Joint Legislative Budget Committee

Monthly Fiscal Highlights

August 2023

Summary

July 2023 revenues totaled $1.11 billion, which is (5.1)% below the prior year. This level of July collections generated a forecast loss of $(13) million below the enacted budget's FY 2024 revenue forecast. This overall forecast loss was due to mixed results across the state's largest revenue categories – Sales Tax and Individual Income Tax posted losses, which were only partially offset by gains in the Corporate Income Tax and Insurance Premium Tax categories.

Sales Tax

The performance of the Sales Tax has significantly deteriorated since March, with the category's growth rate slowing over the last several months.

July Sales Tax collections continued that trend with slow growth of 0.4%, which resulted in a forecast loss of $(30) million. The July forecast loss was due to: 1) Lower-than-expected retail collections, which were essentially flat for the month; 2) Restaurant/Bar collections decreased by (3.5)% in July, which was that subcategory's first decline since February 2021.

Individual Income Tax

Overall Individual Income Tax (IIT) collections were (11.8)% lower than July 2022 and $(7) million below forecast.

The IIT category saw a surprising gain from withholding collections, as an additional processing day at the end of July resulted in a large revenue deposit with the state.

However, this withholding gain was still outweighed by lower-than-expected payments and higher-than-expected refunds, which continues trends seen during the spring 2023 tax filing season.

Corporate Income Tax/Insurance Premium Tax

Corporate Income Tax collections continued their pattern of robust growth, with an increase of 44.2% during July and collections were $21 million above forecast.

Revenue from the Insurance Premium Tax (IPT) category grew by 25% during July, which was $5 million above forecast. The percentage growth in this tax category is likely a timing issue – IPT growth is generally expected to slow in the upcoming months as the state begins to disenroll AHCCCS members under the post-COVID emergency process (and AHCCCS health plans represent approximately 50% of IPT revenue).

FY 2023 Ending Balance Update

As noted in the July *Monthly Fiscal Highlights,* preliminary data indicated that FY 2023 state revenues were $79 million above forecast. However, as part of determining an estimate of the FY 2023 ending balance, preliminary spending data would be reviewed to determine whether actual spending differed from the budget's projection.

At this time, our office is continuing to review initial spending data provided by the state's General Accounting Office (GAO), given certain technical complexities with that information.

The enacted budget requires the Executive Branch to provide a preliminary estimate of the FY 2023 ending balance by September 15, 2023. Our office will report this preliminary ending balance information in the upcoming September *Monthly Fiscal Highlights*.

Table of Contents

July Revenues

Table 1

General Fund Revenues ($ in Millions)

	FY 2024 Collections	Difference From Enacted Forecast	Difference From FY 2023
July	$ 1,108.3	$ (12.9)	$ (59.7)
Year-to-Date	$ 1,108.3	$ (12.9)	$ (59.7)

Sales Tax collections of $651.6 million in July were 0.4% above the same month in the prior year and $(29.6) million below the enacted budget forecast. July marked the fourth consecutive month with a sales tax revenue growth rate of 2.5% or less.

Table 2 shows the July growth rate for the 5 major sales tax categories, which combined make up about 85% of total sales tax collections.

Table 2

July Sales Tax Growth Rates Compared to Prior Year

	July	YTD
Retail/Remote Seller	1.1%	1.1%
Contracting	13.3%	13.3%
Use Tax	(23.3)%	(23.3)%
Restaurant & Bar	(3.5)%	(3.5)%
Utilities	3.1%	3.1%

The combined Retail/Remote Seller category increased by 1.1% in July compared to the same month in the prior year. Approximately 90% of sales tax revenue for this combined category comes from standard retailers, which includes both "brick-and-mortar" stores and e-commerce sales if the retailer has a physical presence in Arizona (such as a fulfillment center or warehouse).

The lower-than-expected growth rate for this combined retail category was primarily attributable to standard retail sales, which increased by only 0.4% in July. The growth in standard retail sales began trending down since the first quarter of FY 2023.

The remaining 10% of the combined retail category comes from "remote sellers", who are required to collect Sales Tax in Arizona following state legislation associated with the *Wayfair* US Supreme Court decision. These sellers usually have no physical presence in Arizona, but meet a minimum sales threshold in the state.

July's growth rate of 7.7% for Remote Sellers was uncharacteristically low. To provide some perspective, the revenue growth for this type of retailer was in the double-digit range in 33 of the last 34 months.

On a year-over-year basis, sales tax collections from the Restaurant/Bar category decreased by (3.5)% in July, the first such decline since February 2021.

Individual Income Tax (IIT) net revenue was $435.4 million in July, (11.8)% less than the previous July and $(6.6) million below the enacted budget forecast. Lower payments and higher refunds were the primary drivers of July's forecast loss.

Withholding collections in August were $458.9 million, an increase of 10.0% above last year and $24.7 million greater than the enacted budget forecast. This was the largest amount of withholding ever collected in the month of July. Overall, the July withholding growth was surprising given that lower withholding rates were implemented by the Department of Revenue in January 2023 (while prior year July 2022 collections were under the old, higher rates).

The main reason for July's higher-than-projected level of collections is related to the timing and processing of withholding deposits – July 2023 had an additional Monday compared to the prior year, which is important since the largest withholding deposits of the week typically occur on Mondays. In particular, the deposit made on this "extra Monday" in July was much larger than usual.

July payments declined (71.9)% from the previous year to $29.5 million, which resulted in a forecast loss of $(22.2) million. Most of July's revenue comes from final payments made by taxpayers with filing extensions. Since the spring 2023 filing season had a significantly lower level of payments compared to 2022, the historically large year-over-year decrease in July is not surprising. The level of payments in July was commensurate with pre-pandemic levels for the month.

Refunds in July were $53.0 million, 86% above last year's level, which resulted in a forecast loss of $(9.1) million. July refunds typically make up about 3% of the fiscal year's total.

Table 3
Individual Income Tax Growth Rates Compared to Prior Year

	July	YTD
Withholding	10.0%	10.0%
Estimated/Final Payments	(71.9)%	(71.9)%
Refunds	86.0%	86.0%

Net **Corporate Income Tax (CIT)** collections in July were $81.3 million, an increase of 44.2% from last year and $20.7 million more than forecast. The strong growth in CIT collections continues the trend seen over the last several fiscal years for the tax category.

Insurance Premium Tax (IPT) revenue was $57.2 million in July, an increase of 25.0% compared to the same month in the prior year. IPT revenue in July was $5.5 million above the enacted budget forecast.

The amount of **Tobacco Tax** deposited into the General Fund in July was $1.8 million, which is 10.9% above July 2022 collections and approximately $0.1 million above the enacted budget forecast.

Liquor Tax revenue deposited into the General Fund in July was $3.4 million. This is (5.1)% below the amount deposited in July 2022 and $(0.2) million below the enacted budget forecast.

The **Lottery Commission** reported that total ticket sales in July were $147.2 million. This amount is $1.6 million, or 1.1% greater than July 2022.

Highway User Revenue Fund (HURF) collections of $142.2 million in July were 3.9% above the amount collected in July 2022 and $1.4 million above forecast.

The state collected $13.4 million in dedicated **Marijuana Excise Taxes** in July, which represents a 16.2% increase over July 2022 collections. Monies from this excise tax are deposited into dedicated non-General Fund accounts. The total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) was $5.6 million in July. Of this amount, the General Fund received $4.1 million. (*Table 4* details collections for July 2023).

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

	July	YTD
Marijuana Excise Tax	**$13.4**	**$13.4**
Medical Marijuana TPT*	**$1.5**	**$1.5**
Distribution:		
General Fund	$1.1	$1.1
Counties	$0.2	$0.2
Cities	$0.1	$0.1
Recreational Marijuana TPT*	**$4.1**	**$4.1**
Distribution:		
General Fund	$3.0	$3.0
Counties	$0.7	$0.7
Cities	$0.4	$0.4
Total State Marijuana Tax Collections	**$19.0**	**$19.0**

* Amounts may not add to total due to rounding

Table 5

General Fund Revenue:
Change from Previous Year and Enacted Forecast
July 2023

	Current Month					FY 2024 YTD (One Month)				
		Change From					Change from			
	Actual	July 2022		Enacted Forecast		Actual	July 2022		Enacted Forecast	
	July 2023	Amount	Percent	Amount	Percent	July 2023	Amount	Percent	Amount	Percent
Taxes										
Sales and Use	$651,639,068	$2,484,670	0.4 %	($29,565,361)	(4.3) %	$651,639,068	$2,484,670	0.4 %	($29,565,361)	(4.3) %
Income - Individual	435,423,744	(58,307,272)	(11.8)	(6,593,607)	(1.5)	435,423,744	(58,307,272)	(11.8)	(6,593,607)	(1.5)
- Corporate	81,336,306	24,947,642	44.2	20,687,314	34.1	81,336,306	24,947,642	44.2	20,687,314	34.1
Property	540,772	172,924	47.0	148,765	37.9	540,772	172,924	47.0	148,765	37.9
Luxury - Tobacco	1,813,647	178,362	10.9	41,912	2.4	1,813,647	178,362	10.9	41,912	2.4
- Liquor	3,442,381	(185,959)	(5.1)	(204,204)	(5.6)	3,442,381	(185,959)	(5.1)	(204,204)	(5.6)
Insurance Premium	57,242,610	11,462,751	25.0	5,488,766	10.6	57,242,610	11,462,751	25.0	5,488,766	10.6
Other Taxes	1,032,085	186,468	22.1	67,261	7.0	1,032,085	186,468	22.1	67,261	7.0
Sub-Total Taxes	$1,232,470,612	($19,060,413)	(1.5) %	($9,929,154)	(0.8) %	$1,232,470,612	($19,060,413)	(1.5) %	($9,929,154)	(0.8) %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
Gaming	0	0	--	(1,837,008)	(100.0)	0	0	--	(1,837,008)	--
License, Fees and Permits	2,896,732	(428,683)	(12.9)	(757,561)	(20.7)	2,896,732	(428,683)	(12.9)	(757,561)	(20.7)
Interest	6,360	4,224	197.8	(1,212)	(16.0)	6,360	4,224	197.8	(1,212)	(16.0)
Sales and Services	1,343,981	135,294	11.2	(824,847)	(38.0)	1,343,981	135,294	11.2	(824,847)	(38.0)
Other Miscellaneous	(63,437)	1,300,787	--	(404,221)	--	(63,437)	1,300,787	(95.3)	(404,221)	(118.6)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,014,867	(3,529,260)	(63.7)	875,874	76.9	2,014,867	(3,529,260)	(63.7)	875,874	76.9
Sub-Total Other Revenue	$6,198,502	($2,517,638)	(28.9) %	($2,948,977)	(32.2) %	$6,198,502	($2,517,638)	(28.9) %	($2,948,977)	(32.2) %
TOTAL BASE REVENUE	**$1,238,669,114**	**($21,578,051)**	**(1.7) %**	**($12,878,130)**	**(1.0) %**	**$1,238,669,114**	**($21,578,051)**	**(1.7) %**	**($12,878,130)**	**(1.0) %**
Other Adjustments										
Urban Revenue Sharing	(130,401,649)	(38,155,093)	41.4	0	0.0	(130,401,649)	(38,155,093)	41.4	0	0.0
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	(130,401,649)	(38,155,093)	41.4 %	0	0.0 %	(130,401,649)	(38,155,093)	41.4 %	0	0.0 %
TOTAL GENERAL FUND REVENUE	**$1,108,267,465**	**($59,733,144)**	**(5.1) %**	**($12,878,130)**	**(1.1) %**	**$1,108,267,465**	**($59,733,144)**	**(5.1) %**	**($12,878,130)**	**(1.1) %**
Non-General Funds										
Highway User Revenue Fund	142,155,008	5,298,014	3.9 %	1,403,310	1.0 %	142,155,008	5,298,014	3.9 %	1,403,310	1.0 %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) advance estimate of the U.S. **Real Gross Domestic Product** (GDP) in the 2nd quarter of 2023 is an annualized growth rate of 2.4%. Increases in consumer spending, government spending, private investment, and nonresidential fixed investment all contributed to the increase in GDP, offsetting decreased exports and residential fixed investment.

The **Consumer Confidence Index**, published by the Conference Board, rose to 117.0 in July, an increase of 6.9 points. A plentitude of jobs was listed as the primary reason for greater optimism in the present situation. Inflation concerns eased slightly and business conditions are expected to improve, increasing the future expectations index for the third consecutive month. Compared to July 2022, the index has increased by 21.7 points, or 22.8%.

The Conference Board's **U.S. Leading Economic Index** (LEI) decreased (0.7)% in June to 106.1 points. Expectations of consumers, new manufacturing orders, employment, and housing construction all declined during the month. As of June, the LEI has fallen for 15 consecutive months, which is the longest such streak of decreases since 2008. In their July press release, the Conference Board stated that "June's data suggests economic activity will continue to decelerate in the months ahead." The organization also forecasts a recession taking place between the final quarter of 2023 and the first quarter of 2024. Over the past 6 months, the LEI has fallen (4.2)%.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased, month-over-month, at a seasonally adjusted rate of 0.2% in July. Higher shelter prices were responsible for over 90% of the increase. Food, energy, and auto insurance prices also rose during the month. The overall CPI has increased 3.2% since last July. During this period, food prices increased 4.9%; energy prices fell (12.5)% (including a (19.9)% decrease for gasoline and (26.5)% decline for oil); and shelter costs increased 7.7%. Excluding food and energy, the year-over-year "core" CPI increased by 4.7% in July.

ARIZONA

Housing

In June, Arizona's 12-month total of **single-family building permits** was 28,416. This was a reduction of (0.6)% from last month's total and (37.1)% below June 2022's 12-month total.

In June, Arizona's 12-month total of 23,570 **multi-family building permits** was 13.4% greater than the same 12-month period ending in June 2022. June is the 22nd consecutive month with an annual growth rate greater than 10%.

The **median home price** in Maricopa County fell to $466,332 in July, representing a (1.8)% decrease from June's median sale price and a (3.8)% decrease compared to the same month in 2022. July was the 8th consecutive month with a year-over-year decline in the median sales price, and it is the first month since February 2023 to see a month-over-month decline. Previously, the median sales price had not declined on a year-over-year basis since November 2011.

Tourism

In June, **revenue per available room** decreased to $81.03, representing a (19.8)% reduction from May's average and a 1.0% increase over the June 2022 figure.

Hotel occupancy was 63.1% in June, which is (3.8)% below May's occupancy rate and (0.8)% lower than that of June 2022.

Phoenix Sky Harbor Airport Ridership was about 3.8 million in June, which represents a (9.1)% decrease from May's figure and a 5.5% increase over June 2022 ridership.

Employment

The Office of Economic Opportunity (OEO) reported that a total of 3,933 **initial claims for unemployment insurance** were filed in Arizona in the week ending on July 29th. This marks a 23.7% year-over-year increase in initial claims, as the week ending July 30, 2022, saw 3,180 initial claims filed.

According to OEO, for the week ending on July 22nd there were a total of 31,200 **continued claims for unemployment insurance** in Arizona. This is 29.1% greater than last year's total of 24,170 on the comparable date. The number of continued claims continues to rise, a trend that began in November 2022. Prior to start of the pandemic, the average number of weekly continued claims was 22,613.

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state had (11,600) fewer **nonfarm jobs** in July compared to June. Prior to the pandemic, nonfarm employment recorded an average net decrease of (19,800) jobs in July (2010-2019).

Compared to the same month in 2022, the state gained 60,300 jobs in July, an increase of 2.0%.

The state's **seasonally adjusted unemployment rate** rose from 3.5% in June to 3.6% in July. Arizona's unemployment rate is on par with the national unemployment rate, which was 3.5% in July.

State Agency Data

As of August 1, 2023, the total **AHCCCS caseload** was 2.21 million members. Total monthly enrollment decreased (1.2)% from July and decreased (6.8)% compared to a year ago. Pursuant to a provision in the federal 2023 Consolidated Appropriations Act, AHCCCS began removing members who do not meet the financial eligibility requirements of the program on April 1. AHCCCS had previously been prohibited from disenrolling members who would have otherwise lost eligibility based on income, pursuant to federal legislation in March 2020. As a result, the (1.2)% decline is likely attributable to that policy change and we anticipate further caseload declines in the coming months.

Parent and child enrollment in the Traditional population decreased by (0.8)% in August, or (8.8)% lower than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,007,817 – a decrease of (1.8)% from July, or (5.0)% lower than last year. For August 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.3%. At 68,483, this population is 3.0% higher than a year ago.

Based on information the Department of Child Safety provided for June 2023, **reports of child maltreatment** totaled 43,808 over the last 12 months, a decrease of (3.9)% from the prior year.

There were 10,959 **children in out-of-home care** as of June 2023, or (12.7)% less than in June 2022. Compared to the prior month, the number of out-of-home children decreased by (0.5)%.

The Arizona Department of Correction's **inmate population** was 34,235 as of July 31, 2023. This was a (0.4)% decrease from June 30, 2023 and a 2.7% increase since July 2022.

Table 6

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
Employment				
- Seasonally Adjusted Unemployment Rate	July	3.6%	0.1%	(0.3)%
- Total Unemployment Rate (discouraged/underemployed)	1st Q 2023	6.5%	(0.1)%	(1.6)%
- Initial Unemployment Insurance Claims	Week Ending July 29	3,933	(8.7)%	23.7%
- Continued Unemployment Insurance Claims	Week Ending July 22	31,200	0.6%	29.1%
- Non-Farm Employment - Total	July	3,096,000	(0.4)%	2.0%
Manufacturing	July	194,800	(0.1)%	0.2%
Construction	July	199,700	0.9%	2.1%
- Average Hourly Earnings, Private Sector	July	$31.87	1.7%	5.4%
Building				
- Building Permits (12 month rolling sum)				
Single-family	June	28,416	(0.6)%	(37.1)%
Multi-family	June	23,570	(6.1)%	13.4%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	July	4,725	(20.5)%	(3.0)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	July	$466,332	(1.8)%	(3.8)%
- Maricopa Pending Foreclosures	July	980	(5.9)%	(0.3)%
Tourism and Restaurants				
- Phoenix Sky Harbor Air Passengers	June	3,817,142	(9.1)%	5.5%
- State Park Visitors	March	394,996	62.9%	14.7%
- Revenue Per Available Hotel Room	June	$81.03	(19.8)%	1.0%
- Arizona Hotel Occupancy Rate	June	63.1%	(3.8)%	(0.8)%
General Measures				
- Arizona Personal Income, SAAR	1st Q 2023	$436.5 billion	7.5%	7.7%
- 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
Agency Measures				
- AHCCCS Recipients	August 1st	2,214,200	(1.2)%	(6.8)%
Traditional Acute Care		1,137,900	(0.8)%	(8.8)%
Other Acute Care		1,007,800	(1.8)%	(5.0)%
Long-Term Care – Elderly & DD		68,500	0.3%	3.0%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	June	43,800	0.3%	(3.9)%
DCS Out-of-Home Children	June	11,000	(0.5)%	(12.7)%
Filled Caseworkers (1406 Budgeted)	June	1,355	74	218
- ADC Inmate Growth	July	34,235	(0.4)%	2.7%
- Department of Economic Security				
- TANF Cash Assistance Recipients	June	10,738	(4.3)%	(3.8)%
- SNAP (Food Stamps) Recipients	June	939,412	1.8%	9.2%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	2nd Q, 2023 (1st Estimate)	$20.4 trillion	2.4%	2.6%
- Consumer Confidence Index (1985 = 100)	July	117.0	6.3%	22.8%
- Leading Economic Index (2016 = 100)	June	106.1	(0.7)%	(9.4)%
- Consumer Price Index, (1982-84 = 100)	July	305.7	0.2%	3.2%

JLBC/JCCR Meeting Follow Up

Pima Community College District - Report on 2019 Bond Issue - Pursuant to provisions from the September 2018 JCCR meeting, the Pima County Community College District (PCCCD) submitted its annual project status update and expenditure report for the $65.0 million bond project to construct and renovate the Downtown Campus, East Campus, and West Campus. PCCCD's allocation has changed since JCCR originally reviewed the expenditure plan in September 2018.

PCCCD reports total expenditures of $59 million as of June 30, 2023 *(see Table 7)*. At the downtown campus, two buildings are complete or nearing completion and renovation design discussions for a third are scheduled to start in the Fall of 2023. Proceeds from the bonds also funded the purchase of four additional downtown properties. A planning study to explore the needs of the Center of Excellence in Public Safety and Security to the East Campus and location has been approved, as further space programming coordination is needed to move the program to the East Campus. Following a space coordination study of the West Campus nursing and science labs, the college decided to renovate existing health professions facilities using reserve funds. The renovations of the science labs on the West Campus are 95% complete and expect to be finalized in Fall 2023. All food service and bookstore projects have been completed, and no contingency funds have been spent. (Cameron Mortensen)

Table 7

Expenses by Campus

	Budgeted Expenses	**Original Allocation**	**Actual Expenses**
Downtown	$51,007,422	$43,300,000	$50,290,230
East	$500,000	5,200,000	49,277
West	12,367,456	5,400,000	8,145,127
Multiple Campuses	500,000	500,000	500,000
Contingency	625,122	10,600,000	0
Total	**$65,000 000**	**$65,000,000**	**$58,984,634**

Pima Community College District - Report on Aviation Technology Center- Pursuant to provisions from the September 2019 JCCR meeting, the Pima County Community College District (PCCCD) submitted its report on the completion of the expansion of the Aviation Technology Center.

The FY 2020 budget included $15,000,000 from the General Fund for this project, while project costs totaled $18,618,620. PCCCD covered the additional costs with college revenues. The finished project includes construction of a new hangar, five classrooms, and other site developments, and is expected to increase enrollment capacity from 125 students to 250. (Cameron Mortensen)

Arizona Western College – Report on Capital Projects – Pursuant to a provision from the April 2021 meeting of the Joint Committee on Capital Review, Arizona Western College (AWC) submitted an annual project status report of revenue bonds projects. AWC's allocation has changed since the Joint Committee on Capital Review originally reviewed this bond issuance in April 2021. These projects include:

- Residence Hall: The district has issued purchase orders totaling $24,104,690 and has expended $5,733,855. AWC has partnered with Northern Arizona University (NAU) to expand the building to three floors, with NAU paying $2,490,949 to build out the third floor. The building is scheduled to be completed April 15, 2024, and construction is 22% complete.

- Students Experience Center Building: The district has issued purchase orders totaling $20,459,333 and has expended $11,439,267. The building is scheduled for substantial completion by August 31, 2023, with furniture installation being completed by Spring 2024. Construction is 66% complete.

- Other Campus Improvement Projects: The district has expended $2,219,606 for roofing repairs and cooling towers.

Expenditures for all projects total $45.7 million. Revenue bond issuance will cover $35.0 million, NAU will provide $2.5 million on the residence hall projects, and AWC will pay the remaining $8.2 million.
(Cameron Mortensen)

Summary of Recent Agency Reports

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its fourth quarter FY 2023 update of all current projects funded through the Automation Projects Fund (APF). ADOA evaluates the health of each project on a quarterly basis and labels each as on track, at risk, or off track. Of the 15 active APF projects, ADOA has labeled 8 as on track, 4 as completed, 1 not yet started, 1 as at risk and on hold, and 1 as off track. The 1 off-track project is:

ADOA Human Resources Information System (HRIS) Replacement
The Arizona Strategic Enterprise Technology (ASET) Office lists the ADOA HRIS Replacement as off track. This project was listed as at risk in the prior quarter. The project has fallen behind on key milestones. ADOA reports that this is due, in part, to challenges with ADOA's internal project team resources. Some of the internal and external vendor project staff are also involved with ADOA's Arizona Financial Information System upgrade. ADOA has also identified risks related to agency "shadow" human resource systems. Delays in implementation could impact open enrollment for Plan Year 2025. ADOA has increased reporting and oversight of this project.

Department of Water Resources Application Modernization
ASET lists the ADOA HRIS Replacement as on hold. This project was listed as at risk in the prior quarter. This project included updated 10 "mission critical" applications currently using outdated software code. The project is on hold while negotiations with the current vendor continue. No milestones were met in the fourth quarter.

Status of ITAC Projects
In its report, ADOA continues to note that 1 non-APF project which was approved by the Information Technology Authorization Committee (ITAC) is on hold. ADOA's Enterprise Email project is on hold due to schedule delays with the Department of Child Safety (DCS).

In addition, ADOA reported that 2 other non-APF projects are off track due to conflicts with the vendor and delays in user acceptance testing. These projects include the Child Nutrition Program Web Replacement Project (Arizona Department of Education (ADE)) and the State Appellate Courts Case Management System Replacement (Judiciary).

ITAC Third-Party Reports
Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than $5.0 million must receive third-party analysis from an independent contracted vendor. The third-party vendor is required to review and provide guidance on the project and submit quarterly reports on project progress. The Independent Verification and Validation (IVV) reports were submitted for the following projects: Arizona Financial Information System Upgrade (ADOA), Business One-Stop (ADOA), Human Resources Information System (ADOA), Child Support Services System Replacement (Department of Economic Security(DES)), Unemployment Insurance Benefits

Modernization (DES), Health and Nutrition Delivery System (Arizona Department of Health Services), and School Finance System Replacement (ADE). The reports provided commentary on project progress that generally matched that of the quarterly APF reports from ASET. (Rebecca Perrera)

Arizona Health Care Cost Containment System – Report on the American Rescue Plan Act Spending Plan – Pursuant to Laws 2023, Chapter 133, the Arizona Health Care Cost Containment System (AHCCCS) is required to report quarterly on any changes to the agency's Home and Community-Based Services (HCBS) spending plan for the implementation of the American Rescue Plan Act (ARPA) of 2021.

As of July 2023, AHCCCS projects its ARPA HCBS spending plan will total $1.64 billion, or $125.0 million higher than its original spending plan and $(53.2) million lower than the April 2023 quarterly report. Major changes from last quarter include:

- $(55.1) million in decreased funding for time-limited directed provider payments to fee-for-service HCBS providers.
- $13.0 million in additional funding for provider incentive payments. AHCCCS is seeking to incentivize providers for certain performance outcomes related to diabetes management for the ALTCS EPD HCBS population.
- $(11.1) million in decreased funding for differential adjusted payments to providers who participate in Pipeline AZ, a career readiness platform.

ARPA provided states a temporary 10% federal match increase for HCBS expenditures for the period beginning April 1, 2021 and ending March 31, 2022. States have until March 31, 2025, to fully expend funds. (Maggie Rocker)

Arizona Health Care Cost Containment System – Annual Report on Behavioral Health Services – Pursuant to A.R.S. § 36-3415, the Arizona Health Care Cost Containment System (AHCCCS) reported SFY 2022 Medicaid and non-Medicaid behavioral health expenditures. AHCCCS expended $3.44 billion Total Funds on behavioral health services for 621,558 Medicaid-eligible clients, including:

- $763.5 million for seriously mentally ill services.
- $866.1 million for alcohol and drug abuse.
- $344.6 million for children with serious emotional disturbances.
- $1.46 billion for other mental health issues.

The agency expended $281.7 million Total Funds for 48,628 non-Medicaid clients in SFY 2022, including:

- $119.0 million for non-Medicaid seriously mentally ill services.
- $47.6 million for alcohol and drug abuse.
- $16.9 million for children with serious emotional disturbances.
- $98.3 million for other mental health issues. (Maggie Rocker)

AHCCCS – Report on Systematic Alien Verification for Entitlements Program – Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) provided its latest report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program.

AHCCCS, in conjunction with the Department of Economic Security (DES), performed 9,527 verifications of immigration status in FY 2023. During this period, AHCCCS and DES referred 13 individuals (11 citizens, 2 non-citizens) for prosecution for fraudulent schemes, theft, or forgery. (Maggie Rocker)

Department of Corrections – Report on Correctional Officer Staffing – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) submitted its semi-annual report on correctional officer (CO) staffing.

As of June 30, 2023, ADC reported that of the 5,922 total CO positions, 4,619.5 were filled and 1,302.5 were vacant, a vacancy rate of 22.0%. This was a decrease since November 2022 when the vacancy rate was 30.5%.

However, this decrease is explained in part by the reduction of total CO positions by (418) since the last report. Total filled positions increased by 210.25 since November. For FY 2023 as a whole, ADC reports 1,277.75 new hires, 206 COs promoted to a new position, and 855.25 COs leaving ADC, a net change of 216.5 COs since the end of FY 2022.

ADC utilizes overtime to maintain inmate supervision levels despite CO vacancies. In FY 2023, ADC reported a total of 1,328,274 overtime hours worked. ADC reports the average CO earned about $11,623 in overtime wages in FY 2023, compared to $8,220 in FY 2022. Stipends, however, declined from $7,267 to $3,166. (Geoffrey Paulsen)

Public Safety Personnel Retirement System – Report on Current and Future Actuarial Assumptions – A FY 2023 General Appropriation Act footnote requires the PSPRS Board of Trustees to submit a report detailing the current actuarial assumptions made in the Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP), along with potential future adjustments to these assumptions. This footnote was part of FY 2022 supplemental appropriations totaling $1,154,086,400 which were deposited in specified PSPRS and CORP employer group accounts to reduce unfunded accrued liability.

In responding to this report requirement, the PSPRS Board transmitted the PSPRS, CORP and Elected Officials Retirement Plan (EORP) experience studies, which are conducted every 5 years under A.R.S. § 38-848. The studies, which were published in April 2022 using data from 2016 through 2021, compared current actuarial assumptions against actual demographic and economic experience relating to assumed rates of return, inflation, salary and real wage growth, retirement rates, withdrawal/termination rates, disability incidence rates, mortality rates, and other demographic experiences.

In the studies, the PSPRS actuaries made a number of uniform recommendations for PSPRS, CORP and EORP, including a reassessment of the assumed rate of return, an increase to the cost-of-living adjustment (COLA), and small adjustments to the actuarial assumptions for retirement, termination, disability, and mortality rates.

Assumed Rate of Investment Return
As part of analyzing the systems' assumed rate of return, the PSPRS actuaries reviewed data from 39 different investment advisors collected in a "capital market survey" published by Horizon Actuarial Services. The PSPRS actuaries also reviewed the assumptions of other states contained in a survey by the National Association of State Retirement Administrators (NASRA). PSPRS actuaries made the following comments:

- There is a 50% chance that the PSPRS 10-year average rate of return will be at least 7.42% and that the 20-year average will be at least 8.06%.
- The odds of exceeding a 7.25% average annual rate of return over the next 20 years is approximately 62%.
- According to the NASRA survey, the median assumed rate of return for US public pension systems has declined from 8.0% in 2001 to 7.0% in 2022, with most peer systems currently assuming rates between 7.0% and 7.5%.

The PSPRS Board voted at its May 2022 meeting to reduce the assumed rate of return for Tier 1 and Tier 2 members from 7.3 percent to 7.2 percent. The PSPRS Board retained the assumed rate of return of 7.0% associated with Tier 3 members.

Other Actuarial Assumptions
The PSPRS actuaries also recommended minor adjustments to the assumptions for inflation and salaries, along with demographic assumptions for retirement, termination, disability, and mortality. The most significant change related to a recommended increase in the annual COLA assumption from 1.75% to 1.85% due to recent trends in the Phoenix-Mesa Consumer Price Index (CPI). Despite the annual growth of the CPI exceeding the 2.0% statutory COLA cap in four of the last five years, the actuaries did not recommend increasing the COLA assumption to 2.0% due to uncertainty over how long the current inflationary trend will continue.

At its May 2022 meeting, the PSPRS Board adopted several changes related to these other actuarial assumptions, with the changes generally aligning with the actuaries' recommendations.

Arizona Department of Transportation – Annual Report on ServiceArizona Retained Fees – Pursuant to an FY 2024 General Appropriation Act footnote, the Arizona Department of Transportation (ADOT) reported on the state's share of fees retained by the ServiceArizona vendor in the prior fiscal year.

As an authorized third party, the vendor for ServiceArizona (the state's vehicle registration renewal website) retains a portion of each transaction it completes, including those for the vehicle license tax, registration fees and title fees, among others. The vendor for ServiceArizona keeps roughly half of its retained fees as compensation. The other half of the retained fees belong to the state and are treated as non-appropriated monies by ADOT. The state's share is retained and managed by the ServiceArizona vendor, which disburses funds directly to vendors on behalf of the state, as directed by ADOT.

In FY 2023, the state's share of the retained fees totaled $19.3 million. The vendor spent $19.2 million in FY 2023 on behalf of ADOT. The largest portion of these monies ($7.0 million) were spent on stabilization, enhancement, and operations of the Motor Vehicle Modernization (MvM) automation project, which updated the Motor Vehicle Department (MVD) computer system. The MvM project was completed on June 30, 2020. The system provides MVD customer service representatives with a suite of new applications for motor vehicle transactions.

In addition, residents of Arizona can use the MVD customer portal (AZ MVD Now) which offers 44 online services; the AZ MVD Now project has previously received enhancements funded by ServiceArizona fees. The department anticipates continued enhancements to the MvM system, including the deployment of the motor carrier management system, appointment scheduling, and MVD field office queueing in the first half of FY 2024. Additional projects planned in FY 2024 include commercial vehicle permitting, crash records modernization, interstate electronic driver history records, and MVD online services for auto dealers and Mobile Driver License (license holding in the wallet app on a smartphone).

Besides funding for MvM stabilization, enhancement, and operations, the remaining $12.2 million was spent as follows:

- $6.1 million for operations and production support.
- $5.1 million for MvM extensions and new technologies.
- $803,600 for ADOT MvM strategic initiatives.
- $179,200 for contract administration.

(Jordan Johnston)

Arizona Department of Transportation – Annual Report on Motor Vehicle Division Wait Times – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Transportation (ADOT) reported on Motor Vehicle Division (MVD) field office customer wait times.

Between arrival at an MVD office and departure, the average customer experience time in metropolitan areas decreased from 21.4 minutes in FY 2022 to 20.7 minutes in FY 2023. Average customer experience times in metropolitan areas ranged from 16.4 minutes in the Surprise office to 23.8 minutes in the Avondale office in FY 2023. In non-metropolitan areas, the average customer experience time decreased from 19.8 minutes in FY 2022 to 16.1 minutes in FY 2023. In addition to customer experience time, the department measures the percent of customers spending more than 15 minutes waiting in the lobby. This metric decreased from 24.5% to 22.1% in metropolitan areas and decreased from 25.0% to 19.4% in non-metropolitan areas.

Due to the COVID-19 pandemic, the department reports that many transactions that occurred during FY 2021 and FY 2022 took place over the phone. In response to the pandemic, the MVD converted all field customer service representatives (CSR's) to a single call center queue and began requiring that customers call prior to coming to an office. The number of transactions taking place over the phone has since declined as the department has returned contact center services back to pre-pandemic operations. The overall average speed to answer phone calls decreased from 5 minutes in FY 2022 to 3 minutes in FY 2023.

The number of customers scheduling MVD appointments declined by (11.1)% from 456,000 customer visits in FY 2022 to 405,500 in FY 2023. In addition, kiosk transactions decreased by (31.5)% and online transactions via ServiceArizona (the state's vehicle registration renewal website) and AZ MVD Now increased by 7.7% from, from 5.2 million to 5.6 million. The number of AZ MVD Now accounts increased by 18.8%, from 3.2 million to 3.8 million. In FY 2023, 660 MVD CSR's processed 2.9 million transactions.

The number of transactions for vehicle registration renewal by mail increased by 10.8% from FY 2022 to FY 2023, while the average turnaround time for vehicle registration renewal by mail was 1 day in FY 2023. (Jordan Johnston)

Arizona Board of Regents – Report on University Retention and Graduation Rates – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents (ABOR) is required to submit an annual report on retention and graduation rates at each university campus.

ABOR reports retention and graduation rates based on the federal government's definitions, which track the outcomes of first-time, full-time, degree-seeking students after 1 year for retention rates and after 6 years for graduation rates. The standard federal definitions of retention and graduation rates exclude community college and transfer students.

- Fall 2022 retention rates reflect the percentage of first-time, full-time, degree-seeking students who initially enrolled in fall 2021 and who re-enrolled in the same university in fall 2022.
    - Arizona State University (ASU) 85.4%; Northern Arizona University (NAU) 76.1%; and the University of Arizona (UA) 85.8%.

- Six-year graduation rates reflect the percentage of first-time, full-time, degree-seeking students who received their degree within 6 years of their initial fall enrollment at the same university. The report shows the percentage of students who enrolled in fall 2014 who graduated from the same university within 6 years (by spring 2021).
    - ASU 68.6%; NAU 59.1%; UA 67.9%.

(Cameron Mortensen)