
Orientation

Joint Legislative Budget Committee Staff Role

December 2022



What is the Joint Legislative Budget Committee?

- 8 members from each chamber
- Chairmanship rotates between 2 Appropriations Committee Chairmen
- Committee has 217 statutory responsibilities
- During the interim between sessions, the JLBC provides legislative oversight of fiscal state issues
- The Joint Committee on Capital Review is comparable committee for capital issues

What is the JLBC Staff Role?

- 20-person non-partisan staff provides assistance on fiscal issues
 - Includes analysts assigned to review the budgets of over 100 state agencies
 - Includes economists responsible for revenue forecasts
- Develops Baseline estimates released at beginning of session
- Provides briefing materials and analysis for JLBC and JCCR committees
- Responds to information requests from all legislators

JLBC Staff Develops Cost Estimates of Bills

- Cost estimates are known as “Fiscal Notes”
- Members can request a note on their own bills or other members’ bills
- Goal is a 14-day turnaround

Fiscal Note

BILL # HB 2566
TITLE: special education vouchers; amount
SPONSOR: Udall
STATUS: As Introduced
PREPARED BY: Patrick Moran

Description
The bill would increase the capital outlay and transportation components of the special education voucher formula. These vouchers are paid by the Arizona Department of Education (ADE) to the Arizona State Schools for the Deaf and Blind (ASDB) for deaf and blind pupils.

Estimated Impact
We estimate the bill would increase the General Fund cost of special education vouchers paid by ADE to ASDB by \$4.3 million annually beginning in FY 2023.

Analysis
A.R.S. § 15-1204 establishes a formula to determine the amount of K-12 funding ADE shall pay to institutional special education programs, including ASDB. The formula amounts are called special education vouchers and are calculated using a modified version of the Basic State Aid formula. ADE pays the costs of the vouchers with General Fund appropriations. Of the 2,130 total students served by ASDB as of December 1, 2022, ASDB reports that 1,025 are funded by a special education voucher. The remaining students either only receive services from ASDB on a fee-for-service basis paid by districts and charter schools or are enrolled in ASDB's early learning program for children from birth to age 3.

The bill would make two changes to the current voucher formula:

- Increases the amount for capital outlay by amounts ranging from \$450.76 to \$660.54 annually. These amounts are similar to what would be allocated under the District Additional Assistance (DAA) formula for school districts.
- Establishes a \$5.23 reimbursement rate per transportation route mile.

These changes would only apply to vouchers paid for ASDB enrolled in campus-based programs, such as the ASDB Tucson campus or the Phoenix Day School for the Deaf. Of the 1,025 students funded by a voucher at ASDB, the agency reports that 449 are enrolled in campus-based programs. There would be no funding change for the remaining 576 ASDB students enrolled in one of ASDB's regional cooperative programs, which serve deaf and blind students in their home district or charter school.

Based on enrollment data from ASDB, we estimate the average annual capital outlay increase per pupil would be \$504, which would increase total voucher payments by \$226,100.

ASDB also reports that it incurs 779,710 route miles annually for students in campus-based programs, or an average of approximately 9.65 miles per student per day. The \$5.23 per route mile reimbursement established in the bill would therefore increase total voucher spending by \$4.1 million annually (779,710 route miles X \$5.23 = \$4.1 million).

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Joint Legislative Budget Committee Staff Fiscal Memorandum

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Phoenix, Arizona 85007
Telephone: (602) 926-5491
azjlb.gov

DATE: January 31, 2022
TO:
FROM: Ryan Fleischman, Fiscal Analyst
SUBJECT: HB 2221 (SUPREME COURT; DRUG TESTING; APPROPRIATION)

This memo responds to your request for the fiscal impact of HB 2221, which, as introduced, would appropriate \$1.0 million from the General Fund to the Arizona Supreme Court to establish a sweat patch drug testing program.

Estimated Impact

We estimate that the \$1.0 million in funding would allow for 8,300 sweat patch drug tests. We lack information to know whether these 8,300 tests would expand current drug testing or supplant existing county efforts. Since the bill does not create a statutory entitlement to these drug tests, the Supreme Court would not be required to distribute any additional funding above the \$1.0 million appropriation.

The Arizona Administrative Office of the Courts (AOC) projects that implementation costs will be minimal other than staff time associated with developing the program's requirements.

Analysis

The Arizona Code of Judicial Administration requires all individuals on supervised probation to agree to a uniform set of conditions. Those conditions include a requirement that the probationer agree to not possess or use illegal drugs or controlled substances and will submit to drug and alcohol testing as directed by the court or the probation department. Most drug testing is currently done through urinalysis.

The bill would require the Supreme Court to adopt rules and guidelines to establish a sweat patch drug testing program for individuals in supervised probation. A sweat patch drug test is typically adhered to an individual's arm for up to two weeks and can detect trace amounts of drugs from sweat. According to manufacturers, the sweat patch is more accurate and less prone to tampering compared to urinalysis.

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JLBC Staff Updates Members Monthly on Fiscal Issues

Joint Legislative Budget Committee Monthly Fiscal Highlights

December 2022

Summary

November 2022 General Fund collections totaled \$1.15 billion. November revenues increased by 3.1% above the prior year and were \$68 million above the enacted budget forecast. This monthly performance was more modest than the significant gains seen in previous months this fiscal year.

The Sales Tax category was the leading category during November, with collections growing by 10.4% over the prior year and generating a forecast gain of \$43 million. The category was helped by the continued strong growth in Contracting Tax collections, which increased by 28.1% during the month. The core Retail subcategory (excluding remote sellers) saw more moderate growth during November, increasing by 5.2%.

The state also realized a \$29 million forecast gain during November due to interest revenue. The state's operating fund functions as the "daily checkbook" and consists of the General Fund and certain dedicated funds. This operating fund is invested by the State Treasurer in short-term securities (such as U.S. Treasuries) and interest earned accrues to the General Fund. Interest has typically been a smaller revenue category and only deposited at the end of the fiscal year. However, given the historically large \$11 billion balance of the operating fund and higher interest rates due to Federal Reserve policy changes, the state is now realizing significantly more interest revenue throughout the fiscal year.

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The Individual Income Tax (IIT) category posted a modest decline of (5.1)% during November compared to 2021, which led to a forecast loss of \$(7.3) million. The state saw gains in income tax payments during the month, but this was entirely offset by a forecast loss in withholding tax collections. This withholding loss appears to be related to a technical timing issue – there was one fewer Monday in November 2022 compared to November 2021, and Monday is typically the day with the highest level of withholding collections processed.

In terms of the state's other major revenue categories, Corporate Income Tax (CIT) increased by 10.2% during November. However, because November is generally a smaller month for CIT collections, this growth only generated a minimal forecast gain of \$4 million during the month.

Year-to-Date Results

Year-to-date through November, excluding Urban Revenue Sharing and fund transfers, FY 2023 General Fund revenues are 10.8% above the prior year and \$745 million above the enacted budget forecast.

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(602) 926-5491 www.azjbc.gov December 20, 2022

Monthly Fiscal Highlights

December 2022

November Revenues

	FY 2023 Collections	Difference From Enacted Forecast	Difference From FY 2022
November	\$ 1,151.3	\$ 67.8	\$ 34.4
Year-to-Date	\$ 6,500.3	\$ 744.6	\$ 532.5

Sales Tax collections of \$627.6 million in November were 10.4% above the same month in the prior year and \$43.3 million above the enacted budget forecast. Year to date through November, sales tax revenue is up 9.9% compared to the same period in the prior year and is \$214.6 million above forecast.

Table 2 shows the November growth rate for the 5 major sales tax categories as well as for the smaller Amusement and Lodging categories.

	Nov	YTD
Retail/Remote Seller	8.9%	7.2%
Contracting	28.1%	28.7%
Use Tax	(3.7)%	14.4%
Restaurant & Bar	8.4%	13.2%
Utilities	12.8%	(11.2)%
Hotel/Motel Lodging	8.5%	7.1%
Amusements	15.5%	14.0%

As shown in Table 2, all major categories posted positive growth rates in November, except for the Use Tax. Contracting continues to grow by double-digits and recorded the highest year-to-date growth rate in November among the 7 categories included in Table 2. Contracting tax revenue has grown, year over year, by more than 20% in each of the last 9 months.

While the combined Retail/Remote Seller category increased by 8.9% in November, the individual Retail category, which makes up 88% of the total combined sales, grew by only 5.2% compared to 44.6% for the Remote Seller category. As of November, the individual Retail category has posted 30 consecutive months of year-over-year gains. However, sales tax growth for this category has been trending down over the last 12 months.

As shown in Table 2, the Restaurant & Bar category posted a year-over-year increase of 8.4% in November and is up by 13.2% year to date. The 8.4% year-over-year gain in November was the lowest recorded growth rate since March 2021. While the Restaurant & Bar category has recorded double-digit percentage gains in 18 of the last 20 months, growth has started to decelerate in recent months.

Individual Income Tax (IIT) net collections in November were \$494.3 million, a (5.1)% decrease from last November and \$(7.3) million below the enacted budget forecast. This decline stems primarily from lower withholding collections, which more than offset the year-over-year gains in payments. Year to date (YTD), IIT collections are 7.1% greater than the same period last fiscal year.

In November, withholding collections were \$475.0 million, (8.2)% lower than November 2021 and \$(33.9) million under the enacted budget forecast. This decrease is largely the result of a timing issue regarding the processing of collections. While there were the same number of total processing days in this November as last, there was one fewer Monday in November 2022, which is typically the day of the week on which the most collections are processed. According to the U.S. Bureau of Economic Analysis' (BEA) most recent national personal income estimates, while wages and salary disbursement growth remains strong, the rate of growth has slowed nonetheless in recent months. Year to date through November, withholding is up by 6.5% compared to last year and is \$150.3 million above forecast.

Total payments in November were \$64.5 million, an increase of 34.5% over the previous November and \$30.9 million above the forecast. This is a record high level for the month of November when payments typically comprise about 1% to 3% of the yearly total. YTD, total



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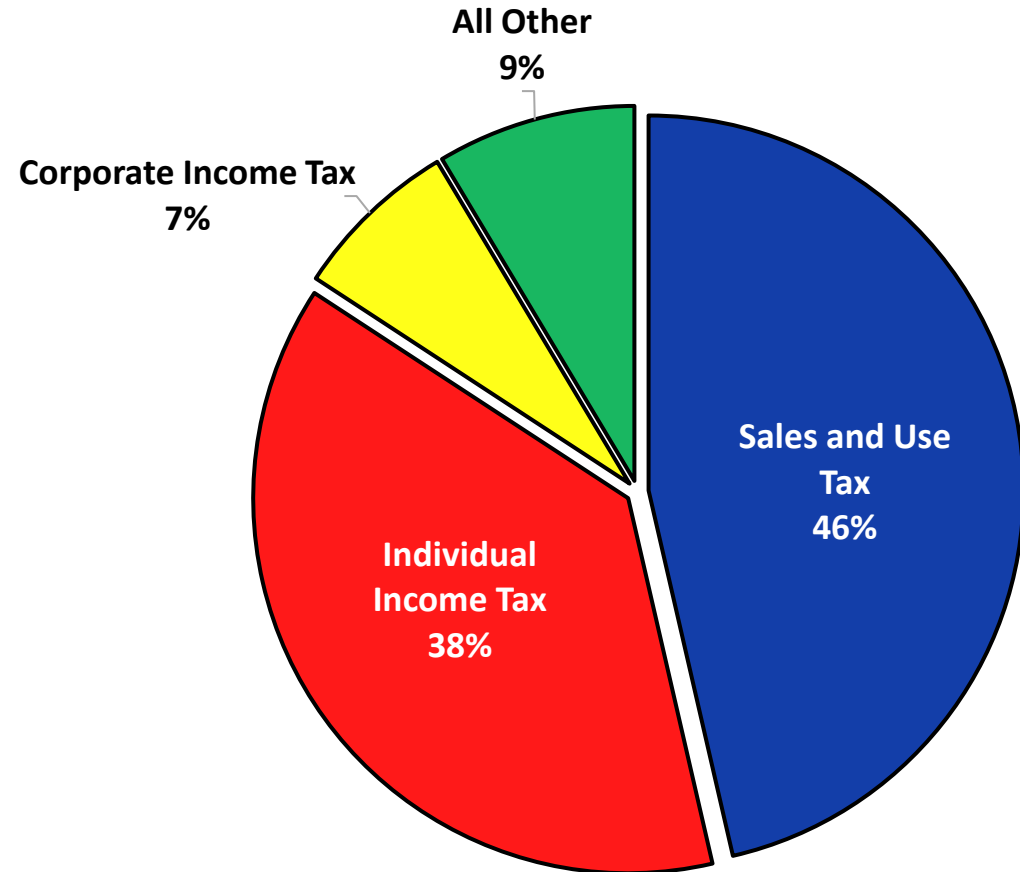


State Budget Overview

FY 23 General Fund Revenue – Where it Comes From

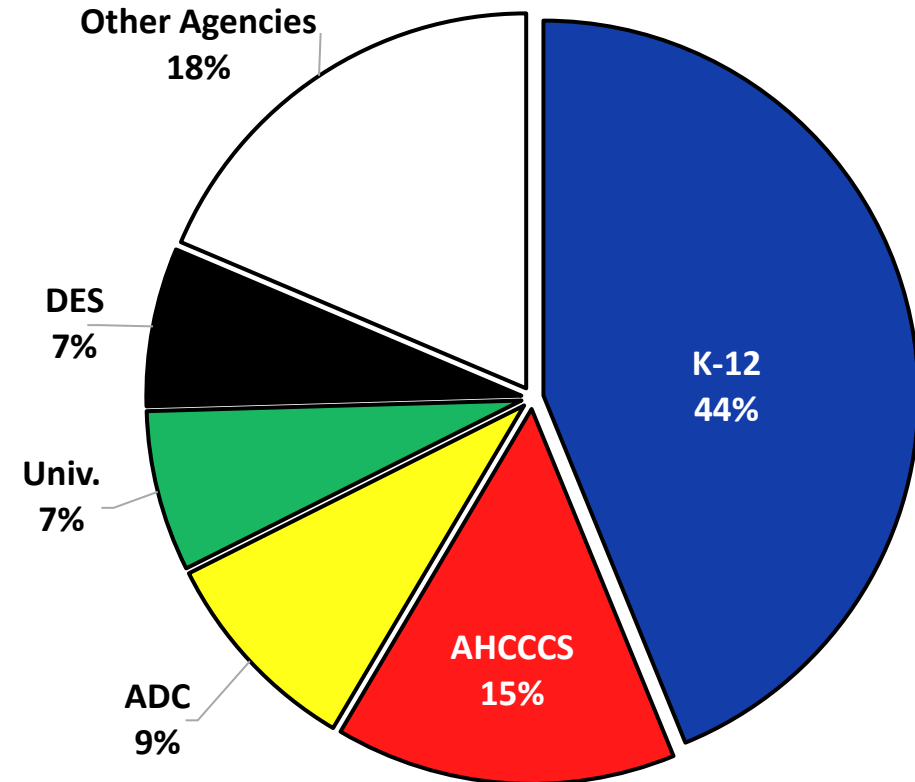
<u>Source</u>	<u>Revenue (Millions)</u>
Sales and Use Tax	\$ 7,291.3
Individual Income Tax	5,946.0
Corporate Income Tax	1,132.6
All Other	<u>1,347.9</u>
TOTAL REVENUE	\$ 15,717.8 ^{1/}

^{1/} Excludes FY 2022 balance forward. \$1,107 million of this amount is distributed as urban revenue sharing.



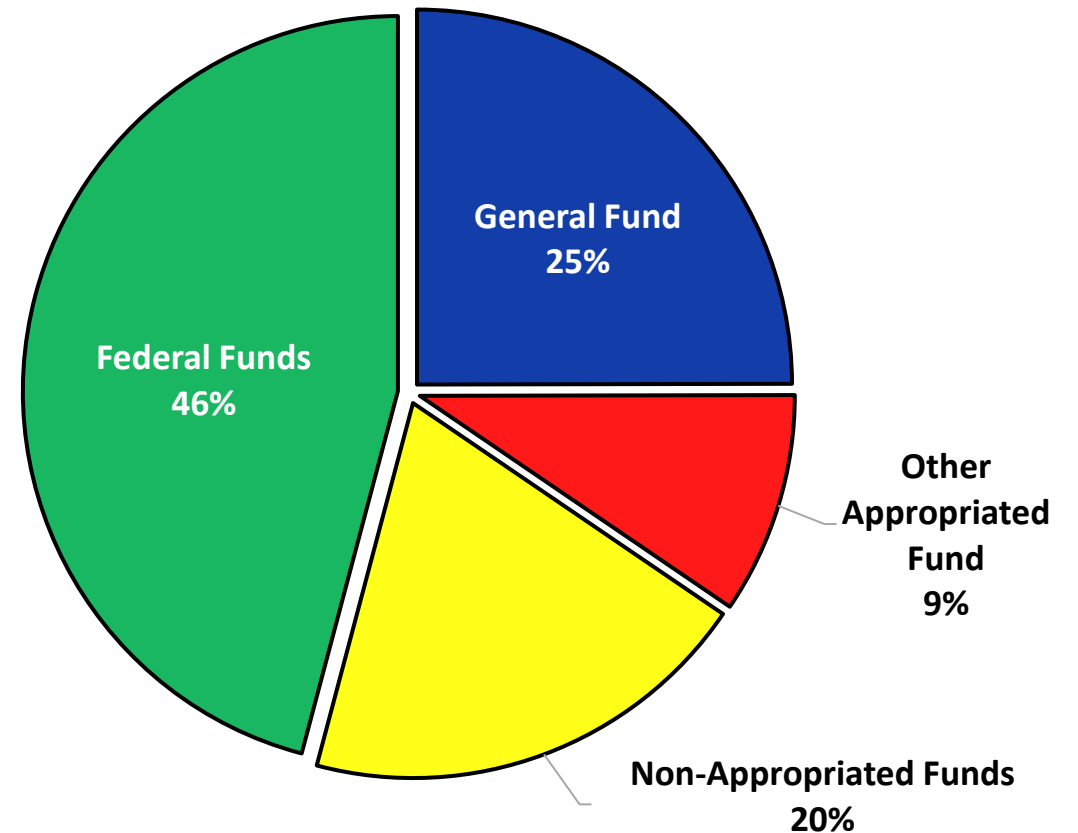
FY 23 General Fund Appropriations – Where it Goes

<u>Budget Unit</u>	<u>Appropriation (Millions)</u>
K-12 Education (ADE)	\$ 6,923.9
AHCCCS	2,321.0
Corrections (ADC)	1,438.0
Universities	1,095.8
Economic Security (DES)	1,079.1
Child Safety	472.9
DPS	364.2
ADOA-School Facilities	324.7
Other Agencies	<u>1,780.7</u>
TOTAL BUDGET	\$ 15,800.3



FY 23 Total Spending by Fund Source

<u>Fund Source</u>	<u>Spending (Millions)</u>
General Fund	\$ 15,800.3
Other Appropriated Funds	6,037.2
Non-Appropriated Funds	12,417.8
Federal Funds	<u>29,025.2</u>
TOTAL	\$ 63,280.5



FY 2024 Budget Development Timeline

- Agency budget requests submitted to Governor 9/1/22
- JLBC Staff published October Baseline estimates 10/6/22
- Governor published FY 2024 budget request (by statute, 5th day of Regular Session) 1/13/23
- JLBC Staff published January Baseline estimates (updated again in April) 1/13/23
- Appropriations Committees hold hearings on Governor's budget proposals 1/23 – 2/23
- Development of legislative budget proposals and introduction of a package of budget bills 2023 session