

Summary

January General Fund collections were \$1.54 billion, which is a (2.4)% decline below January 2022. Even with this revenue decline, the state generated a \$148 million gain above the JLBC Baseline forecast during the month.

The combination of a revenue decline and a forecast gain is due to the JLBC Baseline forecast already projecting a revenue decline of (11.7)% during January. A decline was expected due to lower income tax withholding rates – these new rates were established by DOR at the start of Calendar Year 2023 as part of implementing the state's new 2.5% single tax rate. Since withholding is a significant portion of the state's monthly collections (approximately 1/3rd) this issue puts downward pressure on state revenue projections.

While a decline in revenues was expected, the state's overall revenues declined by less than anticipated in January due to the significant growth in the Corporate Income Tax (CIT) category.

During January, CIT revenues were nearly three times the amount collected during January 2022 and generated a forecast gain of \$94 million above the Baseline forecast. This performance continues the extremely strong growth seen already during FY 2023 for the category.

Individual Income Tax Collections declined by (26.6)% during the month and posted a forecast loss of \$(19) million. The category showed mixed results – withholding collections did decline, albeit less than expected. However, as the state's tax filing season began during January, the amount of refunds paid by the state were significantly more than expected.

The Sales Tax category posted growth of 8.9% during January and was \$29 million above the Baseline forecast. While the category performed well overall, there is some divergent performance within subcategories – retail growth is starting to moderate while contracting tax growth remains strong, driven by "non-residential" (commercial/industrial) activity.

Year-to-date through January, excluding Urban Revenue Sharing and fund transfers, FY 2023 General Fund revenues are 9.6% above the prior year.

Interpreting the January Forecast Gain

Beginning with this *Monthly Fiscal Highlights*, our office is benchmarking the state's revenue collections against the JLBC Baseline revenue forecast. As noted above, after one month of tracking against the Baseline forecast, the state has generated a forecast gain of \$148 million.

This forecast gain can be difficult to interpret, especially as the state goes through the first tax season with filers paying under the state's recent income tax reductions – returns are now being filed under the Tax Year 2022 rates of 2.55%/2.98%.

Based on preliminary revenue data through the first several weeks of February, it appears that income tax refunds paid by the state continue to be more than expected, which could absorb some of the reported January forecast gain.

Table of Contents

January Revenues	2	Attorney General – Internet Crimes Report	9
Monthly Indicators	5	Community Colleges – STEM and Workforce Programs ..	9
Summary of Recent Agency Reports	8	JLBC Staff – Public Programs Eligibility Report.....	10
ADOA – Automation Projects Fund Report	8	Legislative Council – Monument/Memorial Repairs.....	10
ADOA/SFD – School District Class B Bonds	8	Ombudsman – Annual Report	10
ADOA/ADOT – MVD IT Project Progress Report	8	Universities (ABOR) – Financial Aid Report.....	10
AHCCCS – American Rescue Plan Act Spending	8	Universities – Report on Research Income	11
AHCCCS – Report on FY 2022 Hospital Assessment	9	Universities (NAU) – 2022 TGen Annual Report	11
Attorney General – Child and Family Advocacy Centers..	9	WIFA – Small Drinking Water Systems Fund.....	11



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 2023 state appropriations (both General and Other Funds) are \$26.94 billion, or 6.49% of personal income. Under the JLBC Baseline, projected FY 2024 spending is \$26.60 billion, which would be 6.05% of personal income.

Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2024, as required by A.R.S. § 41-1276. Due to revised property tax estimates under the TNT process, the cost of the FY 2024 Basic State Aid formula will be \$(4.0) 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 a proportional Qualifying Tax Rate change.

January Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2023	Difference From	Difference
	Collections	Baseline Forecast	From FY 2022
January	\$ 1,538.8	\$ 147.6	\$ (37.5)
Year-to-Date	\$ 9,680.1	\$ 147.6	\$ 676.4

Sales Tax collections of \$742.9 million were 8.9% above February of last year and \$29.5 million above the Baseline forecast. Year to date, sales tax revenue is up by 8.5%.

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

Table 2		
Sales Tax Growth Rates Compared to Prior Year		
	January	YTD
Retail/Remote Seller	4.8%	6.2%
Contracting	12.6%	20.1%
Use Tax	15.6%	10.1%
Restaurant & Bar	10.2%	12.4%
Utilities	52.0%	(9.1)%

All the major sales tax categories with the exception for Retail/Remote Seller grew at double-digit rates in January. The growth rate for this category has been trending down since the start of FY 2023. Detailed taxable sales data by industry provided by the Department of Revenue (DOR) indicates that the slower growth is primarily attributable to sales of vehicles, home furnishings, clothing and accessories, as well as general merchandise.

Through the first 7 months of FY 2023, tax revenue from the Contracting classification is up by 20.1%, making it the strongest performer among the major sales tax categories. Most of the increase in this category is attributable to industrial and commercial construction activities.

January's 52% year-over-year increase in the Utilities category appears to be the result of a large technical adjustment in January 2022, which reduced the sales tax base in that month considerably.

Individual Income Tax (IIT) net collections in January were \$619.8 million, (26.6)% below the January 2022 total and \$(19.4) million under the Baseline forecast. The forecast loss is the result of unusually high refunds and low payment collections. Year to date (YTD) through January, IIT revenue is (1.9)% lower than the same period in FY 2022.

January withholding collections were \$545.7 million, a decline of (4.9)% from last year but \$57.3 million above the Baseline forecast. Year to date through January, withholding is up by 3.2% compared to the same period last year.

January's year-over-year decline of the withholding tax does not appear to be related to the processing of withholding returns submitted by employers (there were the same number of Mondays and processing days in January 2023 as in January 2022). Furthermore, while



growth in wage and salary disbursements has been trending down over the last 4 quarters, it remains positive on a year-over-year basis. Instead, the decline in January withholding collections appears to be related to the new, lower state withholding rates that went into effect in the beginning of 2023.

Total payments in January were \$155.5 million, a decrease of (44.2)% from the previous January and \$(26.7) million below the forecast. The large decline in January was solely attributable to estimated payments, which recorded the lowest level of collections for the month of January since FY 2015.

January is an important month for payments, with collections typically comprising 10%-11% of the yearly total. YTD, total payments, including both estimated and final payments, have decreased (3.3)% from last year.

Refunds in January were \$81.4 million, a January record that is over ten times the level from last year and \$50.0 million more than under the Baseline forecast. Therefore, the higher-than-forecast level of refunds resulted in a revenue loss of \$(50.0) million relative to the Baseline forecast. YTD, refunds are 63.1% higher than for the same period in the prior year.

Based on daily processing data through the first half of February, the level of refunds is almost double the amount for the same period in February 2022. This suggests that the state may incur another forecast loss in the current month.

	<u>January</u>	<u>YTD</u>
Withholding	(4.9)%	3.2%
Estimated/Final Payments	(44.2)%	(3.3)%
Refunds	916.1%	63.1%

Corporate Income Tax (CIT) net collections in January were \$128.0 million, nearly three times higher than the previous January and \$94.3 million above the Baseline forecast. This was the first time CIT collections exceeded \$100 million in the month of January, which on average only makes up about 2% of yearly CIT collections. YTD, corporate income tax collections are 66.1% higher than for the same period in the prior year.

Insurance Premium Tax (IPT) net collections were \$(0.1) million in January, which is \$(1.8) million below the Baseline forecast. IPT collections are typically low in January due to refunds from December payments and a lack of incoming quarterly revenues. Year to date, IPT revenue is up 6.1% over FY 2022 levels.

The amount of **Tobacco Tax** deposited into the General Fund in January was \$1.7 million, which is (8.4)% below January 2022, and \$(0.2) million below the Baseline forecast. Fiscal year to date through January, General Fund tobacco tax revenue totals \$11.1 million, (10.4)% below the amount collected at this point in FY 2022.

Liquor Tax revenue deposited into the General Fund in January was \$4.4 million. This is 47.1% greater than the amount deposited in January 2022, and \$1.2 million above the Baseline forecast. Fiscal year to date, General Fund liquor tax revenue totals \$26.6 million, which is 7.3% greater than collections over the same period in FY 2022.

Highway User Revenue Fund (HURF) collections of \$144.3 million in January were 2.9% above the amount collected in January 2022 and \$(3.0) million below forecast. Year to date, HURF collections have decreased by (0.1)% compared to the same period in the prior year and are \$(48.8) million below forecast.

The state collected \$15.2 million in **Marijuana Excise Taxes** in January, which is 36.2% greater than January 2022 collections. This represents the largest monthly collection from this tax to date. Fiscal year to date through January, \$93.9 million in excise taxes have been collected, which is 31.8% above the level during the comparable period in FY 2022. Monies from this excise tax are deposited into dedicated non-General Fund accounts.

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

	<u>January</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$15.2	\$93.9
Medical Marijuana TPT*	\$1.6	\$12.5
<u>Distribution:</u>		
General Fund	\$1.2	\$9.2
Counties	\$0.3	\$2.0
Cities	\$0.2	\$1.2
Recreational Marijuana TPT	\$4.3	\$26.8
<u>Distribution:</u>		
General Fund	\$3.2	\$19.8
Counties	\$0.7	\$4.3
Cities	\$0.4	\$2.7
Total State Marijuana Tax* Collections	\$21.1	\$133.1

* Amounts may not add to total due to rounding



Table 5

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

	Current Month					FY 2023 YTD (Seven Months)				
	Actual January 2023	Change From January 2022		Baseline Forecast		Actual January 2023	Change from January 2022		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$742,898,455	\$60,524,206	8.9 %	\$29,480,834	4.1 %	\$4,457,745,105	\$347,684,074	8.5 %	\$29,480,834	0.7 %
Income - Individual	619,792,324	(224,697,429)	(26.6)	(19,360,424)	(3.0)	4,026,326,977	(76,289,837)	(1.9)	(19,360,424)	(0.5)
- Corporate	128,046,728	84,980,637	197.3	94,335,182	279.8	1,003,472,310	399,247,395	66.1	94,335,182	10.4
Property	1,699,875	(603,179)	(26.2)	(69,583)	(3.9)	14,861,593	(3,724,352)	(20.0)	(69,583)	(0.5)
Luxury - Tobacco	1,684,908	(154,652)	(8.4)	(201,500)	(10.7)	11,057,990	(1,277,533)	(10.4)	(201,500)	(1.8)
- Liquor	4,355,981	1,394,851	47.1	1,246,371	40.1	26,557,455	1,800,339	7.3	1,246,371	4.9
Insurance Premium	(132,751)	(7,248,507)	--	(1,840,184)	--	296,815,548	16,962,309	6.1	(1,840,184)	(0.6)
Other Taxes	821,581	(176,342)	(17.7)	(363,697)	(30.7)	5,901,322	29,295	0.5	(363,697)	(5.8)
Sub-Total Taxes	\$1,499,167,100	(\$85,980,416)	(5.4) %	\$103,227,001	7.4 %	\$9,842,738,299	\$684,431,689	7.5 %	\$103,227,001	1.1 %
Other Revenue										
Lottery	38,039,900	3,341,700	9.6	6,935,823	22.3	160,321,973	3,508,939	2.2	6,935,823	4.5
Gaming	3,501,798	(306,446)	(8.0)	2,405,152	219.3	32,260,203	28,451,959	747.1	2,405,152	8.1
License, Fees and Permits	3,384,111	597,271	21.4	473,391	16.3	27,043,911	2,486,744	10.1	473,391	1.8
Interest	64,711,845	64,707,606	--	19,700,124	43.8	143,671,870	126,744,602	748.8	19,700,124	15.9
Sales and Services	3,325,278	705,185	26.9	143,306	4.5	17,459,075	2,046,261	13.3	143,306	0.8
Other Miscellaneous	3,519,116	850,391	31.9	1,101,107	45.5	13,701,634	(6,751,094)	(33.0)	1,101,107	8.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	15,402,449	7,810,242	102.9	13,657,757	782.8	88,641,215	60,019,746	209.7	13,657,757	18.2
Sub-Total Other Revenue	\$131,884,496	\$77,705,948	143.4 %	\$44,416,660	50.8 %	\$483,099,880	\$216,507,156	81.2 %	\$44,416,660	10.1 %
TOTAL BASE REVENUE	\$1,631,051,596	(\$8,274,468)	(0.5) %	\$147,643,661	10.0 %	\$10,325,838,179	\$900,938,845	9.6 %	\$147,643,661	1.5 %
Other Adjustments										
Urban Revenue Sharing	(92,246,556)	(29,214,199)	46.3	0	(0.0)	(645,725,894)	(204,499,391)	46.3	0	(0.0)
One-Time Transfers	0	0	--	0	--	0	(20,000,000)	--	0	--
Sub-Total Other Adjustments	(92,246,556)	(29,214,199)	46.3 %	0	(0.0) %	(645,725,894)	(224,499,391)	53.3 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$1,538,805,040	(\$37,488,667)	(2.4) %	\$147,643,661	10.6 %	\$9,680,112,285	\$676,439,453	7.5 %	\$147,643,661	1.5 %
Non-General Funds										
Highway User Revenue Fund	144,293,293	4,077,506	2.9 %	(3,028,100)	(2.1) %	990,371,122	(1,199,218)	(0.1) %	(48,809,779)	(4.7) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) preliminary estimate of the U.S. **Real Gross Domestic Product (GDP)** for the 4th quarter of 2022 is an annual growth rate of 2.9%. According to the BEA's release, this increase is a result of greater private investment, consumer spending, and government spending relative to the 3rd quarter. This marks the 3rd consecutive quarter of GDP growth.

The **Consumer Confidence Index**, published by the Conference Board, declined by (1.9) points to 107.1 in January. Views of the present situation improved due to continued labor market optimism, which offset worsening future expectations as consumers became more concerned about inflation and a possible recession. The consumer confidence index is (3.6)% below what it was in January 2022.

The Conference Board's **U.S. Leading Economic Index (LEI)** decreased by (0.8)% to 110.7 points in December. This is the 10th straight month of decline for the index. Negative contributions from employment, housing, manufacturing, and consumer confidence offset higher stock prices during the month. Over the past 6 months, the LEI has decreased (3.8)%. According to the Conference Board's February press release, this is "a much steeper rate of decline than its (2.3)% contraction over the previous six-month period."

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased 0.5% month-over-month (after seasonal adjustment) in January. Rising shelter prices were the largest contributor with food and energy prices also increasing during the month. Compared to last January, the overall CPI has increased 6.4%; food prices increased 10.1%; energy prices rose 8.7% (including 1.5% for gasoline and 27.7% for oil); and shelter costs increased 7.9%. Excluding food and energy, the year-over-year "core" CPI increased by 5.6% in January.

ARIZONA

Housing

In December, Arizona's 12-month total of **single-family building permits** was 37,404. This was a reduction of (4.9)% from November and (18.9)% below December 2021's 12-month total. December was the 19th consecutive month in which year-over-year growth decreased.



In December, Arizona's 12-month total of 23,321 **multi-family building permits** was 24.1% greater than the same 12-month period ending in 2021. December is the 16th consecutive month with an annual growth rate greater than 10% and the 12th month in that stretch to top 20% annual growth.

The **median home price** in Maricopa County fell to \$449,900 in December, representing a (2.0)% decrease from November's median sale price but a 0.7% increase over the same month in 2021.

Tourism and Restaurants

In December, **revenue per available room** decreased to \$87.37, representing a (22.1)% decrease from November's figure and a 5.3% increase over last December's revenue per room.

Hotel occupancy was 60.7% in December, which is (10.3)% below November's occupancy rate and (1.0)% lower than that of December 2021. The significant reductions in hotel occupancy and revenue per available room are seasonal, as travel tends to spike in October and November.

Phoenix Sky Harbor Airport Ridership was nearly 3.9 million in December, which is a (0.7)% decrease from November's figure and (7.4)% below December 2019 ridership. The previous 3 months saw higher ridership than their 2019 counterparts.

Employment

Due to the annual revision of employment date (also known as "benchmarking"), January's employment and unemployment rate figures will not be released until the second week of March.

State Agency Data

As of February 1, 2023, the total **AHCCCS caseload** was 2.46 million members. Total monthly enrollment increased 0.5% in February over January and increased 6.9% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.3% in February or 4.5% higher than a year ago.

Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,106,766 in February – an increase of 0.8% over January and 10.0% above last year. For February 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population remained relatively unchanged. At 67,307, this population is 2.8% higher than a year ago.

There were 11,336 **TANF** Cash Assistances cases in January 2023, representing a (2.6)% decrease from December 2022. The year-over-year number of cash benefit recipients has decreased by (10.6)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In January 2023, 902,018 people received food stamp assistance. This was a (0.7)% decrease from December 2022 and a 11.1% increase from January 2022.

The Arizona Department of Correction's **inmate population** was 33,807 as of January 31, 2023. This was essentially unchanged from December 31, 2022 and a (0.4)% decrease since January 2022.

Based on information the Department of Child Safety provided for December 2022, **reports of child maltreatment** totaled 46,610 over the last 12 months, a decrease of (5.1)% from the prior year.

There were 11,790 **children in out-of-home care** as of December 2022, or (11.8)% less than in December 2021. Compared to the prior month, the number of out-of-home children decreased by (0.7)%.



Table 6				
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 2022	6.6%	(0.2)%	(2.4)%
- Initial Unemployment Insurance Claims	Week Ending Dec 31	2,142	(11.6)%	0.0%
- Continued Unemployment Insurance Claims	Week Ending Feb. 5	12,629	(4.0)%	(81.7)%
- Non-Farm Employment - Total	December	3,153,500	0.0%	3.1%
Manufacturing	December	198,100	(0.2)%	8.1%
Construction	December	186,000	(1.4)%	3.3%
- Average Hourly Earnings, Private Sector	December	\$30.81	0.3%	5.7%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	December	37,404	(4.9)%	(18.9)%
Multi-family	December	23,321	6.0%	24.1%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	December	2,763	(26.2)%	(46.4)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	December	\$449,900	(2.0)%	0.7%
- Maricopa Pending Foreclosures	December	1,065	4.4%	45.3%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	December	3,874,749	(0.7)%	2.0%
- State Park Visitors	June	264,245	(6.9)%	(6.3)%
- Revenue Per Available Hotel Room	December	\$87.37	(22.1)%	5.3%
- Arizona Hotel Occupancy Rate	December	60.7%	(10.3)%	(1.0)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	3 rd Q 2022	\$419.4 billion	6.5%	5.9%
- 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
- Arizona Personal Income, SAAR	3 rd Q 2022	\$419.4 billion	6.5%	5.9%
<u>Agency Measures</u>				
- AHCCCS Recipients	February 1st	2,455,400	0.5%	6.9%
Traditional Acute Care		1,272,400	0.3%	4.5%
Other Acute Care		1,115,700	0.8%	10.0%
Long-Term Care – Elderly & DD		67,300	0.0%	2.8%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	December	46,610	(1.4)%	(5.1)%
DCS Out-of-Home Children	December	11,790	(0.7)%	(11.8)%
Filled Caseworkers (1406 Budgeted)	December	1,248	(6)	71
- ADC Inmate Growth	January	33,807	0.0%	(0.4)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	January	11,336	(2.6)%	(10.6)%
- SNAP (Food Stamps) Recipients	January	902,018	(0.7)%	11.1%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	4 th Q, 2022 (1 st Estimate)	\$20.2 trillion	2.9%	1.0%
- Consumer Confidence Index (1985 = 100)	January	107.1	(1.7)%	(3.6)%
- Leading Economic Index (2016 = 100)	December	110.7	(0.8)%	(7.8)%
- Consumer Price Index, (1982-84 = 100)	January	299.2	0.5%	6.4%



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 second 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 14 active APF projects, ADOA has labeled 8 on track, 2 are at risk, 1 is off track, and 3 have not yet started. The 1 off-track project is:

Child Care Management System Update (DES)

The Arizona Strategic Enterprise Technology (ASET) Office lists the Department of Economic Security (DES) Child Care Management system as off-track because the timeline has been delayed. As a result, the appropriation for the project may require an extension. The system manages the administration of the child care subsidy program.

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 3 other non-APF projects are off track due to staffing resource constraints, data cleaning and migration delays, and delays in scheduled development. These projects include those at ADOA (911 Inform Compliance), DES (Child Support Services System Replacement), and the Judiciary (State Appellate Courts CMS Replacement).

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: Arizona Financial Information System Upgrade (ADOA), Business One-Stop (ADOA), Human Resources Information System (ADOA), 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)

ADOA - School Facilities Division – Report on Class B Bonds – Pursuant to A.R.S. § 41-5702, the School Facilities Division (SFD) within the Arizona Department of Administration is required to submit an annual report on all class B bond approvals by school districts in that year. ADOA-SFD reported that in 2022, there were 9 districts with Class B bond approvals for a total approval amount of \$812,000,000. (Rebecca Perrera)

Arizona Department of Administration/Arizona Department of Transportation – Progress Report on MvM Planned Expenditures – Pursuant to a footnote in the FY 2023 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 2023 expenditures on the Motor Vehicle Modernization (MvM) project. The department reports a total of \$18.2 million in planned FY 2023 expenditures on the following categories: \$10.6 million on enhancements, \$5.6 million on operations and maintenance, \$929,800 on MvM strategic initiatives, \$908,400 on cloud hosting and support, and \$165,200 on contract administration.

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

Arizona Health Care Cost Containment System – Report on the American Rescue Plan Act Spending Plan – Pursuant to Laws 2022, Chapter 313, 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 January 2023, AHCCCS projects its ARPA HCBS spending plan will total \$1.71 billion, or \$194.4 million higher than its original spending plan and \$37.4 million higher than the October 2022 quarterly report. The projected spending increase over the prior quarter plan is entirely attributable to federal match rate revisions for select categories. Major changes from last quarter include:

- \$41.3 million in additional funding for time-limited directed provider payments.
- \$(3.3) million in reduced funding for the paid parent caregiver initiative.
- \$(0.5) million in decreased funding for other initiatives.

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 Rucker)

AHCCCS – Report on the FY 2022 Hospital Assessment – Pursuant to A.R.S. § 36-2901.08, the Arizona Health Care Cost Containment System (AHCCCS) is required to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of the Federal Poverty Level) and the entire Proposition 204 population. In addition, A.R.S. § 36-2903.08 requires AHCCCS to annually report the amount of estimated Medicaid payments each hospital received for services provided to populations whose coverage is funded by the assessment.

AHCCCS estimates that hospitals received coverage payments of \$1.65 billion in SFY 2022, or \$1.12 billion above the \$533.6 million in assessments these hospitals paid. AHCCCS reports that coverage payments from Proposition 204 and Adult Expansion enrollees exceeded the costs of Hospital Assessment payments for all but 3 participating hospitals.

AHCCCS is also required to annually report the amount of estimated Medicaid payments funded by the Health Care Investment Fund (HCIF), authorized by A.R.S. § 36-2999.72. The HCIF is an assessment on hospital revenue, discharges, or bed days for the purpose of making directed hospital payments and increasing physician and dental fee schedule reimbursement rates.

According to AHCCCS, hospitals received HCIF directed payments of \$1.34 billion in SFY 2022. This amount is \$932.3 million above the \$408.1 million in assessments paid by the hospitals. Directed payments exceeded the assessment costs for all hospitals but 2. (Maggie Rucker)

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 2023, the AG reports no expenditures from the CFAF. The fund has an unencumbered fund balance of \$400,000 as of December 31, 2022. (Ryan Fleischman)

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 2023, the AG received \$450,000 for deposit into the ICAC Enforcement Fund. A total of \$660,400 was expended from the fund balance through the second quarter of FY 2023 to help pay for the operating costs of the ICAC Task Force. As of December 31, 2022, the ICAC Enforcement Fund had an unencumbered fund balance of \$1.6 million. (Ryan Fleischman)

Arizona Community Colleges – Report on STEM and Workforce Programs – Pursuant to A.R.S. § 15-1464, the Arizona Community Colleges are required to report on their science, technology, engineering, and mathematics (STEM) and workforce program state aid expenditures by December 1 of every even-numbered year. The community colleges submitted their FY 2021 and FY 2022 report. Total reported expenditures were \$6.8 million for FY 2021 and \$6.5 million for FY 2022. Unspent revenues were carried forward to the next fiscal year.

In FY 2021 and FY 2022, Maricopa received \$1.6 million, Pima received \$400,000, and Pinal received \$96,500. Otherwise, community college districts received monies based on each district's Full Time Student Equivalent enrollment.



The report details each district's strategic initiatives and expenditures. The STEM and Workforce Programs State Aid must be used for the following purposes:

- Partnerships with business and educational institutions.
- Additional faculty for improved and expanded classroom instruction and course offerings.
- Technology, equipment, and technology infrastructure for the advanced teaching and learning in classrooms or laboratories.
- Student services such as assessment, advisement, and counseling for new and expanded job opportunities.
- The purchase, lease, or lease-purchase of real property, for construction, remodeling or repair of building or facilities on real property.

(Cameron Mortensen)

JLBC Staff - Public Programs Eligibility Report - As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

Department of Economic Security - The department reported that 10,038 applications were received for childcare assistance during the reporting period of June 1, 2022, to November 30, 2022. Of those, no applications were denied because criteria for citizenship or legal residency were not met.

Department of Education – The department reported that 6,343 people applied for instruction in Arizona Adult Education during the reporting period of July to December 2022. Of this amount, 102 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States.

(Cameron Mortensen)

Legislative Council – Report on the State Monument and Memorial Repair Fund – Pursuant to A.R.S § 41-1365, the Arizona Legislative Council submitted their annual report on monies deposited into the State Monument and Memorial Repair Fund. The fund consists of donations designated for the maintenance of specific monuments or memorials. Monies in the fund are subject to appropriation. Previously, the Arizona Department of Administration (ADOA) was responsible for the fund. The total FY 2022 balance in the fund is \$216,100 designated for 7 specific monuments or memorials. The amount includes:

- Father Albert Braun Memorial: \$1,000
- Arizona Law Enforcement Canine Memorial: \$300
- Bill of Rights Monument: \$36,100
- Earnest W. McFarland Monument: \$42,800
- Fallen Firefighter and Emergency Medical Technician Memorial: \$115,400
- Gold Star Families Memorial: \$6,300
- Arizona Silent Service Memorial: \$14,200

There were no appropriated expenditures for these monuments from the fund in FY 2022.

The FY 2022 budget appropriated \$21,400 from the Enduring Freedom Memorial subaccount to repair the Enduring Freedom memorial. ADOA is overseeing this account and completion of the repairs. (Micaela Larkin)

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 2022 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 6,751 total cases in FY 2022 including 5,157 involving coaching, 779 needing assistance, and 815 requesting investigations. The Department of Economic Security (DES) accounts for 28% of the caseload, and DCS accounts for 22% of the caseload.

Overall, the agency caseload decreased by 31% over FY 2021 primarily due to declining cases. There was a net decrease of 3,005 cases in FY 2022. The primary reason for the decline was fewer unemployment insurance cases. (Micaela Larkin)

Arizona Board of Regents – Report on Financial Aid – Pursuant to A.R.S. § 15-1650, the Arizona Board of Regents has submitted its annual report on financial aid. In FY 2022, total financial aid provided to students totaled \$3.5 billion. Of this amount:

- \$1.6 billion (45.7%) came from institutional aid, including both need-based awards and merit awards.
- \$1.2 billion (35.4%) came from federal sources, including Pell awards, loans, and work study.
- \$641.9 million (18.6%) came from private grants and loans.
- \$10.7 million (0.3%) came from other state scholarships, grants and loans.

(Morgan Dorcheus)



Universities – Report on University Research Infrastructure Income – Pursuant to A.R.S. § 15-1670, Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) are required to submit an annual report on the amount of the previous year's income from licensure and royalty payments and the sale or transfer of intellectual property developed by the university. The universities transfer 20% of cumulative net income exceeding \$1.0 million to the Arizona Financial Aid Trust (AFAT). Net income is defined as total income from individual agreements, less expenses including costs such as revenue sharing to inventors and investors.

For FY 2022, ASU did not report total income, NAU reported \$56,800 in gross income, and UA reported \$10.5 million in total gross income. ASU and NAU had no cumulative net income exceeding \$1.0 million, and UA had \$3.5 million in cumulative net income exceeding \$1.0 million. Pursuant to A.R.S. § 15-1670, UA will deposit 20%, or \$691,800, into the AFAT. (Cameron Mortensen)

Northern Arizona University – Report on Translational Genomics Research Institute – Pursuant to a FY 2023 General Appropriation Act footnote, Northern Arizona University (NAU) submitted its 2022 report on the Translational Genomics Research Institute (TGen). The budget includes \$5 million from the General Fund for biomedical research funding. Of this amount, \$3 million is appropriated to NAU and \$2 million is appropriated to the Department of Health Services. These monies are distributed to TGen each year.

In calendar year 2022, TGen spent its distribution from NAU on research supplies (\$260,000), research for outside services (\$400,000), research capital (\$1.9 million), proposal development (\$100,000), project management (\$100,000), technical infrastructure (\$100,000), and education (\$100,000). Monies distributed from DHS were used for salaries and benefits (\$92,500), professional and outside services (\$1.7 million), and facilities and administrative costs (\$181,800).

TGen reported 71 new FTE Positions totaling \$7.7 million for salaries and benefits, in addition to \$298,900 for temporary position salaries and \$394,700 for intern salaries. The majority of funding for these positions comes from non-state sources and grants. TGen investigators reported submitting 112 grants totaling \$80.4 million and were awarded 31 grants totaling \$19.6 million. NAU also reports that in 2022 there were 17 patents issued that utilized TGen technology and 129 academic articles published. (Cameron Mortensen)

Water Infrastructure Finance Authority – Report on Small Drinking Water Systems Fund— Pursuant to an FY 2022 General Appropriation Act footnote, the Water Infrastructure Finance Authority of Arizona (WIFA), submitted its FY 2022 annual report on the Small Drinking Water Systems Fund (SDWSF). The fund provides grants to owners or operators to repair, replace, or upgrade water infrastructure. Eligible infrastructure projects must be used to deliver drinking water to 10,000 or fewer people. The fund was created in FY 2017 and received an initial deposit of \$500,000. The fund has received appropriations of \$500,000 in FY 2020 and \$1.0 million in FY 2022 to the fund. Through October 2022, WIFA reports this \$2,018,100 of total funding (the appropriations plus interest) has been allocated as follows: \$1.4 million was expended for 26 completed projects, \$572,800 has been granted towards 10 pending projects, which leaves \$45,400 of funding available for additional projects. (Micaela Larkin)

