year-over-year nonfarm job growth after February's employment gain was revised downward (2.0% to 1.9%). The largest year-over-year net job gains came from the following industries: leisure and hospitality (+9,900), construction (+7,900), trade, transportation and utilities (+5,600), and education and health services (+5,600).

See Appendix A – Tracking Arizona's Recovery.

State Agency Data

At the beginning of April, total **AHCCCS case loads** equaled 1.27 million members, a 0.5% increase from the prior month. Overall, AHCCCS case loads are currently (1.9)% below April 2012 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, increased by 0.5% since last month and decreased (0.3)% from a year ago. The total population in this program is almost 900,000.

The childless adult program has not allowed new participants since July 2011. This population has declined (145,445) since then to 79,047. As a whole, the Proposition 204 program has declined (1.0)% compared to the prior month, and (19.9)% from the prior year. KidsCare I provides coverage for 7,617 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010.

Enrollment declined (1.0)% compared to the prior month and (31.6)% from the prior year.

Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II, which provides coverage for children up to 175% of the Federal Poverty Level. The state match is provided by voluntary payments from political subdivisions. As of the beginning of April 30, 2012 children were enrolled in KidsCare II.

There were 37,630 **TANF recipients** in the state in February, a monthly case load decrease of (2.5)%. Year-over-year, the number of TANF recipients has declined by (4.6)%. The statutory lifetime limit on cash assistance is 24 months.

The appropriation for TANF cash assistance in the FY 2013 budget funds a case load of approximately 36,200 recipients in FY 2013.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In February, there were a total 1.1 million food stamp recipients in the state, a (0.7)% decrease from the prior month. Compared to the same month last year, food stamp participation was down by (1.5)%. The number of SNAP recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Corrections (ADC) inmate population** increased to 40,085 inmates in March 2013. Relative to the prior 3-month period, the population has increased by 40 inmates. Compared to a year ago, the population has increased by 168 inmates.

“Overall, AHCCCS case loads are currently (1.9)% below April 2012 levels.”

Recent Economic Indicators (Continued)

Table 6

ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate (SA)	March	7.9%	0.0%	(0.5)%
- Initial Unemployment Insurance Claims	March	18,518	3.7%	(9.8)%
- Unemployment Insurance Recipients	March	36,956	(2.1)%	(29.4)%
- Non-Farm Employment - Total	March	2.51 million	0.7%	1.8%
Manufacturing	March	155,200	0.2%	0.7%
Construction	March	119,900	2.2%	7.1%
- Average Weekly Hours, Manufacturing	February	40.5	1.8%	(1.9)%
- Contracting Tax Receipts (3-month average)	Jan-Mar	\$33.0 million	(3.9)%	2.8%*
- Retail Sales Tax Receipts (3-month average)	Jan-Mar	\$170.0 million	(0.7)%	6.8%*
- Residential Building Permits (3-month moving average)				
Single-family	Dec-Feb	1,174	1.9%	21.0%
Multi-unit	Dec-Feb	753	4.2%	50.3%
- Greater Phoenix Home Sales				
Single-Family	February	7,353	6.0%	(10.2)%
Townhouse/Condominium	February	1,216	10.5%	(14.6)%
- Greater Phoenix Median Home Price				
Single-Family	February	\$170,000	4.3%	36.5%
Townhouse/Condominium	February	\$108,000	6.4%	39.4%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	January	126.69	1.1%	23.2%
- Foreclosure Activity, Maricopa County	March	10,189	(3.8)%	(43.5)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	March	20,729	(4.6)%	(5.2)%
- Phoenix Sky Harbor Air Passengers	February	3.06 million	(5.5)%	(2.7)%
- Revenue Per Available Hotel Room	February	\$77.16	32.7%	8.7%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	January	\$4.43	(7.7)%	(14.0)%
- Arizona Consumer Confidence Index (1985 = 100)	4th Quarter 2012	71.3	3.9%	24.0%
- Arizona Coincident Index (July 1992 = 100)	February	181.15	0.2%	1.9%
- Arizona Leading Index -- 6 month projected growth rate	Dec-Feb	2.3%	(0.1)%	(1.0)%
- Arizona Personal Income	4th Quarter 2012	\$240.2 billion	2.1%	4.8%
- Arizona Population	July 1, 2012	6.55 million	N/A	1.3%
- AHCCCS Recipients	April	1,269,693	0.5%	(1.9)%
Acute Care Traditional		885,663	0.5%	(0.3)%
Prop 204 Childless Adults		79,047	(3.2)%	(39.6)%
Other Prop 204		147,871	0.2%	(2.9)%
Kids Care		7,617	(1.0)%	(31.6)%
Kids Care II		30,201	6.8%	
Long-Term Care - Elderly & DD		53,286	0.2%	2.2%
Emergency Services		66,008	3.6%	12.7%
- TANF Recipients	February	37,630	(2.5)%	(4.6)%
- SNAP (Food Stamps) Recipients	February	1,101,324	(0.7)%	(1.5)%
- ADC Inmate Growth (3-month average)	Jan-Mar	40,085	40 inmates	168 inmates
- Probation Case Load				
Non-Maricopa	February	17,780	(92)	(589)
Maricopa County	February	25,334	261	(147)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	4th Quarter 2012 (3rd Estimate)	\$13.7 trillion	0.4%	1.7%
- Consumer Confidence Index (1985 = 100)	March	59.7	(12.2)%	(14.1)%
- Leading Indicators Index (2004 = 100)	February	94.8	0.5%	2.0%
- U.S. Semiconductor Billings (3-month moving average)	Dec-Feb	\$4.48 billion	(6.2)%	1.6%
- Consumer Price Index, SA (1982-84 = 100)	March	232.3	(0.2)%	1.5%

*Adjusted for 1¢ sales tax

JLBC Meeting

At its March 26, 2013 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – Review of Automation Projects Fund – The Committee gave a favorable review to the department's \$70 million expenditure plan to replace the state's financial and accounting system, the Arizona Financial Information System (AFIS). The favorable review included stipulations requiring additional reports on the quarterly progress on the project, estimated ongoing maintenance costs, and any expenditures of a \$4.1 million contingency allocation.

Attorney General – Review of Allocation of Settlement Monies – State v. GlaxoSmithKline, LLC – The Committee tabled review of the allocation plan for the \$3.0 million consent judgment against GlaxoSmithKline, LLC, until the Attorney General develops a specific plan for the \$2.4 million in remediation funds from the settlement.

Attorney General – Review of Allocation of Settlement Monies – State v. Pfizer, Inc. – The Committee gave a favorable review to the allocation plan from the \$1.7 million consent judgment with Pfizer, Inc. The settlement will be deposited into the Consumer Fraud Revolving Fund.

JCCR Meeting

At its April 2, 2013 meeting, the Joint Committee on Capital Review considered the following issues:

State Department of Corrections – Review of Revised FY 2013 Building Renewal Allocation Plan – The Committee gave a favorable review of the Revised FY 2013 Building Renewal Allocation Plan that reallocates \$1,000,000 to build in-patient care special use beds at the Tucson-Rincon unit.

State Department of Corrections – Review of Purchase of Marana Private Prison – The Committee gave a favorable review of ADC's proposed plan to purchase the Arizona State Prison (ASP)-Marana at a cost of \$150,000 from its current private operator in October 2013. In accordance with current law, JCCR requested that ADC submit its Request for Proposals (RFP) to operate ASP-Marana for review by the Joint Legislative Budget Committee (JLBC).

Yavapai Community College District – Review of Revenue Bond Project – The Committee gave a favorable review of a \$5.5 million project to fund the renovation of 2 residence halls with a \$5 million revenue bond issuance and \$550,000 in district cash reserves.

Northern Arizona University and University of Arizona – Review of Phoenix Biomedical Campus Health Sciences Education Building – The Committee gave a favorable review of \$17.9 million in bond issuances to build out shell space in the Health Sciences building for medical simulation rooms. The project's debt service is being funded with university lottery bond proceeds.

Northern Arizona University – Review of Science and Health Building Bond Project – The Committee gave a favorable review of the \$72.6 million bond issuance to fund construction of a 120,000 square foot science and health building that would house classrooms, lecture halls, and teaching and research laboratories on the Flagstaff campus. The project's debt service is being funded from university lottery proceeds.

Summary of Recent Agency Reports

AHCCCS – Report on Interstate Agreement with Hawaii – Pursuant to A.R.S. § 36-2925H, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the status of an Interstate Agreement with the State of Hawaii. This report summarizes the continued activities associated with the agreement between AHCCCS and Hawaii for Medicaid data processing. In FY 2012, Arizona received \$7.2 million in revenues from Hawaii, of which \$646,100 was transferred to the General Fund. These monies are divided between 2 funds with a combined balance of \$1.1 million. (Amy Upston)

AHCCCS, DES, & DHS – Report on Preliminary Actuarial Estimates for FY 2014 Capitation Rate Changes – Pursuant to FY 2013 General Appropriation Act footnotes, AHCCCS has submitted a report on preliminary Medicaid capitation rate increases for contract year (CY) 2014. The submission includes information for AHCCCS, the Department of Economic Security (DES), and the Department of Health Services (DHS).

In their report, AHCCCS provided information on components of potential CY 2014 capitation rate changes:

- An average increase of 3% based on medical expense trends, utilization trends, and reinsurance changes.
- Possible provider rate adjustments to ensure network adequacy.
- An approximate 1.3% increase for a new nationwide health insurer fee included in the Affordable Care Act (ACA).
- Potential increase for some providers who are required to provide health insurance for full-time employees due to ACA provisions.
- Changes in behavioral health services capitation rate development. DHS will be changing from a contract year start date of July 1 to October 1. Also, AHCCCS actuaries will be developing the rates instead of an external actuarial firm.

The FY 2014 Base line included a 2% capitation rate increase for all 3 agencies and accounted for the new health insurer fee. Amy Upston.

Department of Economic Security (DES) - Semi-Annual Report on CPS - Pursuant to A.R.S. § 8-818, DES has submitted its semi-annual financial and program accountability report. According to the report, out-of-home placements increased from 13,497 in June to 14,159 in December. Caseloads are above the department's goals and turnover for Child Protective Services (CPS) case managers was approximately 28.6%.

Employee satisfaction has increased from a 3.4 rating out of 5.0 in the August report to 3.6 in this the February report. The highlights of this report, covering the first 6 months of FY 2013, are summarized below.

- The CPS Training Academy had 280 new CPS case managers in training as of December 2012.
- As of December 2012, the number of filled positions was 1,124, including those in training. Caseloads per worker remain considerably higher than caseload goals, with investigations at 15 (goal: 10), in-home at 33 (goal: 19), and out-of-home at 36 (goal: 16).
- DES reports that an annualized case manager turnover during July - December 2012 was 28.6%, down from a 31.2% annualized rate in the last report.
- The percent of CPS dependency cases denied or dismissed in the last 6 months decreased to 0.0% from 0.3% in the previous 6 months, while the percent of Office of Administrative Hearing's decisions affirming CPS case findings increased from 86.4% to 87.5%. The percent of complaints validated by the Ombudsman increased from 1.4% to 2.0% (4 of 205 complaints).
- The number of children in out-of-home family placements increased from 10,905 in June to 11,324 in December, a 3.8% increase. The number of congregate care placements increased from 1,893 to 2,032, a 7.3% increase. DES also reports that from June to December the number of children aged 0-3 in shelter care declined from 34 to 30, the number of children aged 0-6 in group homes increased from 66 to 77, and the number of children in shelter care for more than 21 days increased from 736 to 820.
- The December numbers are labeled as preliminary. (Ben Beutler)

Department of Health Services – Report on *Arnold v. Sam* – Pursuant to a FY 2013 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted the second quarter report on settling the *Arnold v. Sam* lawsuit.

The state has been a longstanding defendant in the *Arnold v. Sam* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population. Due to the state's fiscal condition, the plaintiffs and the state agreed in March 2010 to suspend the lawsuit for 2 years due to lack of funding. The latest agreement with the plaintiffs does not contain an exit criteria or a schedule for compliance.

The latest agreement focuses on the conditions for admission and the length of stay for *Arnold* class members at the Arizona State Hospital (ASH), as DHS and the Regional Behavioral Health Authorities (RBHAs)

Summary of Recent Agency Reports (Continued)

are coordinating discharges to provide appropriate support and services following discharge, in addition to ensuring that ASH has a census of 55 or fewer class members. DHS did not exceed this limit in the second quarter. The agreement also focuses on employment support, family and peer support and Quality of Service

Reviews. DHS also states that it plans to implement an Assertive Community Treatment (ACT) Fidelity Tool, which will be used to evaluate the effectiveness of community-based behavioral health support teams. The new ACT Fidelity Tool will be implemented in the third quarter of FY 2013. (Art Smith)

March Spending

March 2013 General Fund spending of \$363.6 million was \$17.7 million higher than March 2012. Year-to-date, spending is \$6.9 billion, or \$172.3 million above last year. (See Tables 7 & 8).

	<u>March 13</u>	<u>Change from March 12</u>	<u>Year to Date</u>	<u>YTD Change from FY 12</u>
Agency				
AHCCCS	128.5	2.8	1,035.0	(154.3)
Corrections	69.3	2.1	670.8	(6.5)
Economic Security	4.8	(0.4)	530.8	34.7
Education	73.6	9.1	2,663.4	0.9
Health Services	14.4	4.8	538.0	75.4
Public Safety	1.2	0.0	21.4	(18.3)
School Facilities Board	0.1	0.0	172.5	8.9
Universities	39.4	(2.1)	583.7	(13.3)
Leaseback Debt Service	0.0	0.0	84.1	35.1
Other	<u>32.3</u>	<u>1.4</u>	<u>380.1</u>	<u>9.7</u>
Total	363.6	17.7	6,679.8	(27.7)
Budget Stabilization Fund Deposit	0.0	0.0	200.0	200.0
Grand Total	363.6	17.7	6,879.8	172.3

General Fund Spending				
(\$ in Thousands)				
Agency	March 13	Change from March 12	Year-to-Date	YTD Change from FY 12
Department of Administration	583.3	(113.6)	20,933.1	8,927.0
ADOA Sale/Leaseback Debt Service	-	-	84,119.8	35,069.1
Office of Administrative Hearings	28.7	(32.1)	612.6	(4.7)
Department of Agriculture	523.5	(225.9)	5,545.9	(204.3)
AHCCCS	128,474.4	2,798.2	1,035,031.9	(154,271.3)
Arts, AZ Commission on the	-	-	-	(10.4)
Attorney General	1,659.2	594.2	16,063.1	3,648.1
AZ Capital Post Conviction Public Defender	-	(53.9)	4.4	(459.3)
State Board of Charter Schools	52.2	0.4	560.2	14.6
AZ Commerce Authority	2,625.0	-	23,625.0	-
Community Colleges	-	-	48,144.5	(4,041.6)
Corporation Commission	58.7	25.6	436.3	48.9
Department of Corrections	69,328.8	2,091.9	670,779.6	(6,489.0)
AZ State Schools for the Deaf & Blind	433.1	(674.7)	15,974.0	600.3
Department of Economic Security	4,844.8	(392.3)	530,778.9	34,688.0
Department of Education	73,610.3	9,112.8	2,663,363.9	852.4
DEMA	645.6	388.0	6,044.9	1,254.0
DEQ - WQARF	-	-	7,000.0	-
Office of Equal Opportunity	-	(13.4)	55.5	(74.4)
State Board of Equalization	20.1	(2.1)	396.8	(34.5)
Board of Executive Clemency	63.7	12.5	589.6	(3.1)
Department of Financial Institutions	275.7	103.1	2,093.0	114.3
Department of Fire, Bldg and Life Safety	44.5	(3.9)	1,275.7	(13.4)
State Forester	303.1	113.7	4,284.2	682.0
Arizona Geological Survey	11.0	(46.5)	644.8	(3.6)
Government Information Tech.	-	-	-	3.1
Governor/OSPB	592.0	77.7	6,373.8	1,527.1
Department of Health Services	14,400.2	4,788.9	537,987.3	75,388.0
Arizona Historical Society	177.3	(0.2)	2,369.1	(33.7)
Prescott Historical Society of AZ	46.8	5.2	503.3	(14.5)
Independent Redistricting Comm.	533.4	128.2	1,624.9	(1,822.4)
Commission of Indian Affairs	4.1	0.2	37.7	2.5
Department of Insurance	343.3	3.8	3,581.9	(268.0)
Judiciary				
Supreme Court	954.5	(121.9)	11,022.7	278.8
Superior Court	8,996.9	(495.4)	56,420.3	(437.7)
Court of Appeals	1,004.6	90.9	9,915.0	(189.2)
Department of Juvenile Corrections	2,999.5	21.1	30,304.9	(4,353.1)

Agency	March 13	Change from March 12	Year-to-Date	YTD Change from FY 12
State Land Department	48.4	26.6	752.2	8.3
Law Enforcement Merit System	5.8	1.2	49.4	7.0
Legislature				
Auditor General	1,362.2	67.2	12,689.4	(310.6)
House of Representatives	1,015.8	11.2	8,448.3	(637.4)
Joint Legislative Budget Comm.	140.5	(1.9)	1,393.1	(78.8)
Legislative Council	365.4	54.1	5,414.7	1,514.5
Senate	697.9	117.8	5,771.0	(376.8)
Mine Inspector	84.1	(2.5)	814.7	(12.2)
Nav. Streams & Adjudication	8.3	1.9	88.5	(21.7)
Pioneers' Home	214.2	205.3	871.6	(705.5)
Comm. for Postsecondary Ed.	-	-	1,396.7	(0.1)
Department of Public Safety	1,179.5	(20.5)	21,402.0	(18,288.4)
Arizona Department of Racing	3.2	(34.6)	1,877.3	(894.8)
Radiation Regulatory Agency	49.7	5.1	1,070.4	(7.2)
Real Estate Department	214.7	77.8	1,737.0	(27.6)
Department of Revenue	2,879.3	406.5	30,075.7	(5,157.3)
School Facilities Board	104.9	41.7	172,542.8	8,893.3
Secretary of State	672.1	112.5	13,494.8	6,490.5
Tax Appeals Board	17.7	5.3	193.5	0.7
Office of Tourism	198.0	198.0	3,491.9	3,491.9
Department of Transportation	-	(5.8)	19.5	(18.1)
Universities				
Board of Regents	176.9	7.7	31,121.9	15,218.6
Arizona State University	17,381.2	(621.8)	247,006.3	(14,927.0)
Northern Arizona University	5,924.2	(507.4)	83,812.6	(4,566.8)
University of Arizona	15,870.7	(1,001.8)	221,766.5	(9,016.4)
Department of Veteran Services	339.8	(117.0)	3,945.7	(2,144.2)
Department of Water Resources	798.6	402.5	6,826.2	3,101.1
Department of Weights & Measures	97.2	17.3	995.1	205.7
Other	121.6	93.1	2,273.3	245.3
Total	363,610.5	17,699.3	6,679,840.7	(27,685.1)
Budget Stabilization Fund Deposit	-	-	200,000.0	200,000.0
Grand Total	363,610.5	17,699.3	6,879,840.7	172,314.9

Tracking Arizona's Recovery

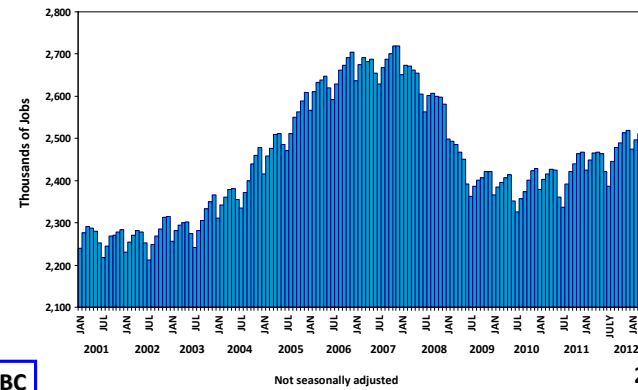
April 2013
Appendix A

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

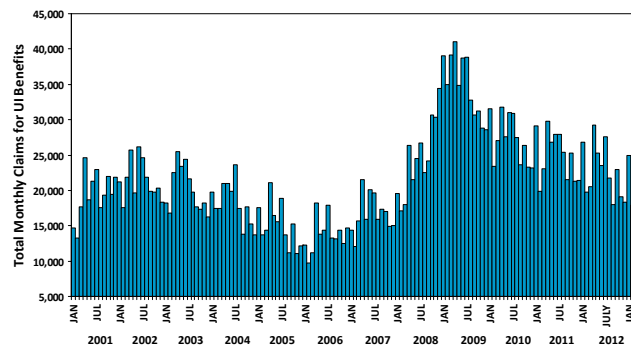
Total Non-Farm Employment



JLBC

2

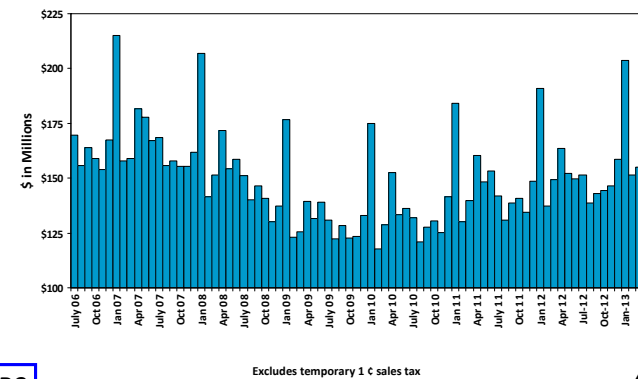
Initial Claims for Unemployment Insurance



JLBC

3

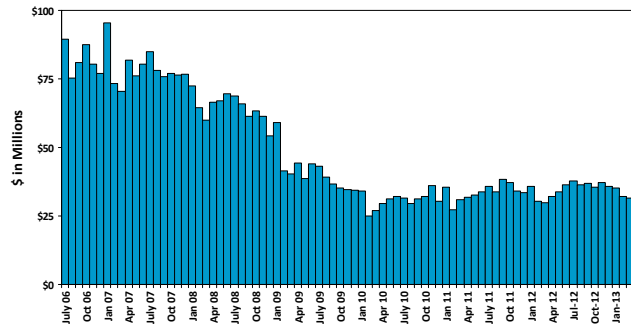
State Sales Tax Collections – Retail Category



JLBC

4

State Sales Tax Collections – Contracting Category

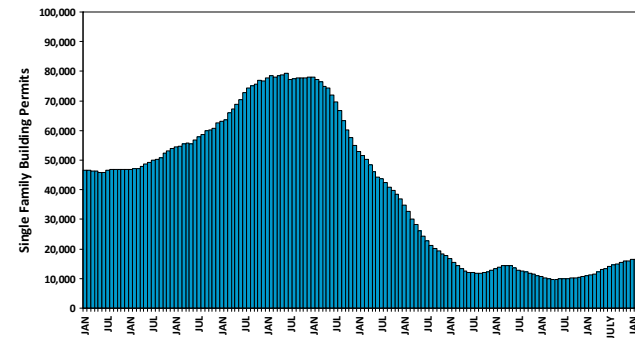


JLBC

Excludes temporary 1 ¢ sales tax

5

Single Family Building Permits

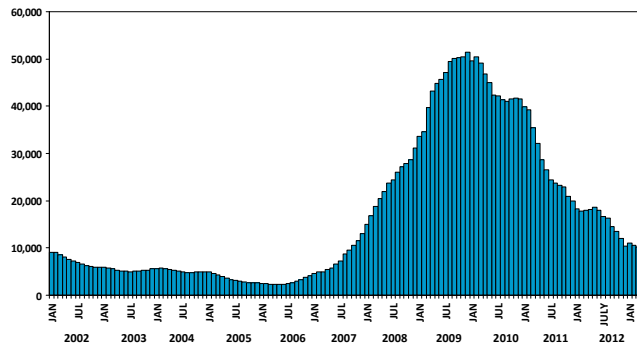


JLBC

12-Month Moving Sum

6

Maricopa County Pending Foreclosures

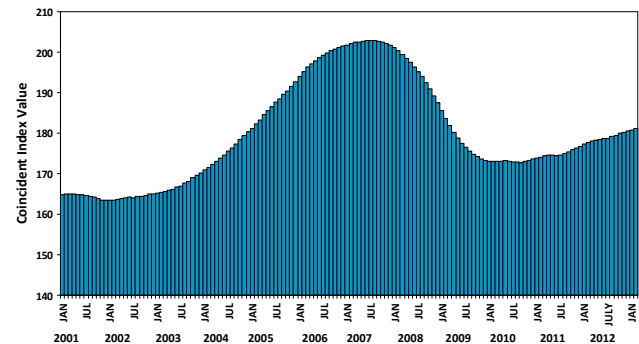


JLBC

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

7

Economic Activity Index



JLBC

Source: Coincident Index – Federal Reserve Bank of Philadelphia. Combines four state-level indicators (employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements) to summarize current economic conditions.

8