

Joint Legislative Budget Committee

Monthly Fiscal Highlights

February 2022

Summary

January General Fund collections were \$1.58 billion, which is a 22.2% increase above January 2021. While the state's economic growth continues to be very healthy, the January revenue growth is likely partially overstated due to an extra tax processing day for income tax withholding.

Compared to the January JLBC Baseline forecast, revenues during January were \$113 million above forecast.

Sales Tax

Sales Tax had yet another month of strong gains, with the category increasing by 15.9% during January and ending up \$27 million above the Baseline revenue forecast.

The state continues to see similar trends from prior months – significant increases in the retail/remote online sales classification and certain service-based sector revenues (Restaurant/Bar, Lodging, and Amusements).

The contracting classification continued its turnaround in January, posting another month of gains and it now has a positive year-to-date growth rate.

Of the state's large Sales Tax categories, only the Utilities category is showing year-to-date declines. This decline is likely due to issues unrelated to the state's underlying economic performance.

Individual Income Tax

Overall Individual Income Tax (IIT) collections grew by 24.0% during January. This growth rate was helped by the technical timing issue of an additional withholding tax processing day compared to January 2021. IIT revenue during January generated a gain of \$92 million above the Baseline forecast.

Corporate Income Tax

January Corporate Income Tax (CIT) revenues were \$43.1 million, which resulted in a (2.2)% decline from the prior year and a modest forecast loss of \$(1.5) million below the JLBC Baseline projections.

Year-to-Date Results/Operating Balance

Year-to-date through January, excluding Urban Revenue Sharing and fund transfers, FY 2022 General Fund revenues are 11.3% above the prior year. After adjusting for the deferral of income tax revenues from April 2020 to July 2020, FY 2022 year-to-date revenues are 19.1% above the prior year.

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. The operating balance as of mid-February 2022 is \$7.57 billion.

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State Appropriations Limit Report

JLBC Staff is required to annually report by February 15 on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Total FY 2022 state appropriations (both General and Other Funds) are \$22.58 billion, or 5.79% of personal income. Under the JLBC Baseline, projected FY 2023 spending is \$22.73 billion, which would be 5.47% of personal income.

Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2023, as required by A.R.S. § 41-1276. Due to revised property tax estimates under the TNT process, the cost of the FY 2023 Basic State Aid formula will be \$(3.6) million lower than under the JLBC Baseline. The purpose of TNT is to offset the annual change in the value of existing property statewide with proportional Qualifying Tax Rate and State Equalization Tax Rate changes.

January Revenues

Table 1**General Fund Revenues (\$ in Millions)**

	FY 2022 Collections	Difference From Baseline Forecast	Difference From FY 2021
January	\$ 1,576.2	\$ 112.9	\$ 286.3
Year-to-Date	\$ 9,003.6	\$ 112.9	\$ 1,007.1

Sales Tax collections of \$682.3 million were 15.9% above January of last year and \$27.0 million above the January Baseline forecast. January marked the eleventh consecutive month with a double-digit year-over-year growth. Year to date, sales tax revenue is up by 16.0%.

Table 2 provides more details on the 5 major sales tax categories as well as the smaller Transient (Hotel/Motel) Lodging and Amusements classification. As in prior months, the strongest growth rates in January occurred in those industries most adversely affected by the pandemic: Lodging, Amusements, and Restaurants and Bars.

Contracting continues to recover from a period of slow growth, with sales increasing, year over year, by 7.1% in January. Year to date, collections from contracting activity are up by 0.8%.

The Utilities category, which includes sales of electricity, natural gas, posted a (22.6)% decrease over the year. Through January, tax revenue from this category is down by (1.4)%.

Table 2**Sales Tax Growth Rates
Compared to Prior Year**

	January	YTD
Retail/Remote Seller	16.1%	16.0%
Contracting	7.1%	0.8%
Use	3.1%	10.4%
Restaurant & Bar	40.8%	34.9%
Utilities	(22.6)%	(1.4)%
Hotel/Motel Lodging	111.1%	77.4%
Amusements	147.5%	168.2%

Individual Income Tax (IIT) net collections in January were \$844.4 million. This is 24.0% above January 2021 and \$91.9 million above the January Baseline forecast. Through January, IIT collections are up by 1.6% compared to the same period in FY 2021. After accounting for the impact of the 2020 tax-filing deferral, year-to-date growth is 17.7%.

Table 3**Individual Income Tax Growth Rates
Compared to Prior Year**

	January	YTD
Withholding	29.8%	14.5%
Estimated/Final Payments	15.9%	(33.1)%
Refunds	(419.2)%	(27.8)%



January withholding revenue increased by 29.8% compared to the same month in the prior year and was \$66.3 million above the January Baseline forecast. Year to date, withholding is up by \$14.5%.

January's unusually large increase in withholding collections occurred primarily for technical reasons. January 2022 has one more processing day than January of last year. In addition, January of this year has one more Monday than January of 2021. Generally, Monday is the day of the week when the largest withholding deposits are posted. On the last processing day of January 2022, which was Monday, January 31, a total of \$113 million in withholding tax was deposited. Adjusting for the extra processing day and the aforementioned "Monday effect," January withholding would have increased by an estimated 10%.

Payments in January were \$278.8 million, 15.9% over the same month in the prior year and \$29.8 million above the January Baseline forecast. Through January, payments are down by (33.1)% compared to the same period in FY 2021. However, after adjusting for the 2020 tax-filing deferral, year-to-date payments have increased by 32.8%.

The amount of refunds in January was \$8.0 million compared to \$1.5 million in January 2021. The Baseline forecast assumed that refunds would be \$3.8 million in January. Therefore, the higher-than-projected refund level in January resulted in a forecast loss of \$(4.2) million. Through January, refunds are down by (27.8)% compared to the same period last year. After adjusting for the tax-deferral impact, refunds are up by 24.3%.

Corporate Income Tax net revenue was \$43.1 million in January, a decline of (2.2)% over the same month in the prior year. This amount was \$(1.5) million below the January Baseline forecast. Through January, the level of corporate income tax collections was \$604.2 million, which is the largest amount on record for this 7-month period of the fiscal year. Year to date, net corporate income tax is up by 52.6%.

Insurance Premium Tax (IPT) revenue was \$7.1 million in January compared to \$245,800 in the same month last year. IPT collections in the month of January tend to vary significantly from year to year. The forecast gain in January relative to the Baseline forecast was \$4.0 million. Year to date, IPT revenue is up by 13.5%. As noted in previous months, the strong IPT growth is likely related to the premium taxes levied on the state's Medicaid program.

The amount of **Tobacco Tax** deposited into the General Fund in January was \$1.8 million, which is 38.9% above January 2021 and \$111,400 above the Baseline forecast. Year to date, General Fund tobacco tax revenue is \$12.3 million, (1.6)% below the amount collected in the same period in the prior year.

Liquor Tax collections deposited into the General Fund in January were \$3.0 million. This is a (4.2)% decrease from January 2021 General Fund deposits. January collections were \$(0.9) million below the Baseline forecast. Year to date, General Fund liquor tax revenue is \$24.8 million, which is a year-over-year increase of 1.6%.

Lottery revenue distributions to the General Fund were \$34.7 million during January, which was \$(9.6) million below the Baseline forecast. The Lottery Commission reported that total ticket sales in January were \$121.8 million. This amount is \$(52.0) million, or (29.9)%, below January 2021. Year to date, ticket sales are \$772.6 million, which is (6.9)% below the prior year.

Gaming revenues from event wagering and fantasy sports contests totaled \$3.8 million during January, an amount which is \$(0.2) million below the Baseline forecast. These revenues are the first General Fund deposit made by the Department of Gaming since these newly authorized activities began – licensed fantasy sports contests started in August 2021 and licensed event wagering began in September 2021.

Highway User Revenue Fund (HURF) collections of \$140.2 million in January were 2.9% above the amount collected in January 2021 and \$(1.1) million below forecast. Year to date, HURF collections have increased by 6.6% compared to the same period in the prior year and are \$24.4 million above forecast.

Due to delays in reporting final December revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For December, DOR has decreased the amount of prior General Fund revenue collections by \$(0.8) million, and the adjustment has been included in the reported year-to-date results.



General Fund Revenue: Change from Previous Year and Baseline Forecast January 2022

	Current Month					FY 2022 YTD (Seven Months)				
	Actual January 2022	Change From		Baseline Forecast		Actual January 2022	Change from		Baseline Forecast	
		January 2021 Amount	Percent	Amount	Percent		January 2021 Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$682,332,435	\$93,809,748	15.9 %	\$27,060,376	4.1 %	\$4,110,019,218	\$566,007,257	16.0 %	\$27,060,375	0.7 %
Income - Individual	844,407,489	163,413,191	24.0	91,916,309	12.2	4,102,534,551	63,194,785	1.6	91,916,309	2.3
- Corporate	43,069,854	(948,272)	(2.2)	(1,490,168)	(3.3)	604,228,677	208,300,961	52.6	(1,490,168)	(0.2)
Property	2,303,054	696,106	43.3	666,244	40.7	18,585,945	5,120,099	38.0	666,244	3.7
Luxury - Tobacco	1,839,560	514,819	38.9	111,365	6.4	12,335,523	(197,489)	(1.6)	111,365	0.9
- Liquor	2,961,130	(129,704)	(4.2)	(925,052)	(23.8)	24,757,116	394,888	1.6	(925,052)	(3.6)
Insurance Premium	7,115,757	6,870,004	--	4,013,667	129.4	279,853,238	33,320,174	13.5	4,013,667	1.5
Other Taxes	997,922	(235,932)	(19.1)	(21,850)	(2.1)	5,872,026	(541,266)	(8.4)	(21,850)	(0.4)
Sub-Total Taxes	\$1,585,027,201	\$263,989,961	20.0 %	\$121,330,890	8.3 %	\$9,158,186,294	\$875,599,408	10.6 %	\$121,330,890	1.3 %
<u>Other Revenue</u>										
Lottery	34,698,200	9,907,025	40.0	(9,574,905)	(21.6)	156,813,034	69,817,585	80.3	(9,574,905)	(5.8)
Gaming	3,808,244	3,808,244	--	(200,000)	(5.0)	3,808,244	3,808,244	--	(200,000)	(5.0)
License, Fees and Permits	2,786,840	(61,836)	(2.2)	731,691	35.6	24,557,167	909,808	3.8	731,691	3.1
Interest	4,239	2,811	196.8	989	30.4	16,927,268	16,913,145	--	989	0.0
Sales and Services	2,620,092	483,320	22.6	516,328	24.5	15,412,814	1,461,061	10.5	516,328	3.5
Other Miscellaneous	2,668,725	869,822	48.4	(752,057)	(22.0)	20,452,728	3,331,338	19.5	(752,057)	(3.5)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	7,592,207	3,437,522	82.7	887,234	13.2	28,621,469	(14,031,540)	(32.9)	887,234	3.2
Sub-Total Other Revenue	\$54,178,548	\$18,446,907	51.6 %	(\$8,390,720)	(13.4) %	\$266,592,725	\$82,209,642	44.6 %	(\$8,390,720)	(3.1) %
TOTAL BASE REVENUE	\$1,639,205,749	\$282,436,868	20.8 %	\$112,940,170	7.4 %	\$9,424,779,019	\$957,809,050	11.3 %	\$112,940,170	1.2 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(63,032,358)	6,008,714	(8.7)	(0)	0.0	(441,226,503)	42,060,998	(8.7)	(0)	0.0
One-Time Transfers	0	0	--	0	--	20,000,000	20,000,000	--	0	0.0
Public Safety Transfers	0	(2,122,109)	--	0	--	0	(12,732,655)	--	0	--
Sub-Total Other Adjustments	(63,032,358)	3,886,605	(5.8) %	(0)	0.0 %	(421,226,503)	49,328,343	(10.5) %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,576,173,391	\$286,323,473	22.2 %	\$112,940,170	7.7 %	\$9,003,552,516	\$1,007,137,394	12.6 %	\$112,940,170	1.3 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	140,215,787	3,896,747	2.9 %	(1,129,239)	(0.8) %	991,570,340	61,580,499	6.6 %	24,403,481	2.5 %

Monthly Indicators

NATIONAL

The U.S. Bureau of Economic Analysis' (BEA) first estimate for 4th quarter **U.S. Real Gross Domestic Product (GDP)** is 6.9%. GDP growth in the 4th quarter was primarily led by personal consumption expenditures and by inventory investment, which increased by \$240 billion, contributing 4.9 percentage points to overall growth.

The **Consumer Confidence Index**, published by the Conference Board, declined by (1.4)% to 113.8 in January. This is 30.7% higher than last January's confidence level but (11.8)% under the June peak. The index of views on the present situation improved to 148.2 in January from 144.8 the prior month, despite headwinds from continued price increases and the rapid spread of the Omicron variant.

The Conference Board's **U.S. Leading Economic Index (LEI)** increased by 0.8% in December, following a 0.7% increase in November. Eight of the index's ten components improved during the month. In its press release, the Conference Board remarked, "The U.S. LEI ended 2021 on a rising trajectory, suggesting the economy will continue to expand well into the spring."

The U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)** rose by 0.6% in December. Before seasonal adjustment, prices were 7.5% higher than in December 2020. This was the largest 12-month increase since 1982. The year-over-year gain encompassed increases of 27.0% in energy prices and 7.0% for the food index. Excluding food and energy prices, the CPI increased by 6.0% this year.

ARIZONA

Housing

In December, Arizona's 12-month total of **single-family building permits** was 46,129. This was a reduction of (1.8)% from November but 11.2% above December 2020's 12-month total. December was the 19th consecutive month in which year-over-year growth topped 10%.

In December, Arizona's 12-month total of 18,795 **multi-family building permits** was 18.8% more than for the same 12-month period ending in 2020.

The **median home price** in Maricopa County rose marginally in December to \$446,667, representing a 0.1% increase over the prior month and a 27.7% increase over December 2020.

Tourism and Restaurants

In December, **revenue per available room** decreased to \$82.76, representing a (15.4)% decrease from November's figure and an 87.6% increase over December 2020.

Hotel occupancy was 61.7% in December, which is (9.9)% lower than November's occupancy rate and 38.0% higher than that of December 2020. The sharp month-to-month reductions in hotel occupancy and revenue per available room are seasonal, as travel tends to spike in November.

Phoenix Sky Harbor Airport Ridership was slightly over 3.8 million in December, representing a (1.8)% decrease over November's figure and double the figure from December 2020.

According to data reported by OpenTable, on February 12, **daily restaurant reservations** were 9.9% above 2019 reservations on the comparable date.

Employment

Due to the annual revision of employment data (also known as "benchmarking"), January's employment and unemployment rate figures will not be released until the second week of March. While employment data will not be available until March, the Office of Economic Opportunity (OEO) reported that a total of 2,498 **initial claims for unemployment insurance** were filed in Arizona in the week ending on February 12th. For the same week in the prior year, 3,903 initial claims were filed.

According to OEO, for the week ending on February 5th, there were a total of 12,629 **continued claims for unemployment insurance** in Arizona. A year ago this time, the continued claims were 68,987.

State Agency Data

As of February 1, 2022, the total **AHCCCS caseload** was 2.30 million members. Total monthly enrollment increased 0.8% in February over January and increased 8.8% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.8% in February or 7.6% higher than a year ago.



Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,014,153 in February – an increase of 0.8% over January and 10.9% above last year. For February 2022, Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population enrollment declined by (0.1)%. At 65,449, this population is 0.6% higher than a year ago.

There were 11,868 **TANF Cash Assistance cases** in January 2022, representing a (4.2)% decrease from December. This data does not include Tribal recipient exclusions. The year-over year number of cash benefit recipients has decreased by (13.6)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In January 2022, 811,690 people received food stamp assistance. This was a (1.4)% decrease from December, and a (12.9)% decrease since January 2021.

The Arizona Department of Correction's **inmate population** was 33,657 as of January 31, 2022. This was a decrease of (0.6)% since December 31, 2021 and a (10.0)% decrease since January 2021.

Based on information the Department of Child Safety provided for December 2021, **reports of child maltreatment** totaled 45,514 over the last 12 months, an increase of 6.1% over the prior year. There were 14,749 **children in out-of-home care** as of December 2021, or 2.0% more than in December 2020. Compared to the prior month, the number of out-of-home children increased by 0.8%.



Table 4

MONTHLY INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	December	4.1%	(0.6)%	(2.7)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2021	9.0%	(1.1)%	(4.0)%
- Initial Unemployment Insurance Claims	Week Ending Feb. 12	2,498	(13.5)%	(36.0)%
- Continued Unemployment Insurance Claims	Week Ending Feb. 5	12,629	(4.0)%	(81.7)%
- Non-Farm Employment - Total	December	3,054,800	0.5%	5.1%
Manufacturing	December	182,200	0.2%	2.8%
Construction	December	176,700	0.4%	2.7%
- Average Hourly Earnings, Private Sector	December	\$29.02	0.8%	3.9%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	December	46,129	(1.8)%	11.2%
Multi-family	December	18,795	1.8%	18.8%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	December	5,154	(26.0)%	(2.3)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	December	\$446,667	0.1%	27.7%
- Maricopa Pending Foreclosures	December	733	(9.6)%	(37.3)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	December	3,800,399	(1.8)%	101.6%
- State Park Visitors	December	181,634	(32.8)%	2.8%
- Revenue Per Available Hotel Room	December	\$82.76	(15.4)%	87.6%
- Arizona Hotel Occupancy Rate	December	61.7%	(9.9)%	38.0%
- Az OpenTable Reservations – % Change from 2019	February 12	N/A	N/A	9.9%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	3 rd Q 2021	\$385.8 billion	3.9%	2.9%
- Arizona Population	July 2021	7,276,316	N/A	1.4%
- 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	February 1st	2,296,700	0.8%	8.8%
Traditional Acute Care		1,217,100	0.8%	7.6%
Other Acute Care		1,014,200	0.8%	10.9%
Long-Term Care – Elderly & DD		65,400	(0.1)%	0.6%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	December	45,514	0.0%	6.1%
DCS Out-of-Home Children	December	14,749	0.8%	2.0%
Filled Caseworkers (1,406 Budgeted)	December	1,177	(48)	(103)
- ADC Inmate Growth	January	33,657	(0.6)%	(10.0)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	January	11,868	(4.2)%	(13.5)%
- SNAP (Food Stamps) Recipients	January	805,131	(1.4)%	(12.9)%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	4 th Q, 2021 (1 st Estimate)	\$19.8 trillion	6.9%	5.5%
- Consumer Confidence Index (1985 = 100)	January	113.8	(1.9)%	30.7%
- Leading Economic Index (2016 = 100)	December	120.8	0.8%	10.2%
- Consumer Price Index, (1982-84 = 100)	January	281.9	0.6%	7.5%

JCCR Meeting Summary

At its February 2022 meeting, the Joint Committee on Capital Review considered the following issue:

Arizona State University – Review of Mill Avenue Parking Structure Project – The Committee gave a favorable review of \$42.0 million in system revenue bond issuances

for construction of Mill Avenue Parking Structure on the ASU Tempe campus. The favorable review included the standard university financing provisions.

JLBC Meeting Follow Up

AHCCCS – Report on Targeted Investment Program Expenditures – Pursuant to a provision from the June 2017 JLBC meeting, the Arizona Health Care Cost Containment System (AHCCCS) submitted its annual report on actual Targeted Investment Program (TIP) expenditures. TIP provides incentive payments to Medicaid providers who develop processes for integrated care. The program is funded through Federal Funds and Political Subdivision Funds.

In FY 2020, Arizona spent \$70.0 million total on TIP expenditures. The Adult and Child Ambulatory program, which funds primary care providers, behavioral health providers, and integrated clinics, accounted for 85% of expenses at \$59.5 million. The remaining \$10.5 million was spent across 3 other program categories: Justice, Hospitals, and Administration. Justice pertains to the integration of acute and behavioral health services for adults with behavioral health needs transitioning from incarceration. (Maggie Rocker)

Summary of Recent Agency Reports

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2022 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its second quarter FY 2022 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 12 active projects, ADOA has labeled 6 on track, 1 is at risk, 2 are off track, and 3 not yet started. The 2 off-track projects include:

CHILDS Replacement (DCS)

The Arizona Strategic Enterprise Technology Office (ASET) lists the Department of Child Safety (DCS) Children's Information Library and Data Source (CHILDS) Replacement project as off track. While the new system went live in FY 2021, the system still has outstanding issues with its reporting functionality. In addition, the old system has not yet been decommissioned as internal users are still reliant on the system to reference client information.

Child Support Services System Replacement (DES)

ASET lists the Department of Economic Security (DES) Child Support Services System Replacement project as off track as the project is currently not proceeding quickly enough to meet the schedule.

ADOA Business One-Stop

ASET lists the ADOA Business One-Stop as at risk. Phase 1 of the project is scheduled to go live in May 2022 but as of the end of Quarter 2 (December 2021), the project still lacked key project management roles. In addition, integrations with the Department of Revenue are still delayed due lack of staff resources at the agency. ADOA reports it will continue to monitor the project schedule and may need to "re-baseline" the project.

Status of ITAC Projects

In its report, ADOA notes that 3 non-APF projects approved by the Information Technology Authorization Committee (ITAC) are on-hold or off-track due to schedule delays, cyber security certification, and vendor issues. These projects include those at ADOA (Enterprise Email) and DES (Developmental Disabilities HIPAA Transaction Code Set and Accounts Receivable Collections System).



ITAC Third-Party Reports

Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5 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: Business One-Stop (ADOA), Electronic Visit Verification project (AHCCCS), Child Support Services System Replacement (DES), and School Finance System Replacement (Arizona Department of Education). The reports provided commentary on project progress that generally matched that of the quarterly APF reports from ASET. (Rebecca Perrera)

Arizona Department of Administration/Arizona Department of Transportation – Progress Report on MvM Planned Expenditures – Pursuant to a footnote in the FY 2022 General Appropriation-Act, the Arizona Department of Administration (ADOA) submitted a report on behalf of the Arizona Department of Transportation (ADOT) on the planned FY 2022 expenditures on the Motor Vehicle Modernization (MvM) project. The department reports a total of \$18.3 million in planned FY 2022 expenditures on the following categories: \$5.1 million on operations and maintenance, \$9.3 million on enhancements, \$1.4 million on MvM strategic initiatives, \$2.3 million on cloud hosting and support, and \$0.1 million on contract administration.

The department further reports that the planned MvM enhancements include the following projects: motor carrier licensing and apportionment, commercial vehicle permitting, fuel tax collection system, mandatory insurance, dealer services and other business portal upgrades, and improvements to letters and customer correspondence. Strategic initiatives include information technology-related changes to field office operations. (Jordan Johnston)

ADOA - School Facilities Division – Quarterly Report on Credit Enhancement Program – Pursuant to A.R.S. § 41-5858, the School Facilities Division (SFD) within the Arizona Department of Administration is required to submit quarterly reports on the Public School Credit Enhancement Program. The program is operated by the Governor's Office of Education. Since the last quarterly report in October 2021, no new charter operators have qualified for the program. As of December 31, 2021, 15 schools have been approved financing through the program – Academy

of Math and Science (2 projects), Arizona Agribusiness and Equine Center, BASIS Schools (2 projects), Candeo Schools, Great Hearts Academies (3 projects), Highland Prep (2 schools), Legacy Traditional Schools (2 projects), Paradise Schools, and Vista College Preparatory. The total outstanding principal amount is \$346.9 million. To date, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$106.1 million and has a leverage ratio of 3.27 (based only on the outstanding principal of issued financing). The statutory limit for the program's leverage ratio is 3.5. (Rebecca Perrera)

ADOA - School Facilities Division – Report on School District Class B Bonds – Pursuant to A.R.S. § 41-5702, the School Facilities Division (SFD) within the Arizona Department of Administration is required to annually report to JLBC by December 31 on all Class B bond approvals by school districts in that year. Statute requires each school district to report Class B bond approvals to SFD by December 1 of each year for inclusion in the SFD report.

Based on the SFD report and other third-party reporting, 3 school districts received voter approval for Class B bond issuances in 2021, with a total bond approval amount of \$193.5 million. (Rebecca Perrera)

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

Through the second quarter of FY 2022, the AG received \$225,000 for deposit into the ICAC Enforcement Fund. A total of \$208,800 was expended from the fund balance in the second quarter of FY 2022 to help pay for the operating costs of the ICAC Task Force. As of December 31, 2021, the ICAC Enforcement Fund had a fund balance of \$1.9 million. (Ryan Fleischman)



Attorney General – Quarterly Report on Child and Family Advocacy Center Fund Expenditures – Pursuant to A.R.S. § 41-191.11, the Attorney General (AG) submitted its quarterly report on expenditures from the Child and Family Advocacy Center Fund (CFAF), which funds nonprofit and government entities that serve victims of child abuse or investigate and prosecute their abusers.

Through the second quarter of FY 2022, the AG did not report any expenditures from the Consumer Protection - Consumer Fraud Revolving Fund. The fund has an unencumbered fund balance of \$400,000 as of December 31, 2021. (Ryan Fleischman)

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

In the second quarter of FY 2022, the AG deposited a total of \$5.7 million into various consumer accounts. Of that amount, \$5.9 million was deposited into the CPCF Revolving Fund, \$1.2 million was deposited into the Consumer Remediation Subaccount, and \$(1.4) million was transferred out of the Consumer Restitution Subaccount. The AG made no deposits into the Antitrust Enforcement Revolving Fund from settlements. In addition to the consumer account deposits, the AG made \$584,300 in deposits to the General Fund from settlements.

Deposits to the CPCF Revolving Fund

The AG deposited \$5.9 million into the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. This amount resulted from a \$2.5 million settlement with Robert Bosch GmbH and Robert Bosch LLC regarding deceptive acts in connection with its emissions control software, a \$1.8 million settlement with JUUL Labs, Inc. regarding deceptive acts in connection with advertising or selling its nicotine products, a \$575,700 settlement with C.R. Bard, Inc. regarding deceptive acts in connection with advertising or selling surgical mesh devices, a \$345,000 settlement with Courtesy Chevrolet regarding deceptive acts in connection

with advertising or selling new and used vehicles, and small legal settlements and interest income. As of December 31, 2021, the fund had an unencumbered balance of \$40.6 million.

Deposits to Antitrust Enforcement Revolving Fund

The AG made no deposits into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. As of December 31, 2021, the fund had an unencumbered balance of \$1.6 million.

Deposits to the Consumer Restitution Subaccount

The AG transferred a net \$(1.4) million out of the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from a \$1.5 million settlement with American Honda Motor Co. and Honda of America Mfg., Inc. regarding deceptive acts in connection with the use of airbag inflators, a \$550,900 settlement with Arizona Public Service Company (APS) regarding deceptive acts in connection with its rate plan tool and data errors for electric utility service, a transfer of \$(3.4) million from closed restitution accounts to the CPCF Revolving Fund and General Fund, and interest income. As of December 31, 2021, the fund had an unencumbered balance of \$5.0 million. These funds are specifically earmarked for restitution payments.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$1.2 million into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. This amount resulted from a \$900,000 settlement with JUUL Labs, Inc. regarding deceptive acts in connection with advertising or selling its nicotine products, a \$251,000 settlement with Steve Fanto regarding deceptive acts in connection with misleading insurers and patients, and small legal settlements and interest income. As of December 31, 2021, the fund had an unencumbered balance of \$13.9 million.

Deposits to the General Fund

The AG deposited \$584,300 into the General Fund. This amount resulted from small legal settlements. (Ryan Fleischman)

Department of Child Safety – DCS/ECDHB Joint Report – Pursuant to A.R.S. § 8-530.02, the Department of Child Safety (DCS) and the Early Childhood Development and



Health Board (ECDHB) reported on their collaborative efforts to address child welfare issues during the prior year, including the level of coordination among DCS, ECDHB, and community groups to promote the well-being of children and families that are identified in reports of abuse or neglect. The systemic collaborative efforts include:

- **Home Visitation Programs:** Three evidence-based models of home visitation programs are widely funded and utilized by DCS and ECDHB: the Nurse Family Partnership, Healthy Families Arizona, and Parents as Teachers. These programs are funded in collaboration with AHCCCS and implemented with help from several community partners. In FY 2021, 4,669 families participated in state-funded home visitation programs, and almost 400 families graduated from these programs.
- **Quality First:** In FY 2021, Quality First provided scholarships for 5,920 children to attend certified child care or preschool programs that have achieved quality standards. Due to the COVID-19 pandemic, the number of children in early learning programs decreased; children in DCS care continued to access quality care at a rate of about 53%, which is higher than the general population of young children on subsidy accessing quality care (50%).
- **Early Childhood Mental Health Consultations (ECMHC):** ECDHB operates the ECMHC program, which helps early childhood education professionals more effectively interact with children with different social-emotional needs. The program uses consultation with trained early childhood mental health and trauma professionals to improve teacher skills, reduce challenging classroom behaviors, and lower preschool expulsion rates. In FY 2021, 350 child care and preschool providers received a consultation from the program and 45 children were referred to services to address their mental health needs. Consultations and referrals decreased from FY 2020 levels by (5) and (15), respectively.

DCS and ECDHB also collaborate to allocate Federal Funds appropriated by the American Rescue Plan Act (ARPA) to support the child care system. The funding, administered by DES, includes support to expand access to the Quality First program to 800 providers over the next 2 years. (Alexis Sammon)

Arizona Commerce Authority – Report on Applied Research Centers and Institutes – Pursuant to an FY 2020 General Appropriation Act footnote, the Arizona Commerce Authority (ACA) submitted its 2021 annual report for applied research centers and institutes.

In FY 2020, ACA was provided \$2.5 million from the State Web Portal Fund to research blockchain and wearable technology. Pursuant to the appropriation, \$1.25 million was allocated to blockchain research, \$500,000 of which was returned because matching funds became unavailable due to the pandemic. An additional \$750,000 was allocated for wearables research, and the remaining \$500,000 was allocated to the Institute of Automated Mobility (IAM).

Blockchain

The Arizona Blockchain Applied Research Center received a \$500,000 ACA grant and applied \$300,000 in matching funds to research the uses of blockchain for different purposes such as food scanners and medical devices. So far, \$18,934 has been spent on equipment and \$471,082 on salaries and wages for total expenditures of \$490,016. Contract Year (CY) 2021 expenditures totaled \$396,721, which includes \$3,864 in equipment costs and \$392,857 in wages.

Energy Blockchain Consortium, LLC received an ACA grant of \$250,000 and applied \$250,000 in matching funds to research applying blockchain to peer-to-peer trading. Of these monies, they have spent \$250,294 on wages and \$8,508 on research expenditures exclusive of operating, general management, and overhead costs for total expenditures of \$258,802 to date.

Wearable Technology

The WearTech Applied Research Center received a \$383,493 grant and applied \$506,622 in matching funds for multiple research projects such as anti-anxiety stimulators, ingestible wearable sensors, and wearable fall risk assessment systems. To date, the center has spent \$86,385 on equipment, \$546,529 on salaries and wages, and \$205,112 on other research expenditures for a total of \$838,026. CY 2021 expenditures totaled \$352,330, which includes \$45,720 in equipment costs, \$219,971 in wages, and \$86,639 in other research costs.

The University of Arizona's Andrew Weil Center for Integrative Medicine received a grant of \$366,507 and applied \$500,000 in matching funds for research into wearable carbon dioxide detection. So far, the center has spent \$242,153 on wages and \$27,323 on general operations for total expenditures of \$269,476. This



includes the center's CY 2021 expenditures of \$158,165, of which \$138,597 was for wages and \$19,568 was for general operations. The center filed a provisional patent in August 2021 for technology using infrared thermography to remotely and continuously measure and map exhaled carbon dioxide.

Institute on Automated Mobility

The Institute for Automated Mobility received a \$500,000 grant from the ACA and applied \$250,000 in matching funds for research into the infrastructural changes necessary for widespread autonomous vehicle adoption. This includes research into efficient vehicle-to-internet connectivity, infrastructure for monitoring intersections and points of interest, and methods of enhancing or repairing existing infrastructure to be better suited for autonomous vehicles. The Institute has spent a total of \$331,629 to date, of which \$193,163 was for salaries and wages and \$138,446 was for research costs exclusive of operating, general management, and overhead costs. (Nate Belcher)

Department of Corrections – Report on Correctional Officer Staffing – Pursuant to an FY 2022 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) submitted its semi-annual report on correctional officer II (CO-II) staffing. As of October 25, 2021, ADC reported that of the 6,585 total CO-II positions, 4,910.25 were filled and 1,674.75 were vacant, a vacancy rate of 25.4%. This was an increase since June 2021 when the vacancy rate was 20.9%. This change consists of 247.5 new hires, 99 CO-IIs promoted to a new position, and 504 CO-IIs leaving ADC, a net change of (355.5) CO-IIs.

ADC utilizes overtime to maintain inmate supervision levels despite CO-II vacancies. Through October 2021 ADC reported a total of 499,075 overtime hours worked. ADC reports the average CO-II has earned about \$7,100 in overtime wages on an annualized basis in FY 2022. (Geoffrey Paulsen)

Department of Corrections – Report on Medical Staffing Augmentation Expenditures – Pursuant to an FY 2022 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) submitted its semi-annual report on expenditures from the Medical Staffing Augmentation Special Line Item. The FY 2022 budget included \$15 million for Medical Staffing Augmentation and made this funding non-lapsing. ADC is required to

report the actual expenditures made and the expenditure plan for all remaining monies. As of December 10, 2021 ADC reported no expenditures from these monies but ADC expects to spend \$14.8 million over 10 months once implemented. ADC and the inmate health care vendor have agreed to use the funding to provide structured bonuses to recruit staff and retain current staff, for additional bonuses to incentivize better compliance with the *Parsons v. Shinn* stipulation agreement, and to add 2 new FTE Positions to the contract to address inmate questions about coronavirus and to implement the bonuses. (Geoffrey Paulsen)

Department of Economic Security – Report on the Workforce Investment Act (WIA) Grant – Pursuant to an FY 2021 General Appropriation Act footnote, the Department of Economic Security (DES) reported its plan to expend an additional \$3.5 million of federal Workforce Investment Act Grant monies received by the department in excess of its \$56.1 million appropriation for FY 2021 for the Local Workforce Development Areas (LWDAs) program. The report described these costs as one-time costs for assisting job seekers during the pandemic. Combined with \$19.0 million from increased Federal Funds previously reported, DES has reported a total \$78.6 million in expenditures.

Pursuant to an FY 2022 General Appropriation Act footnote, DES reported its plan to expend an additional \$39.8 million of federal WIA Grant monies received by the department in excess of its \$56.1 million appropriation for FY 2022. Of this amount, they would increase the operating budget by \$4.9 million, increase the spending of the Office of Governor's support by \$12.0 million to support statewide workforce projects by the Governor and ADC second chance centers, and increase LWDA allocations by \$22.9 million. (Micaela Larkin)

Arizona Game and Fish Department – Report on Building Renewal Spending – Pursuant to an FY 2021 Capital Outlay Bill footnote, the Arizona Game and Fish Department (AZGFD) reported the status of building renewal projects and building renewal expenditures. As of November 23, 2021, AZGFD has spent \$1.2 million FY 2021 building renewal appropriation. Of the remaining amount, \$291,000 has been committed, and \$252,300 is uncommitted and unexpended. A majority of the projects are complete or in progress. Of the 21 projects that AZGFD planned for FY 2021, 10 are completed, 2 have been cancelled, and 9 are ongoing.

Of the \$1.2 million FY 2022 building renewal appropriation, \$86,200 has been spent, \$142,500 is committed and the remaining \$987,100 is uncommitted



and unexpended. AZGFD plans to use the FY 2022 building renewal for 20 projects. One of these projects is completed, 6 are ongoing and the remaining 13 have not been started. (Rebecca Perrera)

Ombudsman-Citizens' Aide Office – Annual Report – Pursuant to A.R.S. § 41-1376, the Ombudsman-Citizens' Aide submitted its annual report summarizing the office's activities during the previous fiscal year. The FY 2021 annual report cites examples of cases in the office's 3 focus areas: general complaints about state agencies, Department of Child Safety (DCS) cases, and public access cases. There were 9,756 total cases in FY 2021 including 7,483 involving coaching, 1,355 needing assistance, and 918 requesting investigations. This was a 43% increase over FY 2020. The agency reported 3,109 DES cases related to Unemployment Insurance. The top 4 complaints were phones are not answered or DES hangs up on me, no one gets back to me in a reasonable time, and Pandemic Unemployment Assistance account or regular unemployment insurance pending and unresolved. The total of 4,325 cases reported for DES accounts for 43.4% of the workload. DCS cases account for 18.4% of the total workload. (Steve Grunig)

Northern Arizona University – Report on Translational Genomics Research Institute – Pursuant to a FY 2022 General Appropriation Act footnote, Northern Arizona University (NAU) submitted its 2021 report on the Translational Genomics Research Institute (TGen). Laws 2021, Chapter 408 appropriates \$3.0 million to NAU in biomedical research funding. NAU also receives \$2.0 million in Tobacco Tax Funding from the Arizona Department of Health Services.

In calendar year 2021, TGen spent \$179,600 on research supplies, \$770,900 on research for outside services, \$1.6 million on research capital, \$100,000 on proposal development, \$100,000 on project management, \$100,000 on technical infrastructure, and \$100,000 on education. TGen funded 39 FTE Positions totaling \$2.9 million for salaries and benefits, in addition to \$298,900 for temporary position salaries and \$206,400 for student salaries. The majority of funding for these positions comes from non-state sources and grants.

TGen investigators reported submitting 92 grants totaling \$95.0 million and were awarded 19 grants totaling \$8.6 million. NAU also reports that in 2021 there were 8 patents issued that utilized TGen technology and 126 academic articles published and presentations given by TGen researchers. (Lydia Chew)



Arizona Economic Trends

February 2022

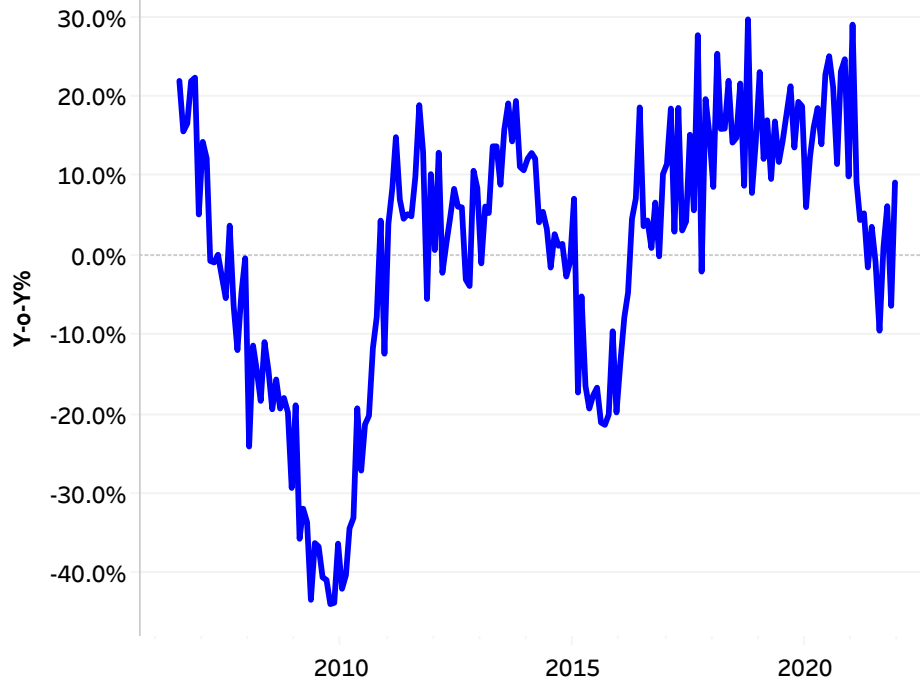
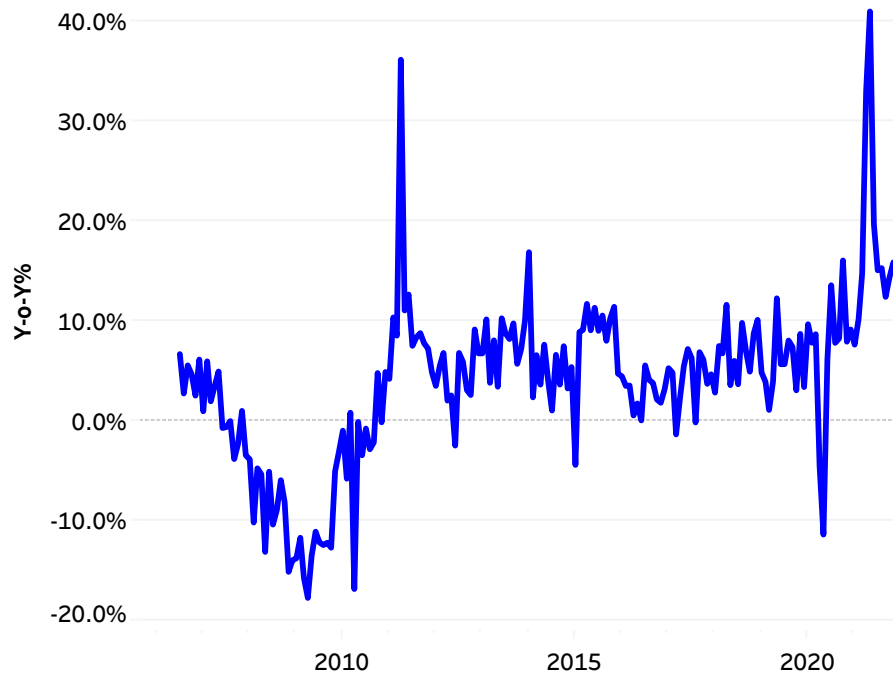
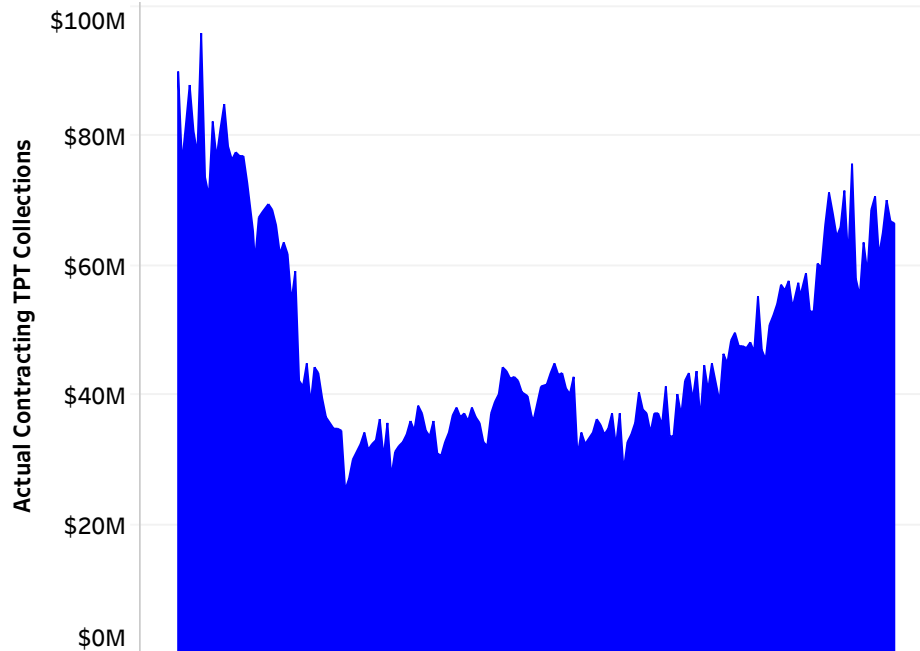
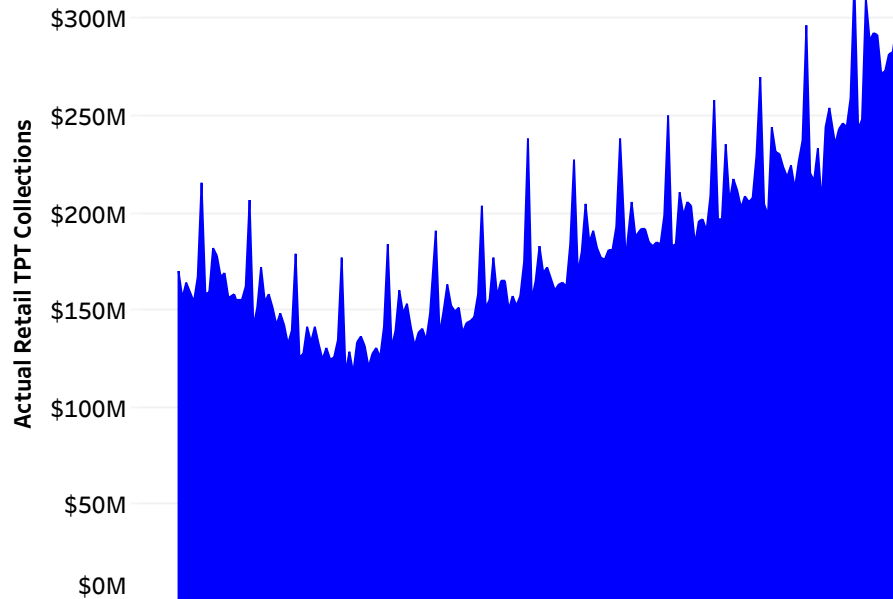
Appendix A

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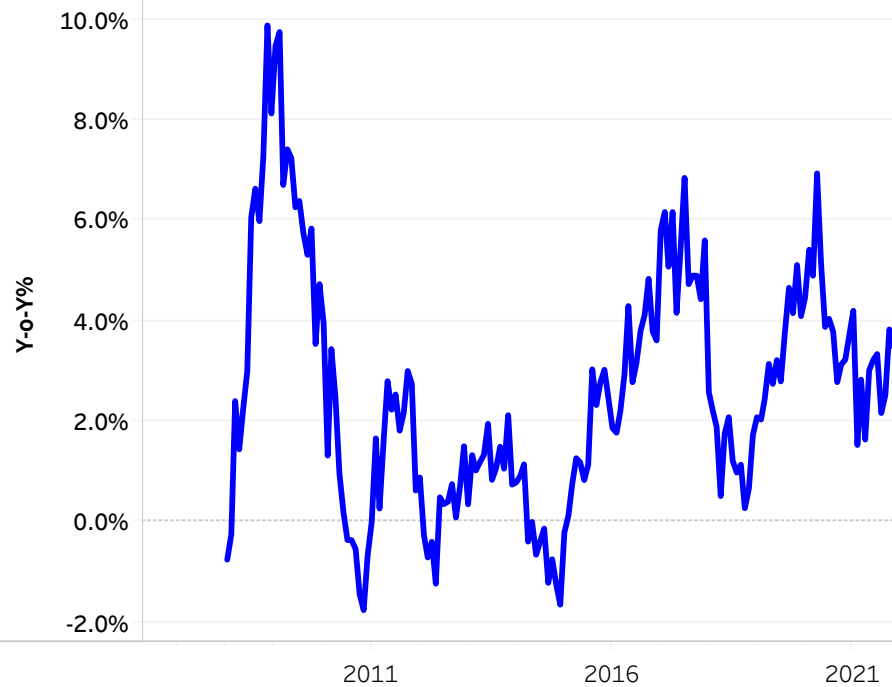
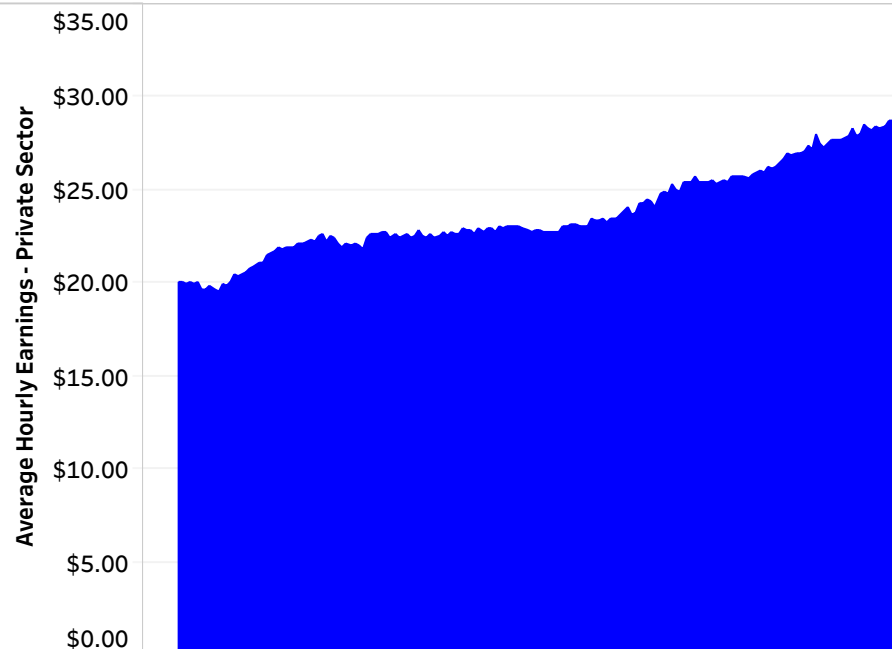
- 2..... State Sales Tax Collections – Retail Category
State Sales Tax Collections – Contracting Category
- 3..... Average Hourly Earnings – Private Sector
Total Non-Farm Employment
- 4..... Total Non-Farm vs Total Private Employment
Arizona Employment by Category
Residential Building Permits
Rolling 4-Week Withholding Total
- 5..... Initial Unemployment Insurance Weekly Claims
Continued Unemployment Insurance Weekly Claims
Unduplicated Unemployment Insurance Claimants
AHCCCS Recipients
- 6..... SNAP Recipients
HURF Revenue
Sky Harbor Total Passengers
Arizona Hotel Occupancy
- 7..... Arizona Open Table Daily Reservations

State Sales Tax Collections - Retail Category

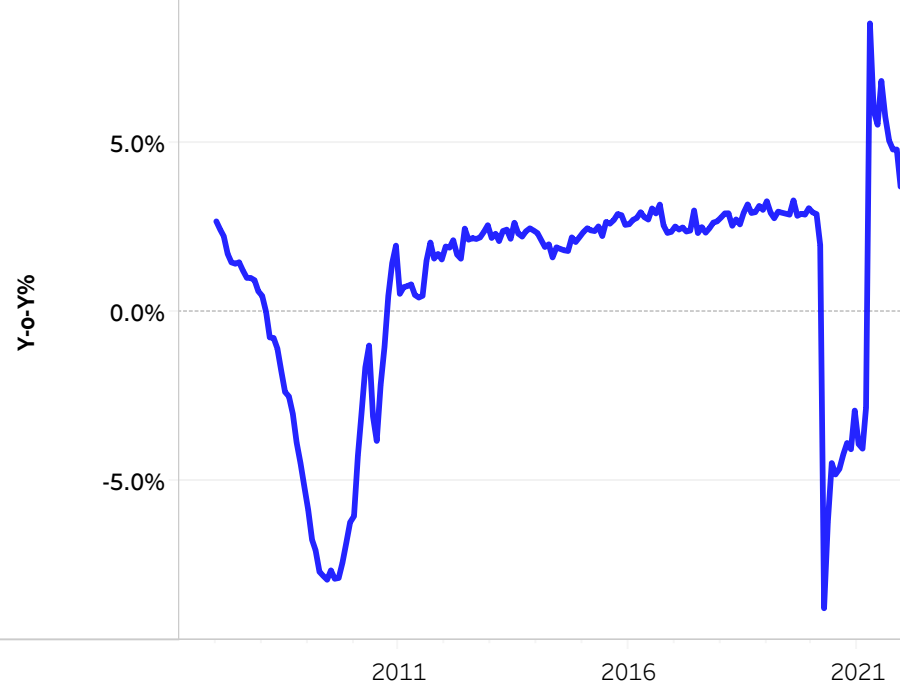
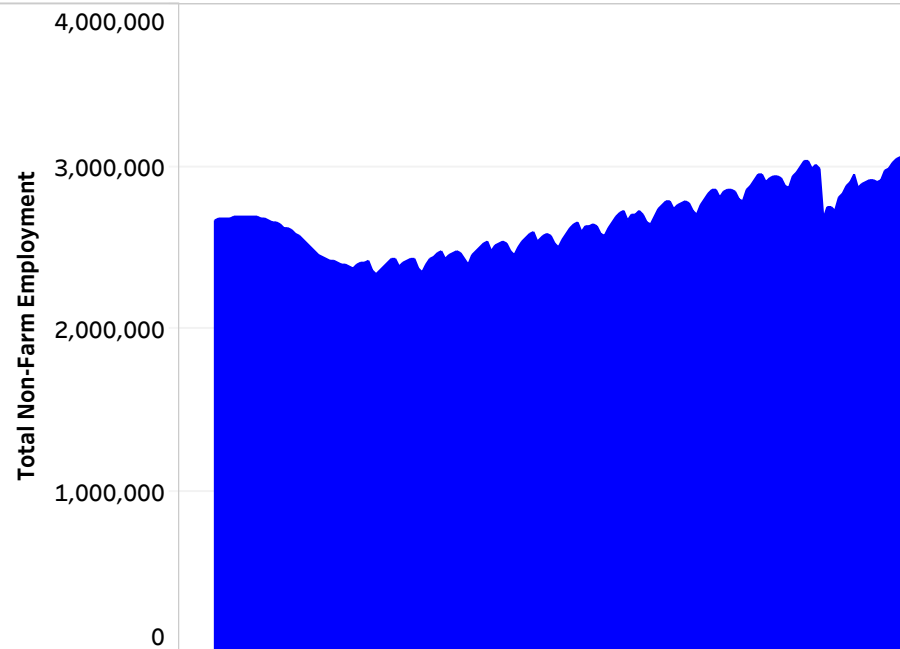
State Sales Tax Collections - Contracting Category



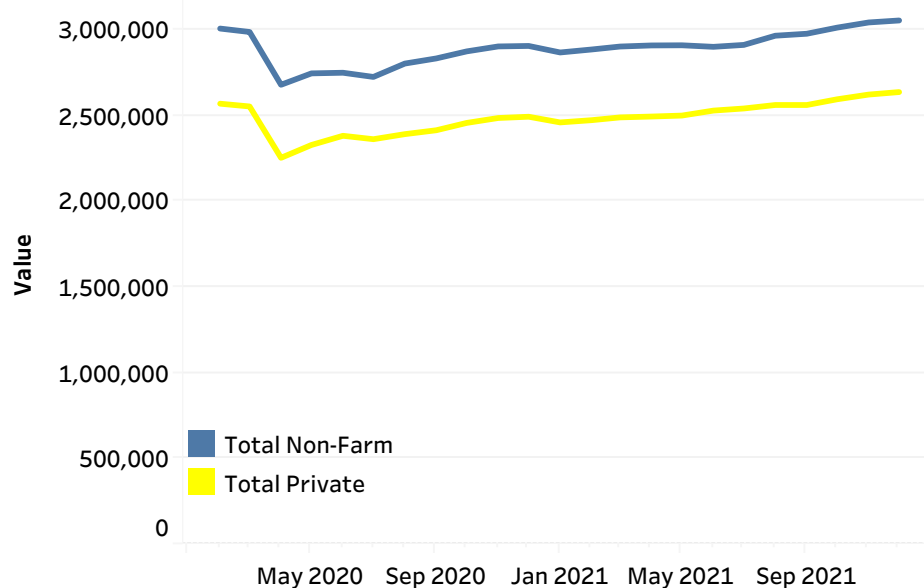
Average Hourly Earnings - Private Sector



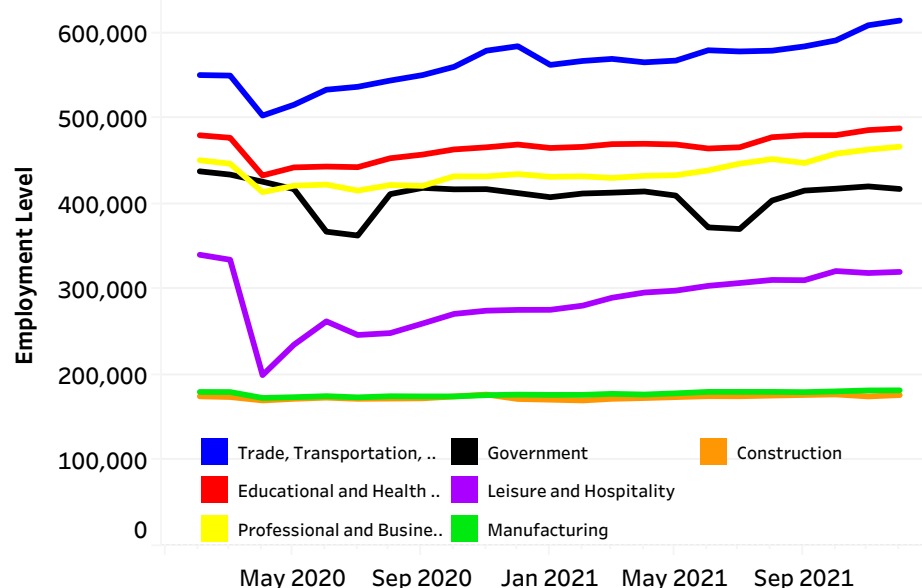
Total Non-Farm Employment



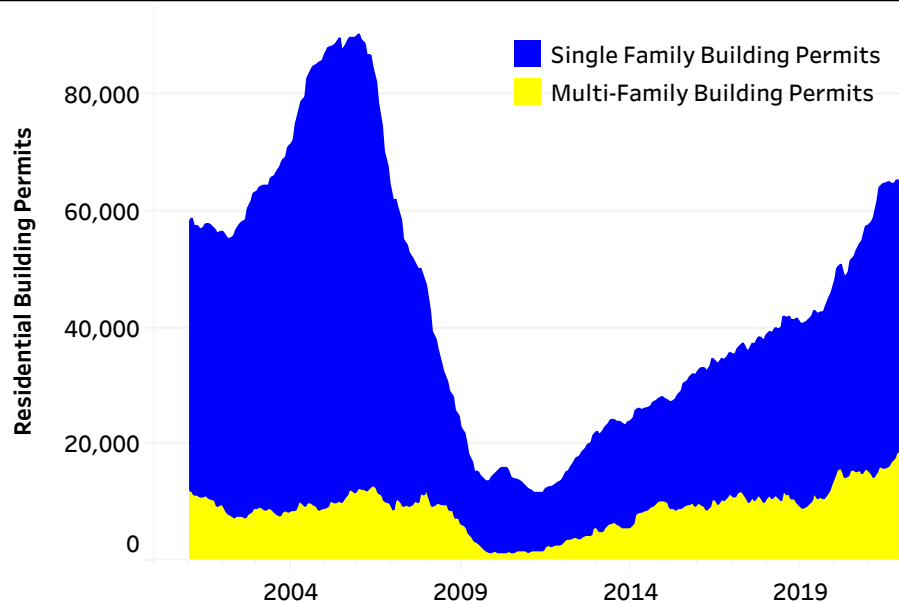
Arizona Total Non-Farm vs Total Private Employment



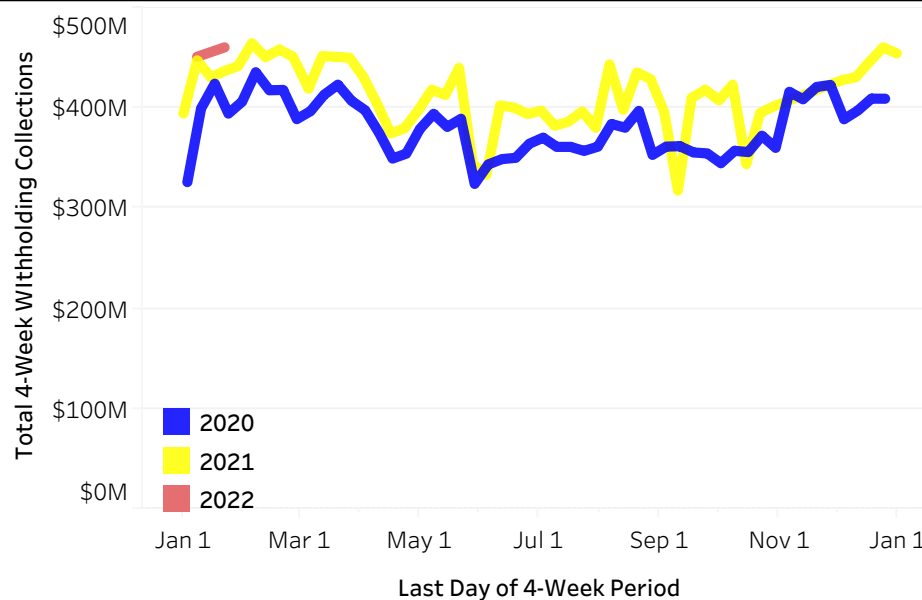
Arizona Employment by Category



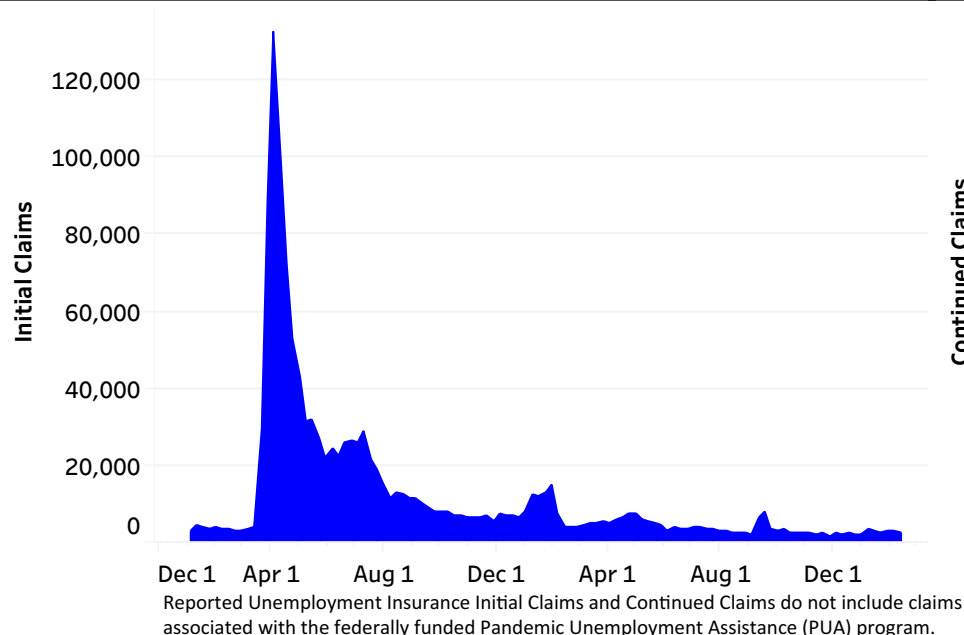
Residential Building Permits



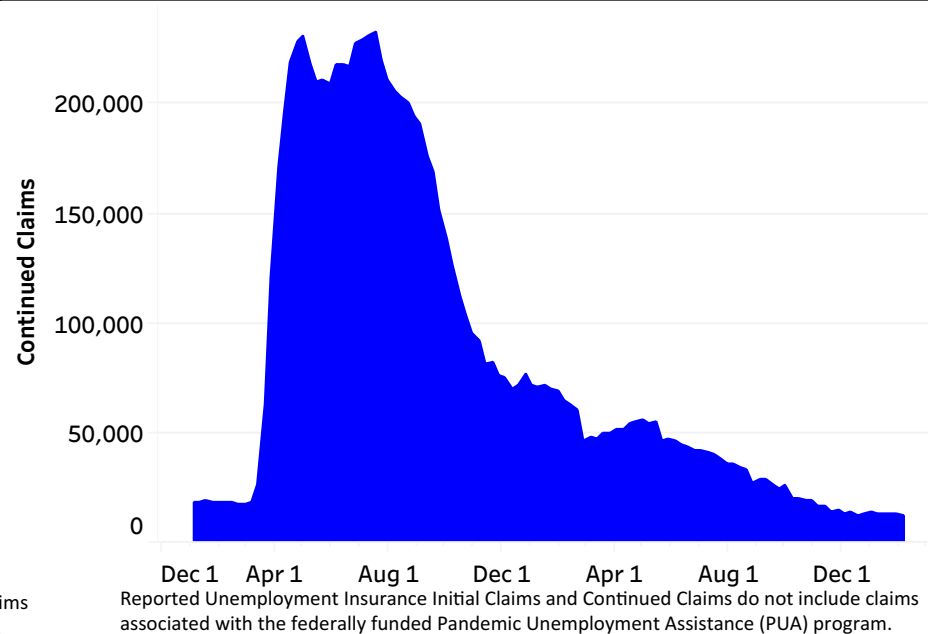
Rolling 4-Week Withholding Total



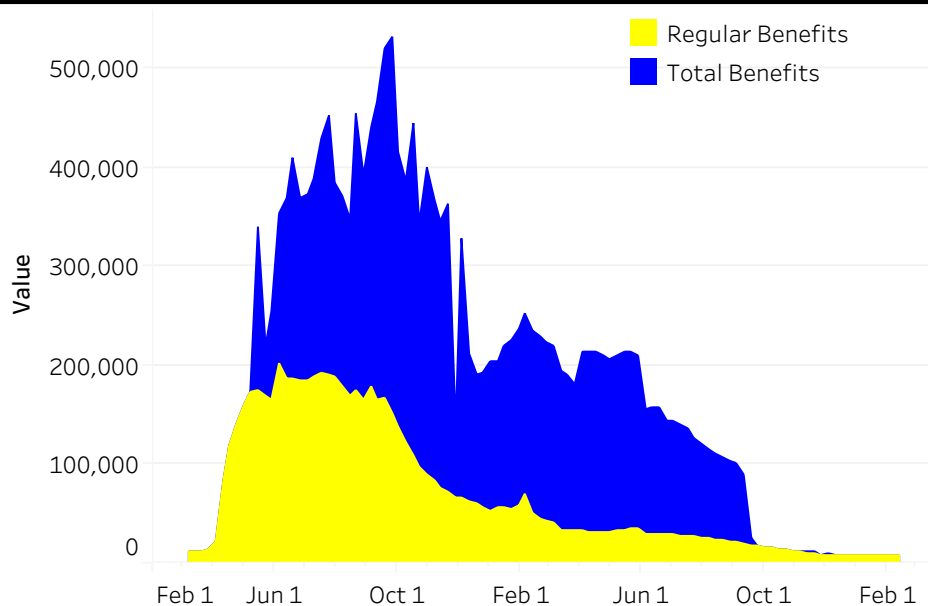
Initial Unemployment Insurance Weekly Claims



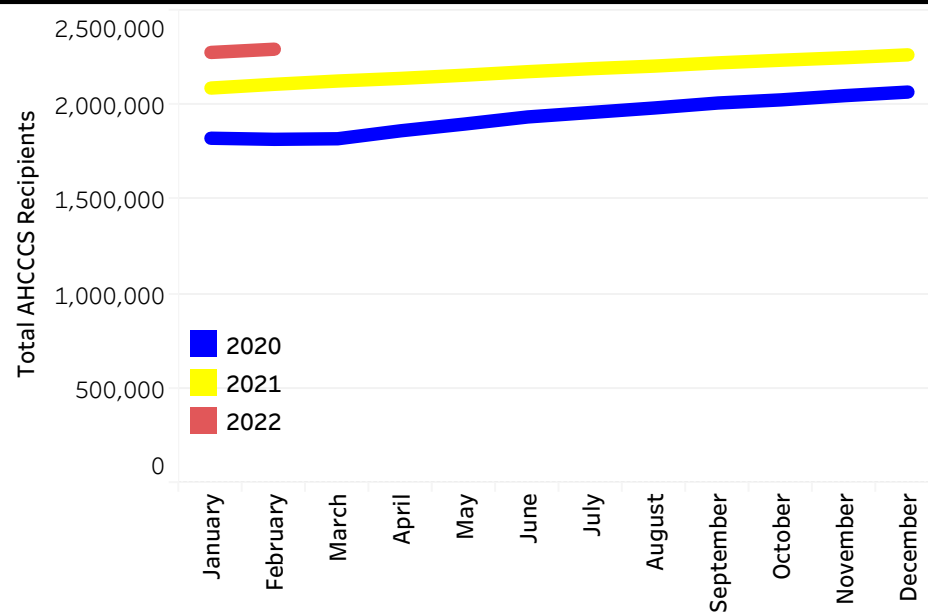
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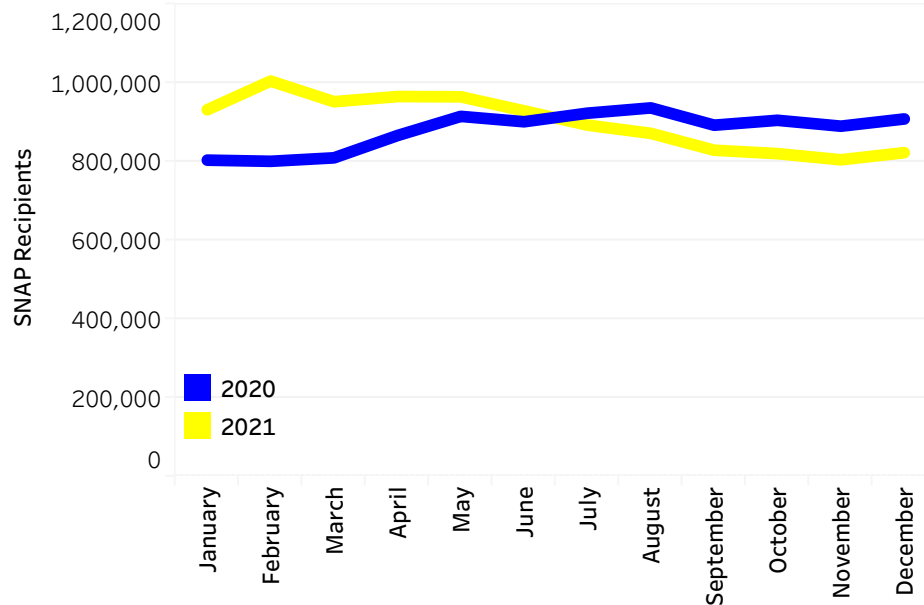
Unduplicated Unemployment Insurance Claimants



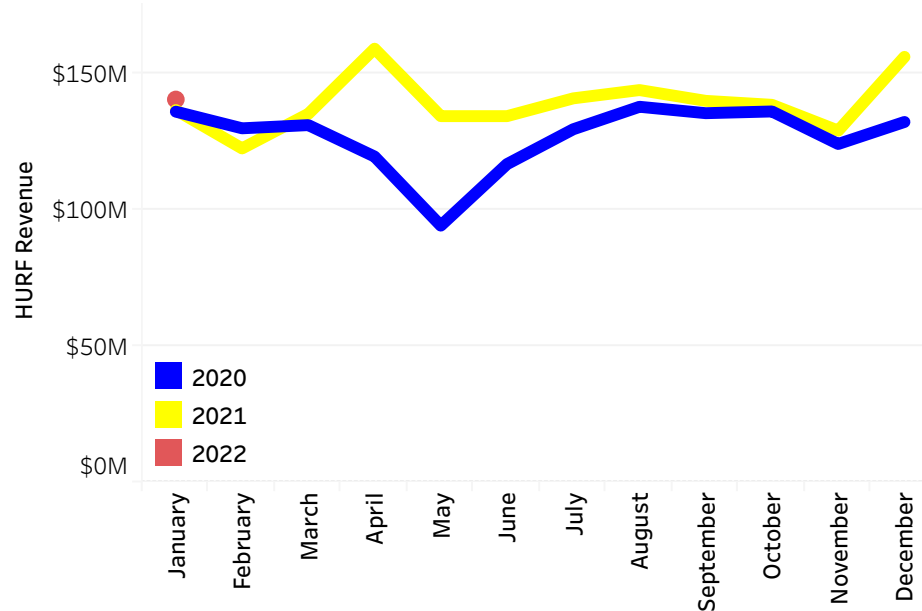
AHCCCS Recipients



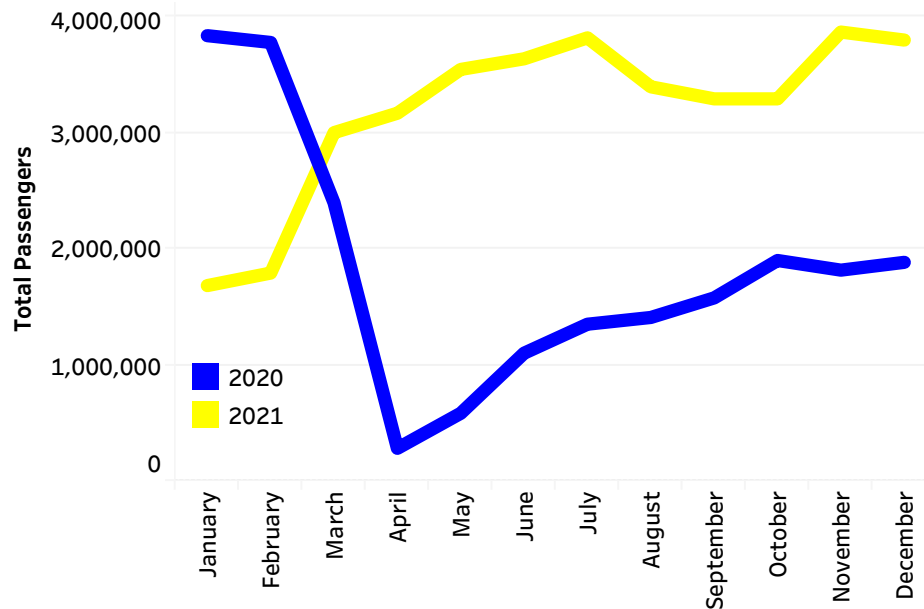
SNAP Recipients



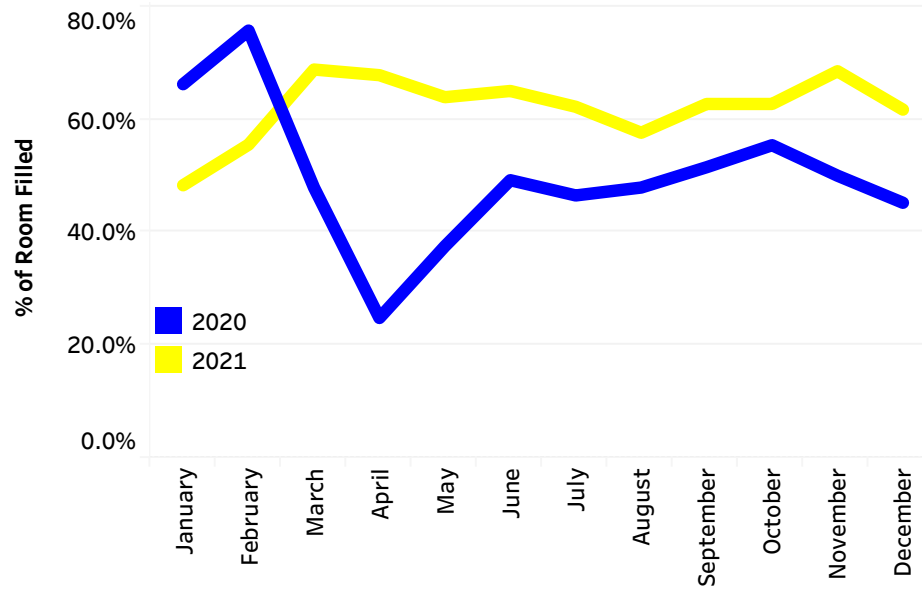
HURF Revenue



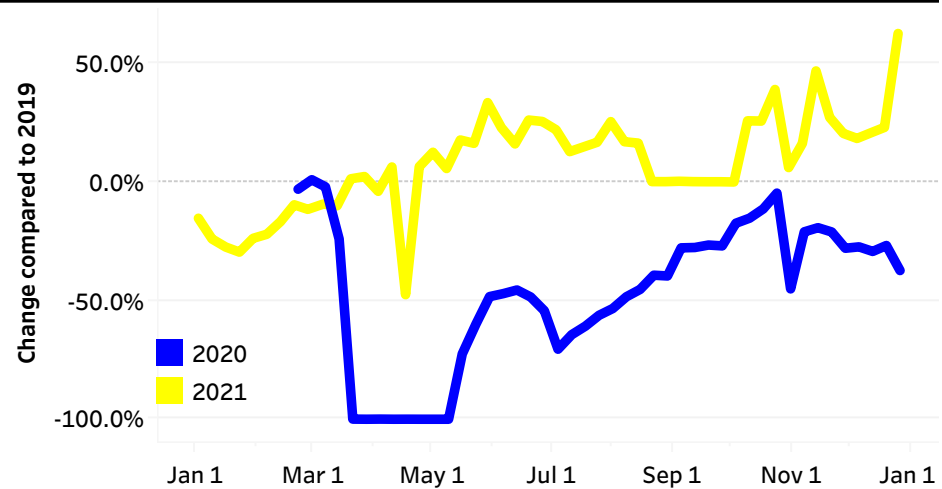
Sky Harbor Total Passengers



Arizona Hotel Occupancy



Arizona OpenTable Saturday Reservations



The 2021 OpenTable data displays the change in seated diners from 2019, rather than the year-over-year change from 2020.