

Joint Legislative Budget Committee

Monthly Fiscal Highlights

April 2023

Summary

March General Fund revenues were \$902.3 million, an amount that was (6.9)% below March 2022. Collections during March were \$116.3 million above the January Baseline revenue forecast.

The March forecast gain was concentrated in the Corporate Income Tax (CIT) category, which posted another record month of collections, continuing a trend seen during FY 2023. March is typically a smaller revenue month for the tax category – however, March 2023 CIT revenue of \$120.7 million was significantly above usual amounts during March and resulted in a forecast gain of \$77.5 million.

Overall Sales Tax collections continued its steady pattern of strong growth in March, increasing by 8.2% above the prior year and generating a forecast gain of \$22.1 million. Within the Sales Tax subcategories, the March data confirms recent trends – growth in retail tax collections has continued to decelerate, with this issue being offset by momentum in tax collections related to contracting and restaurant/bars.

During March, the state's collections from the Insurance Premium Tax category increased by 65.6% and resulted in a forecast gain of \$29.1 million. This gain is likely due to a technical timing issue with IPT quarterly tax payments – these payments can vary in terms of being processed during March or April, and a timing shift may have moved additional IPT payments into March this year.

March Individual Income Tax collections were \$(18.4) million below forecast during the month based on the following factors:

- A continued increase in refunds related to the first step of the income tax reductions implemented in Tax Year 2022. The level of refunds issued during March 2023 was 39% above the prior year and generated a forecast loss of \$(61.0) million.
- Due to lower income tax withholding rates that were established at the start of Calendar Year 2023, withholding collections were expected to decline in March. This decline was less than expected however, resulting in a forecast gain of \$29.2 million.
- Income tax payments were \$13.4 million above forecast during the month, although March is a relatively small payment month. Instead, most payment activity occurs during April around the time of the tax filing deadline.

Year-to-Date Revenues/Forecast Gain

Year-to-date through March, excluding Urban Revenue Sharing and fund transfers, FY 2023 General Fund revenues are 6.5% above the prior year.

With the March results, after 3 months of tracking against the January Baseline forecast, the state has generated a cumulative forecast gain of \$284.5 million.

As noted in the prior *Monthly Fiscal Highlights*, the state is going through the first tax season with filers paying under the state's recent income tax reductions – returns are now being filed under the Tax Year 2022 rates of 2.55%/2.98%. Now that the state's income tax filing deadline has passed, the Department of Revenue will continue to process the latest batch of tax payments and refunds over the next several weeks. This April revenue information will help provide more context on the state's year-to-date forecast gain and trends through the end of the fiscal year.

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March Revenues

Table 1

General Fund Revenues (\$ in Millions)			
	<u>FY 2023</u> <u>Collections</u>	<u>Difference From</u> <u>Baseline Forecast</u>	<u>Difference</u> <u>From FY 2022</u>
March	\$ 902.3	\$ 116.3	\$ (67.2)
Year-to-Date	\$ 11,227.3	\$ 284.5	\$ 528.7

Sales Tax collections of \$615.8 million were 8.2% above March of last year and \$22.1 million above the January Baseline forecast. Year to date, sales tax revenue is up by 8.8% and is \$95.2 million above forecast.

Table 2 shows the March growth rate for the 5 major sales tax categories, which together make up approximately 85% of total sales tax collections.

Table 2

Sales Tax Growth Rates Compared to Prior Year		
	<u>March</u>	<u>YTD</u>
Retail/Remote Seller	3.4%	6.0%
Contracting	12.1%	20.0%
Use Tax	13.5%	11.5%
Restaurant & Bar	11.7%	12.7%
Utilities	30.8%	(4.6)%

All the major sales tax classifications except for the combined Retail/Remote Seller category increased at double-digit rates in March compared to the same month a year ago. Sales tax revenue remitted by "regular" retailers only (which excludes Remote Sellers) increased by 1.8% in March and is up by 4.5% year to date. Retail sales, excluding Remote Sellers, have been trending down for most of the fiscal year owing to slower growth in several retail sectors, including sales of motor vehicles, furniture and home furnishings, clothing and accessories, and general merchandize.

Individual Income Tax (IIT) net revenue was \$14.4 million in March, a decrease of (94.6)% from March 2022 and \$(18.4) million below the January Baseline forecast. Net collections in both February and March tend to be lower than in other months as taxpayers claim a significant portion of their refunds during this period. Year to date (YTD), net collections are down by (12.4)% and are \$(81.9) million below forecast.

March withholding revenue was \$470.3 million, (11.9)% less than last year but \$29.2 million more than under the Baseline forecast. March marked the third consecutive month with a year-over-year decline in withholding collections. As noted in March's *Monthly Fiscal Highlights*, the reduction in withholding tax revenue is due to the lower state withholding rates that were implemented at the beginning of the current calendar year. Year to date through March, withholding revenue has declined (0.3)% compared to the same period last year but is \$115.5 million higher than forecast.

Total payments in March were \$98.5 million, a decrease of (24.2)% from March 2022 but \$13.4 million above forecast. Historically, payments in March make up approximately 4% to 5% of the yearly total. Both estimated and final payments declined during the month. YTD, total payments are (3.6)% below last year but \$9.4 million greater than under the Baseline forecast.

Refunds in March were \$554.5 million and 38.7% above last year. Since the refund forecast was \$493.4 million, March's refund level resulted in a forecast loss of \$(61.0) million. YTD, the amount of refunds is 49.6% above the same period in the prior year, representing a cumulative forecast loss of \$(206.8) million through March.

Income tax processing data through the first half of April shows that the level of refunds is over 40% higher than for the comparable period in April 2022. This suggests that the state could incur another large refund forecast loss in April.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year		
	<u>March</u>	<u>YTD</u>
Withholding	(11.9)%	(0.3)%
Estimated/Final Payments	(24.2)%	(3.6)%
Refunds	38.7%	49.6%



Corporate Income Tax (CIT) net collections in March were \$120.7 million, an increase of 68.4% from the March 2022 and \$77.5 million more than the Baseline forecast. This is the highest amount of CIT ever collected in the month of March. Net collections in March typically make up about 5% to 6% of the yearly total. YTD, corporate income tax revenue is \$1.15 billion, which is 63.9% higher than for the same period in the prior year and \$183.2 million above forecast.

Insurance Premium Tax (IPT) collections were \$176.7 million in March, the highest amount on record, and an increase of 65.6% over the prior year and \$29.1 million above the Baseline forecast. Historically, IPT collections in March make up approximately 20% of the yearly total. Fiscal year to date, IPT revenue is up 24.5% and is \$38.0 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in March was \$1.3 million, which is (21.0)% lower than March 2022 collections and \$(0.4) million below the Baseline forecast. Fiscal year to date through March, General Fund tobacco tax revenue totals \$13.8 million, which is (10.3)% below the prior year and \$(1.0) million below forecast.

Liquor Tax revenue deposited into the General Fund in March was \$4.9 million. This is 33.9% greater than the amount deposited in March 2022 and \$1.0 million above the Baseline forecast. Fiscal year to date, General Fund liquor tax revenue totals \$34.1 million, which is 8.1% above last year and \$1.7 million higher than projected.

Highway User Revenue Fund (HURF) collections of \$143.4 million in March were (5.3)% below the amount collected in March 2022 and \$(14.8) million below forecast. Year to date, HURF collections have increased by 0.1% compared to the same period in the prior year and are \$(59.4) million below forecast.

As shown in *Table 4*, the state collected \$14.0 million in **Marijuana Excise Taxes** in March, which is 17.8% greater than March 2022 collections. Fiscal year to date through March, \$121.7 million in excise taxes have been collected, which is 29.1% above the level during the comparable period in FY 2022. Monies from this excise tax are deposited into dedicated non-General Fund accounts.

Table 4
Marijuana State Tax Collections and Distributions
(\$ in Millions)

	<u>March</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$14.0	\$121.7
Medical Marijuana TPT*	\$1.5	\$15.5
<u>Distribution:</u>		
General Fund	\$1.1	\$11.4
Counties	\$0.2	\$2.5
Cities	\$0.1	\$1.5
Recreational Marijuana TPT	\$4.1	\$35.0
<u>Distribution:</u>		
General Fund	\$3.0	\$25.8
Counties	\$0.7	\$5.7
Cities	\$0.4	\$3.5
Total State Marijuana Tax*	\$19.6	\$172.1
Collections		

* Amounts may not add to total due to rounding



Table 5

General Fund Revenue: Change from Previous Year and Baseline Forecast March 2023

	Current Month					FY 2023 YTD (Nine Months)				
	Actual March 2023	Change From		Baseline Forecast		Actual March 2023	Change from		Baseline Forecast	
		March 2022		March 2022			March 2022		March 2022	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$615,834,179	\$46,661,642	8.2 %	\$22,141,085	3.7 %	\$5,702,791,383	\$461,430,712	8.8 %	\$95,171,541	1.7 %
Income - Individual	14,371,515	(249,975,969)	(94.6)	(18,410,534)	(56.2)	3,977,072,960	(560,492,237)	(12.4)	(81,888,726)	(2.0)
- Corporate	120,696,691	49,018,749	68.4	77,507,309	179.5	1,148,866,800	448,005,521	63.9	183,166,824	19.0
Property	943,299	(88,714)	(8.6)	260,468	38.1	16,671,979	(3,531,533)	(17.5)	(834,663)	(4.8)
Luxury - Tobacco	1,312,381	(349,188)	(21.0)	(436,531)	(25.0)	13,847,021	(1,592,948)	(10.3)	(1,004,001)	(6.8)
- Liquor	4,931,477	1,248,401	33.9	950,409	23.9	34,149,834	2,567,557	8.1	1,686,720	5.2
Insurance Premium	176,656,834	70,009,179	65.6	29,053,450	19.7	494,261,437	97,263,277	24.5	37,959,268	8.3
Other Taxes	5,465,696	1,109,521	25.5	1,413,408	34.9	12,893,977	214,489	1.7	78,768	0.6
Sub-Total Taxes	\$940,212,072	(\$82,366,379)	(8.1) %	\$112,479,065	13.6 %	\$11,400,555,391	\$443,864,838	4.1 %	\$234,335,732	2.1 %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	160,321,973	3,508,939	2.2	6,935,823	4.5
Gaming	3,156,528	3,156,528	--	2,688,941	575.1	37,922,860	34,114,616	895.8	7,161,817	23.3
License, Fees and Permits	2,859,667	(202,751)	(6.6)	(65,251)	(2.2)	32,608,980	2,620,680	8.7	149,703	0.5
Interest	33,211,012	33,196,705	--	(980,847)	(2.9)	214,119,845	197,177,500	--	20,942,968	10.8
Sales and Services	3,035,620	(276,463)	(8.3)	(197,451)	(6.1)	23,829,020	2,467,001	11.5	455,619	1.9
Other Miscellaneous	(1,088,577)	(3,746,733)	--	(3,588,821)	--	11,243,415	(9,335,639)	(45.4)	(6,344,510)	(36.1)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	8,131,530	7,217,475	789.6	7,723,130	--	101,464,757	61,715,140	155.3	22,632,946	28.7
Sub-Total Other Revenue	\$49,305,780	\$39,344,761	395.0 %	\$5,579,701	12.8 %	\$581,510,850	\$292,268,237	101.0 %	\$51,934,367	9.8 %
TOTAL BASE REVENUE	\$989,517,852	(\$43,021,617)	(4.2) %	\$118,058,766	13.5 %	\$11,982,066,241	\$736,133,075	6.5 %	\$286,270,099	2.4 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(92,246,556)	(29,214,199)	46.3	0	(0.0)	(830,219,007)	(262,927,789)	46.3	0	(0.0)
One-Time Transfers	5,000,000	5,000,000	--	(1,787,904)	(26.3)	75,462,096	55,462,096	277.3	(1,787,904)	(2.3)
Sub-Total Other Adjustments	(87,246,556)	(24,214,199)	38.4 %	(1,787,904)	2.1 %	(754,756,911)	(207,465,693)	37.9 %	(1,787,904)	0.2 %
TOTAL GENERAL FUND REVENUE	\$902,271,296	(\$67,235,816)	(6.9) %	\$116,270,862	14.8 %	\$11,227,309,330	\$528,667,382	4.9 %	\$284,482,195	2.6 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	143,439,327	(8,010,815)	(5.3) %	(14,805,090)	(9.4) %	1,272,613,122	1,126,663	0.1 %	(59,413,207)	(4.5) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) third and final estimate of the U.S. **Real Gross Domestic Product (GDP)** for the 4th quarter of 2022 shows an annualized growth rate of 2.6%. This estimate was revised down from their second estimate of 2.7%.

The **Consumer Confidence Index**, published by the Conference Board, increased by 0.8 points to 104.2 in March. This increase was unexpected given that the survey was completed shortly after the collapse of Silicon Valley Bank. While respondents grew more pessimistic about current business conditions and the labor market, future expectations improved enough to offset those concerns. Since March 2022, the index has declined (3.2)%.

The Conference Board's **U.S. Leading Economic Index (LEI)** declined (0.3)% to 110.0 points in February. Improving stock prices and increased residential building permits were offset by negative contributions from the other 8 components of the index. Over the past 6 months, the LEI has decreased (3.6)%. According to its March press release, the Conference Board "forecasts rising interest rates paired with declining consumer spending will most likely push the US economy into recession in the near term."

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** rose 0.1% month-over-month (after seasonal adjustment) in March. An increase in shelter prices offset a decline in energy prices during the month. Food prices remained unchanged. Compared to last March, the overall CPI has increased 5.0%; food prices increased 8.5%; energy prices fell (6.4)% (including a (17.4)% decrease for gasoline and (14.2)% decline for oil); and shelter costs increased 8.2%. Excluding food and energy, the year-over-year "core" CPI increased by 5.6% in March.

ARIZONA

Housing

In February, Arizona's 12-month total of **single-family building permits** was 32,735. This was a reduction of (6.3)% from January and (29.9)% below February 2022's 12-month total. February was the 21st consecutive month with a decline in the year-over-year growth rate.

In February, Arizona's 12-month total of 23,374 **multi-family building permits** was 23.7% greater than the same 12-month period ending in February 2022. February 2023 is the 18th consecutive month with an annual growth rate greater than 10%, and it is also the 13th month in that stretch to top 20% annual growth.

The **median home price** in Maricopa County rose to \$455,000 in March, representing a 1.3% increase from February's median sale price and a (4.4)% decrease compared to the same month in the prior year. This was the third consecutive month with a year-over-year decline in the median sales price. The median sales price has not declined on a year-over-year basis since at least 2014 when our time series begins.

Tourism

In February, **revenue per available room** increased to \$168.16, representing a 61.4% gain over January's figure and a 31.0% increase over last February's revenue per available room. This sharp increase is likely due to increased visitation as a result of Arizona hosting Super Bowl LVII.

Hotel occupancy was 72.7% in February, which is 9.0% greater than January's occupancy rate and 0.7% above that of February 2022. This increase is also likely due to increased visitation resulting from Super Bowl LVII.

Phoenix Sky Harbor Airport Ridership was about 3.8 million in February, which represents a (1.0)% decrease from January's figure and a 0.9% increase above February 2020 ridership. This is the 5th month since September 2022 with higher ridership than 36 months prior (i.e., before start of the pandemic).

Employment

The Office of Economic Opportunity (OEO) reported that a total of 4,342 **initial claims for unemployment insurance** were filed in Arizona in the week ending on April 8th. For the same week in the prior year, 4,193 initial claims were filed, which is an increase of 3.6%. On a year-over-year basis, the weekly number of initial claims has been trending up since November of 2022.

According to OEO, for the week ending on April 1st, there were a total of 20,032 **continued claims for unemployment insurance** in Arizona. At this time last year, the number of continued claims was 13,313, which represents an increase of 50.5%. As with the initial claims for unemployment insurance, the number of continued claims has also been trending up since November of 2022.



State Personal Income

The U.S. Bureau of Economic Analysis recently released **state personal income** estimates for the 4th quarter of 2022 as well as for the entire calendar year. Personal income in Arizona increased at an annual rate of 7.9% in the 4th quarter. Increases in net earnings, dividends, interest, rental income, and government transfer payments all contributed to personal income growth in the 4th quarter of 2022. For all of calendar year 2022, Arizona personal income grew by 3.3%.

Based on information the Department of Child Safety provided for February 2023, **reports of child maltreatment** totaled 46,660 over the last 12 months, a decrease of (6.9)% from the prior year.

There were 11,643 **children in out-of-home care** as of February 2023, or (11.9)% less than in February 2022. Compared to the prior month, the number of out-of-home children increased by 0.5%.

State Agency Data

As of April 1, 2023, the total **AHCCCS caseload** was 2.43 million members. Total monthly enrollment decreased (1.5)% from March and increased 4.7% compared to a year ago. Pursuant to a provision in the federal 2023 Consolidated Appropriations Act, AHCCCS is required to begin removing members who do not meet the financial eligibility requirements of the program effective April 1. Since March 2020, AHCCCS had previously been prohibited from disenrolling members who would've otherwise lost eligibility based on income. As a result, the (1.5)% decline is likely attributable to that policy change and anticipate further caseload declines in the coming months.

Parent and child enrollment in the Traditional population decreased by (1.9)% in April, or 1.9% higher than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,112,742 – a decrease of (1.2)% from March and 8.0% above last year. For April 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.4%. At 67,753, this population is 3.3% higher than a year ago.

There were 11,179 **TANF** Cash Assistances cases in March 2023, representing a (1.4)% decrease from February 2023. The year-over-year number of cash benefit recipients has decreased by (12.6)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In March 2023, 910,136 people received food stamp assistance. This was a 2.0% increase from February 2023 and a 7.7% increase from March 2022.

The Arizona Department of Correction's **inmate population** was 34,017 as of March 31, 2023. This was a 0.8% increase from February 28, 2023 and a 1.1% increase since March 2022.



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				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	February	3.7%	(0.1)%	0.1%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2022	6.6%	(0.2)%	(2.4)%
- Initial Unemployment Insurance Claims	Week Ending Apr 8	4,342	39.1%	3.6%
- Continued Unemployment Insurance Claims	Week Ending Apr 1	20,032	1.6%	50.5%
- Non-Farm Employment - Total	February	3,147,800	0.2%	2.6%
Manufacturing	February	195,300	0.3%	3.8%
Construction	February	194,400	1.6%	2.6%
- Average Hourly Earnings, Private Sector	February	\$31.44	(0.3)%	5.4%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	February	32,735	(6.3)%	(29.9)%
Multi-family	February	23,374	5.8%	23.7%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	March	5,097	(5.1)%	(27.3)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	March	\$455,000	1.3%	(4.4)%
- Maricopa Pending Foreclosures	February	1,204	4.4%	35.4%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	February	3,813,311	(1.0)%	16.0%
- State Park Visitors	December	166,673	(36.9)%	(8.2)%
- Revenue Per Available Hotel Room	February	\$168.16	61.4%	31.0%
- Arizona Hotel Occupancy Rate	February	72.7%	9.0%	0.7%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	4 th Q 2022	\$428.5 billion	7.9%	6.0%
- Arizona Population	July 2022	7,359,197	N/A	1.3%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	May 2015/Nov 2019	Stable/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	April 1st	2,430,100	(1.5)%	4.7%
Traditional Acute Care		1,249,600	(1.9)%	1.9%
Other Acute Care		1,112,700	(1.2)%	8.0%
Long-Term Care – Elderly & DD		67,800	0.4%	3.3%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	February	46,660	(0.1)%	(6.9)%
DCS Out-of-Home Children	February	11,643	0.5%	(11.9)%
Filled Caseworkers (1406 Budgeted)	February	1,304	26	127
- ADC Inmate Growth	March	34,017	0.8%	1.1%
- Department of Economic Security				
- TANF Cash Assistance Recipients	March	11,179	(1.4)%	(12.6)%
- SNAP (Food Stamps) Recipients	March	910,136	2.0%	7.7%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	4 th Q, 2022 (3 rd Estimate)	\$20.2 trillion	2.6%	0.9%
- Consumer Confidence Index (1985 = 100)	March	104.2	0.8%	(3.2)%
- Leading Economic Index (2016 = 100)	February	110.0	(0.3)%	(7.9)%
- Consumer Price Index, (1982-84 = 100)	March	301.8	0.1%	5.0%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Emergency Telecommunications Services Revolving Fund – Pursuant to A.R.S § 41-704, the Arizona Department of Administration (ADOA) submitted their annual report on the Emergency Telecommunications Services Revolving Fund (911 Program). The Arizona 911 Program is responsible for distributing revenues collected from the Emergency Telecommunications Services Revolving Fund. The fund receives revenue from a \$0.20 per month tax on wireline, wireless, and VoIP services and 0.8% of the gross income derived from pre-paid wireless services. ADOA reports it will distribute a total of \$18.7 million in FY 2023 to Public Safety Answering Points for the operation and support of 911 services. In addition, ADOA allocated \$2.6 million in FY 2023 for statewide next-generation 911 (NG911) implementation and \$643,000 for ADOA administrative costs.

In FY 2023, ADOA plans to continue to implement NG911 which is an internet-based system that allows interoperability within the state. The implementation should be completed by October 2023. (Rebecca Perrera)

Arizona Department of Administration – Report on State Personnel System – Pursuant to A.R.S § 41-743, the Arizona Department of Administration (ADOA) submitted their annual report on the State Personnel System (SPS). The SPS includes all agencies in the Executive Branch excluding employees in the Department of Public Safety, Arizona State Schools for the Deaf and the Blind, Cotton Research Council, Peace Officer Standards Training Board, and the Arizona Board of Regents and state universities. ADOA reports that there were 32,231 SPS employees at the end of FY 2022, a decrease of (849) employees from FY 2021. ADOA reported the average salary is \$59,300, a 16% increase from FY 2021. This amount includes salary increases for select public safety and health and human services employees and a 10% statewide compensation increase as implemented in the FY 2023 budget. The statewide employee turnover rate in FY 2022 increased to 23.8% from the FY 2021 level of 18.3%.

In addition, statute requires ADOA to provide an advisory recommendation for state employee salaries. However, ADOA makes no specific recommendation for employee salaries but noted the value of state employee health benefits. (Rebecca Perrera)

Arizona Health Care Cost Containment System – Report on the Comprehensive Health Plan (CHP) – Pursuant to Laws 2018, Chapter 152, the Arizona Health Care Cost Containment System (AHCCCS) is required to report semiannually on the financial and program accountability trends of CHP, the foster care medical program. AHCCCS's most recent report covers the first half of Federal Fiscal Year 2022 (October 1, 2021 through March 31, 2022). AHCCCS reported the following findings:

- The percentage of CHP children receiving behavioral health services in March 2022 was 64%.
- The services utilized by the highest percentage of CHP members using services in March 2022 included support services (92.5%), treatment services (48.6%), pharmacy (16.1%), and rehabilitation services (10.1%). Support services for foster children include case management, peer support, and transportation to appointments. Treatment services include individual and group counseling as well as behavioral health diagnostic evaluations. Rehabilitation services include living skills training, cognitive rehabilitation (such as memory training or anger management), and behavioral health education and prevention activities.
- The services that accounted for the greatest share of CHP program costs in March 2022 included support services (26%), inpatient services (26%), and treatment services (18%). Inpatient services primarily consist of inpatient psychiatric services provided by hospitals. (Maggie Rocker)

Department of Child Safety – Report on Kinship Stipend – Pursuant to an FY 2023 General Appropriation Act footnote, the Department of Child Safety reported on the number of children who are part of the kinship stipend program and reside with a nonrelative caretaker of fictive kinship.

As of February 28, 2023, there were a total of 5,346 children or youth residing with a kinship caregiver and for whom the caregiver was receiving a kinship stipend. Of this amount, an estimated 4,873 resided with relative kinship caregivers and 474 resided with non-relative fictive kinship caregivers. About 3,800 of the 5,346 total children or youth had no relationship data on file and the breakdown between relative and non-relative kinship caregivers represent estimates based on the known relationship data. These figures stayed relatively flat compared to prior months in FY 2023. (Ryan Fleischman)



Department of Economic Security – Report on Federal COVID Child Care Monies – Pursuant to an FY 2023

General Appropriation Act footnote, the Department of Economic Security (DES) reported on the status of federal Child Care and Development Block Grant (CCDBG) monies provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Consolidated Appropriations Act (CAA); and the American Rescue Plan Act of 2021 (ARPA). The footnote also requires that DES report on the number of children supported by these federal COVID monies, the average monthly child care reimbursement rates, and the number of child care settings with a quality rating.

DES reports having spent the entirety of the \$88.0 million for discretionary CCDBG funding from the CARES Act for programs and initiatives. Of the \$621.5 million in discretionary CCDBG funding from the CAA and ARPA, DES reports year-to-date expenditures of \$107.6 million. As a result, \$513.9 million is available for expenditure in FY 2023.

The ARPA also provided an additional \$596.4 million in CCDBG stabilization funding. Of that amount, DES reports year-to-date expenditures of \$382.1 million. As a result, \$214.3 million is available for expenditure in FY 2023.

The following programs and initiatives were implemented by DES as a result of the COVID pandemic, supported by federal CCDBG funding from COVID related legislation:

- The Arizona Enrichment Centers Scholarships Program (ended August 2020) served an average of 3,989 children each month at an average monthly reimbursement rate of \$856.91.
- The Essential Workers Child Care Relief Scholarship Program (ended September 2021) has served an average of 5,805 children each month at an average monthly reimbursement rate of \$676.32.
- Child Care for Returning Workers has served an average of 420 children each month at an average monthly reimbursement rate of \$562.76.
- Continued child care waitlist suspension supported by COVID funding has served an average of 17,274 children each month at an average monthly reimbursement rate of \$916.38.

DES reports that according to the most recently available data, 754 providers are enrolled in the Quality First Program and therefore have a quality rating. (Chandler Coiner)

Arizona Department of Education – Report on ESSER Expenditures – Pursuant to an FY 2023 General

Appropriation Act footnote, the Arizona Department of Education (ADE) reported on expenditure of monies allocated to the Superintendent of Public Instruction from the federal Elementary and Secondary School Emergency Relief (ESSER) Fund through December 31, 2022. ADE reports that the department and Local Education Agencies (LEAs) (i.e. school districts and charter schools) have expended \$1.68 billion of ESSER monies through the second quarter of FY 2023, or an increase of \$287.2 million above the prior quarter. Given Arizona's total ESSER allocation of \$4.01 billion, there are \$2.33 billion of ESSER monies that remain unexpended.

The \$287.2 million of first quarter expenditures include the following amounts:

- \$252.3 million for direct allocations to LEAs. ADE is required to allocate a minimum of 90% of ESSER monies for direct distributions to school districts and charter schools.
- \$9.3 million for discretionary allocations by ADE.
- \$451,200 is for afterschool programs.
- \$23.4 million is for programs to address learning loss.
- \$1.2 million is for summer enrichment programs.
- \$652,600 for ADE administrative expenses.

The final deadline for ESSER expenditures is September 30, 2024. (Patrick Moran)

Department of Education – Report on the College Credit by Examination Incentive Program – Pursuant to A.R.S. §

15-249.06 the Arizona Department of Education (ADE) submitted a report on the College Credit by Examination Incentive Program (CCEIP), which provides incentive bonuses to school districts and charter schools for students who obtain a passing score on a qualifying examination for college credit while in high school. Qualifying exams include Advanced Placement (AP), Cambridge International Exams and International Baccalaureate Exams ADE reported the following information on the program for FY 2022:

- There were 30,169 students that took a qualifying examination in the 2020-2021 school year.
- 11,256, or 37%, of students taking a qualifying examination received a passing score in FY 2021.
- There were 19,691 CCEIP bonus awards, of which 18,634, or 95%, were associated with AP exams.
- A total of \$6.3 million in bonus awards were distributed for FY 2022, of which \$5.2 million went to schools with less than 50% of students eligible for free



or reduced-price lunch (FRPL), with the remaining \$1.1 million for schools with greater than 50% FRPL eligibility.

- The average award per qualifying examination was \$300 for schools with less than 50% FRPL eligibility (statute allows up to \$300) and \$450 for schools with greater than 50% FRPL eligibility (statute allows up to \$450). (Patrick Moran)

Department of Education – Budget Status Report –

Pursuant to a General Appropriation Act footnote and A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2023. In that report, ADE estimates that it will experience a \$180.6 million net funding shortfall for formula programs for FY 2023. This consists of an estimated \$198.7 million shortfall for Basic State Aid and an estimated \$(18.1) million surplus for Additional State Aid (the Homeowner's Rebate and 1% Cap programs combined). ADE's current \$180.6 million shortfall estimate is tentative and subject to revision as additional data become available. In comparison to ADE's \$180.6 million estimate, the January 2023 JLBC Baseline estimated the department would experience a net shortfall of \$200.0 million. (Patrick Moran)