

Summary

December 2022 General Fund collections totaled \$1.64 billion. December revenues increased by 12.4% above the prior year and were \$263 million above the enacted budget forecast. The forecast gain during December was almost entirely due to extremely high growth in the Corporate Income Tax (CIT) category.

Corporate Income Tax collections during December totaled \$430 million, which is more than double the amount collected during December 2021. This extraordinary growth resulted in a CIT gain of \$231 million above the enacted budget forecast for the month.

While the magnitude of the CIT growth in December was surprising, it does continue the category's recent trend of strong growth rates – the category grew by 37% during FY 2022 and with the December performance, CIT has grown by 56% year-to-date during FY 2023.

The reason behind the large surge in collections is unclear, however, it does appear that Arizona's CIT growth could be the result of state-specific factors. At the federal level, nationwide corporate tax revenue has shown much more modest performance: 1) federal corporate tax collections only grew by 5% in December; and 2) federal corporate tax collections have only increased by 9% during FY 2023, compared to state CIT growing by 56% as noted above.

Sales Tax collections grew 0.9% during December and were essentially at forecast for the month. This low growth rate was primarily due to several state sales tax incentives related to manufacturing – these incentives

were earned during previous months and the Department of Revenue recently processed those distributions and the amounts were deducted from December collections. Absent that adjustment, Sales Tax would have grown by 8.9% during December.

Overall the Individual Income Tax (IIT) category declined (6.9)% during December compared to the prior year, which resulted in a forecast loss of \$(20) million. The IIT category's performance was pulled down by all of its components. Withholding taxes and payments posted modest declines during the month, while the amount of tax refunds issued by the state increased.

Year-to-Date Results

Year-to-date through December, excluding Urban Revenue Sharing and fund transfers, FY 2023 General Fund revenues are 11.7% above the prior year and \$1.0 billion above the enacted budget forecast.

With the release of the JLBC Baseline last week, the upcoming February *Monthly Fiscal Highlights* (which will discuss the January revenue results), will begin to benchmark the state's revenue collections against the Baseline revenue forecast. Given the significant forecast gains through the first 6 months of FY 2023 revenue results, the Baseline revenue projections include a significant upward revision to the FY 2023 revenue forecast consistent with the year-to-date results.

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December Revenues

	FY 2023 Collections	Difference From Enacted Forecast	Difference From FY 2022
December	\$ 1,641.0	\$ 263.2	\$ 181.4
Year-to-Date	\$ 8,141.3	\$ 1,007.9	\$ 713.9

Sales Tax collections of \$594.1 million in December were 0.9% above the same month in the prior year and \$(0.5) million below the enacted budget forecast. Year to date through December, sales tax revenue is up 8.4% compared to the same period in the prior year and is \$214.1 million above forecast.

While the year-over-year sales tax growth of 0.9% is the lowest since the start of the economic recovery in June of 2020, the sharp slowdown in December was primarily attributable to non-economic factors. According to the Department of Revenue, there were several technical year-end adjustments in December, which affected many sales tax categories, including Utilities, Retail, Personal Property Rentals, Prime Contracting and Use Tax. Absent these technical adjustments, the year-over-year growth rate would have been 8.9%.

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

	December	YTD
Retail/Remote Seller	3.0%	6.4%
Contracting	(13.9)%	21.6%
Use Tax	(16.9)%	9.0%
Restaurant & Bar	10.8%	12.8%
Utilities	(36.8)%	(14.5)%

The low, positive single-digit growth rate for the Retail/Remote Seller category in December as well as the year-over-year revenue decline in the Contracting and Utilities categories and the Use Tax, were all attributable to the year-end technical adjustments discussed above. The only major category unaffected by these technical adjustments was the Restaurant and Bar category, which grew by 10.8% in December.

Individual Income Tax (IIT) net collections in December were \$554.5 million, a decrease of (6.9)% decrease from the previous December and \$(20.0) million under the enacted budget forecast. This forecast loss is the result of higher-than-expected refunds during the month. Year to date (YTD) through December, IIT revenue is up by 4.6% compared to the same period in FY 2022 and is \$294.2 million above forecast.

Withholding collections in December were \$527.8 million, (1.6)% less than December 2021 but \$1.3 million higher than the enacted budget forecast. December marked the second consecutive month with a year-over-year decline in withholding revenue. While November's decline was related to the processing of withholding payments, this does not appear to be the case for the (1.6)% decrease in December. Since December's decline is not supported by available wage and salary data published by the federal Bureau of Economic Analysis (BEA), there may be other reasons, which are not currently known.

Year to date through December, withholding is up by 4.8% compared to last year and is \$151.7 million above forecast.

December payments were \$61.8 million, a decrease of (4.1)% from the previous December but \$7.2 million more than the forecast. This is the first month of decline for payments since July. YTD, total payments have increased 14.1% from the same period last year and are \$234.0 million above the enacted budget forecast. This category includes both final and estimated payments.

Refunds in December were \$35.2 million, an almost 6-fold increase over the same month in the prior year and \$28.5 million more than under the enacted budget forecast. Therefore, the higher-than-forecast level of refunds resulted in a forecast loss of \$(28.5) million in December.

While December refunds typically make up less than 1% of the fiscal year-total, the unexpectedly high level of refunds in December is not unprecedented, as refunds exceeded \$30 million in 2006, 2015, and 2016. YTD, refunds are 34.1% higher than for the same period in the prior year and are \$91.4 million higher than projected.



Table 3
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>December</u>	<u>YTD</u>
Withholding	(1.6)%	4.8%
Estimated/Final Payments	(4.1)%	14.1%
Refunds	537.3%	34.1%

Corporate Income Tax (CIT) net collections in December were \$430.4 million, more than double the previous December and \$230.9 million above the enacted budget forecast. This was the highest total ever collected in a single month, as no prior month's collections have exceeded \$300 million. On average, approximately 16% of yearly CIT collections occur in December. YTD, corporate income tax collections are 56.0% higher than for the same period in the prior year and \$325.1 million above the forecast.

Insurance Premium Tax (IPT) revenue was \$88.3 million in December, 13.2% above December 2021 and \$10.0 million above the enacted budget forecast. This is the highest amount of IPT revenue ever collected in the month of December. Fiscal year to date, IPT revenue is up 8.9% over FY 2022 levels and is \$17.2 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in December was \$1.8 million, which is (3.3)% below December 2021 and \$(0.3) million below the enacted budget forecast. Year to date through December, General Fund tobacco tax revenues total \$9.4 million, (10.7)% below the amount collected at this point in FY 2022, and \$(1.9) million below forecast.

Liquor Tax revenue deposited into the General Fund in December was \$4.2 million. This is (1.3)% below the amount deposited in December 2021 and \$(0.8) million below the enacted budget forecast. Year to date, General Fund liquor tax revenue is \$22.2 million, 1.9% above the amount collected for the same period in FY 2022, and \$(0.5) million below forecast.

The **Lottery Commission** reported that total ticket sales in December were \$123.8 million. This amount is \$9.1 million, or 7.9%, above December 2021. Year to date, ticket sales are \$755.4 million, which is 16.1% above the prior year.

The state collected \$13.1 million in **Marijuana Excise Taxes** in December, an increase of 21.1% over the same month in the prior year. Year to date through December, \$78.7 million in excise taxes have been collected, which is 31.0% above the level during the comparable period in FY 2022. Monies from this excise tax are deposited into dedicated non-General Fund accounts.

The total combined amount of **Medical and Recreational Marijuana state Transaction Privilege Tax (TPT)** collected was \$5.8 million in December and \$33.4 million year to date. Of the \$5.8 million from overall TPT collections, the General Fund received \$4.3 million in December. Fiscal year to date, the General Fund has received a total of \$24.6 million in state TPT from medical and recreational marijuana retail sales.

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

	<u>December</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$13.1	\$78.7
Medical Marijuana TPT*	\$1.7	\$10.9
<u>Distribution:</u>		
General Fund	\$1.3	\$8.0
Counties	\$0.3	\$1.8
Cities	\$0.2	\$1.1
Recreational Marijuana TPT*	\$4.1	\$22.5
<u>Distribution:</u>		
General Fund	\$3.0	\$16.6
Counties	\$0.7	\$3.6
Cities	\$0.4	\$2.2
Total State Marijuana Tax* Collections	\$19.0	\$112.0

* Amounts may not add to total due to rounding

Highway User Revenue Fund (HURF) collections of \$159.9 million in December were 2.0% above the amount collected in December 2021 and \$(9.4) million below forecast. Year to date, HURF collections are \$846.1 million, (0.6)% below the prior year and \$(45.8) million less than forecast.



Table 5

General Fund Revenue: Change from Previous Year and Enacted Forecast December 2022

	Current Month					FY 2023 YTD (Six Months)							
	Actual December 2022	Change From		Enacted Forecast		Actual December 2022	Change from		Enacted Forecast				
		December 2021	Amount	Percent	Amount		Percent	December 2021	Amount	Percent	Amount	Percent	
Taxes													
Sales and Use	\$594,141,771	\$5,094,388	0.9 %	(\$518,982)	(0.1) %	\$3,714,846,651	\$287,159,868	8.4 %	\$214,126,779	6.1 %			
Income - Individual	554,480,090	(40,809,883)	(6.9)	(19,954,746)	(3.5)	3,406,534,653	148,407,592	4.6	294,235,959	9.5			
- Corporate	430,437,814	216,589,489	101.3	230,854,828	115.7	875,425,582	314,266,759	56.0	325,085,857	59.1			
Property	2,435,947	3,134,661	--	286,479	13.3	13,161,717	(3,121,174)	(19.2)	(374,845)	(2.8)			
Luxury - Tobacco	1,818,013	(61,530)	(3.3)	(323,107)	(15.1)	9,373,082	(1,122,881)	(10.7)	(1,899,403)	(16.8)			
- Liquor	4,183,676	(55,511)	(1.3)	(759,872)	(15.4)	22,201,474	405,488	1.9	(482,333)	(2.1)			
Insurance Premium	88,252,453	10,306,001	13.2	9,958,679	12.7	296,948,298	24,210,817	8.9	17,162,796	6.1			
Other Taxes	855,883	105,701	14.1	176,551	26.0	5,079,741	205,637	4.2	(52,083)	(1.0)			
Sub-Total Taxes	\$1,676,605,648	\$194,303,316	13.1 %	\$219,719,831	15.1 %	\$8,343,571,199	\$770,412,105	10.2 %	\$847,802,727	11.3 %			
Other Revenue													
Lottery	0	0	--	0	--	122,282,073	167,239	0.1	5,777,503	5.0			
Gaming	5,419,486	5,419,486	--	4,370,292	416.5	28,758,405	28,758,405	--	19,647,358	215.6			
License, Fees and Permits	2,568,391	(2,143,257)	(45.5)	(833,506)	(24.5)	23,659,800	1,889,473	8.7	2,304,685	10.8			
Interest	6,435	5,316	475.1	(17,021)	(72.6)	78,960,025	62,036,996	366.6	77,845,979	--			
Sales and Services	2,421,539	361,226	17.5	938,834	63.3	14,133,797	1,341,075	10.5	1,766,051	14.3			
Other Miscellaneous	5,177,091	1,099,922	27.0	3,281,425	173.1	10,182,518	(7,601,485)	(42.7)	(4,684,452)	(31.5)			
Disproportionate Share	0	0	--	0	--	0	0	--	0	--			
Transfers and Reimbursements	41,047,198	31,554,983	332.4	35,782,580	679.7	73,238,766	52,209,504	248.3	57,394,561	362.2			
Sub-Total Other Revenue	\$56,640,140	\$36,297,676	178.4 %	\$43,522,605	331.8 %	\$351,215,384	\$138,801,207	65.3 %	\$160,051,686	83.7 %			
TOTAL BASE REVENUE	\$1,733,245,787	\$230,600,992	15.3 %	\$263,242,436	17.9 %	\$8,694,786,583	\$909,213,313	11.7 %	\$1,007,854,412	13.1 %			
Other Adjustments													
Urban Revenue Sharing	(92,246,556)	(29,218,133)	46.4	0	(0.0)	(553,479,338)	(175,285,193)	46.3	0	(0.0)			
One-Time Transfers	0	(20,000,000)	--	0	--	0	(20,000,000)	--	0	--			
Sub-Total Other Adjustments	(92,246,556)	(49,218,133)	114.4 %	0	(0.0) %	(553,479,338)	(195,285,193)	54.5 %	0	(0.0) %			
TOTAL GENERAL FUND REVENUE	\$1,640,999,231	\$181,382,859	12.4 %	\$263,242,436	19.1 %	\$8,141,307,245	\$713,928,120	9.6 %	\$1,007,854,412	14.1 %			
Non-General Funds													
Highway User Revenue Fund	159,878,103	3,122,147	2.0 %	(9,447,026)	(5.6) %	846,077,829	(5,276,723)	(0.6) %	(45,781,678)	(5.1) %			

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) third and final estimate of the U.S. **Real Gross Domestic Product (GDP)** for the third quarter of 2022 is an increase of 3.2%. This estimate was revised from their preliminary estimate of 2.9%.

The Conference Board's **Consumer Confidence Index** increased by 6.8% to 108.3 points in December, the first month of growth since September. Consumers' assessment of the present and future situation improved as a result of increased optimism about labor market conditions, inflation, and business conditions. Consumer confidence is (6.0)% lower than it was in December 2021.

The **U.S. Leading Economic Index (LEI)**, published by the Conference Board, decreased by (1.0)% to 113.5 points in November. Of the indicators that comprise the index, only stock prices were a positive contributor while manufacturing, housing, and the labor market worsened during the month. The Conference Board maintains that the Leading Economic Index suggests that a recession is likely to start in the beginning of 2023. Over the past 6 months, the LEI has decreased (3.7)% compared to a (0.8)% decline in the previous 6-month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** decreased (0.1)% month-over-month (after seasonal adjustment) in December, with decreasing gasoline prices offsetting increases in the prices of food and shelter. Compared to last December, the overall CPI has increased 6.5%; food prices increased 10.4%; energy prices rose 7.3% (including 1.5% for gasoline and 41.5% for oil); and shelter costs increased 7.5%. Excluding food and energy, the year-over-year "core" CPI increased by 5.7% in December.

ARIZONA

In November, Arizona's 12-month total of **single-family building permits** was 39,334. This represents a (3.2)% decrease from October's figure and a (16.2)% decrease from November 2021's 12-month total. The annual rate of change for this total has decreased for each of the past 18 months, beginning in June 2021.

In November, Arizona's 12-month total of 21,997 **multi-family building permits** was 19.1% above the level for the period ending in November 2021 and (5.1)% below the level for October. This is the 15th consecutive month, beginning in September 2021, in which this total has seen greater than 10% annual growth.

Phoenix Sky Harbor Airport Ridership fell slightly to 3.9 million in November, which is (3.2)% below October's level and 5.3% above November 2019's figure. This is the third month in 2022 to exceed its 2019 ridership; September was the first.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state added 400 **nonfarm jobs** in December compared to the prior month. Prior to the pandemic, nonfarm employment recorded an average net increase of 5,600 jobs in December (2010-2019).

Compared to the same month in the prior year, the state gained 93,700 jobs in December, an increase of 3.1%, the smallest gain since the economic recovery from the pandemic started in April 2020. The average annual job gain for all of 2022 was 3.7%, the largest percentage increase since 2006.

The state's seasonally adjusted unemployment rate declined from 4.1% in November to 4.0% in December. While the state's jobless rate remains relatively low historically, it is nonetheless 0.5% above the national unemployment rate of 3.5%.

The Office of Economic Opportunity (OEO) reported that a total of 2,142 **initial claims for unemployment insurance** were filed in Arizona in the week ending on December 31st. This was essentially unchanged from the same week in the prior year when 2,141 initial claims were filed.

According to OEO, for the week ending on December 24th, there were a total of 17,687 **continued claims for unemployment insurance** in Arizona. For the same week in the prior year, the number of continued claims was 13,157.

State Personal Income

According to the U.S. Bureau of Economic Analysis (BEA), Arizona personal income increased at a seasonally adjusted annual rate of 6.5% in the 3rd quarter of 2022, outperforming the national average by 1.2%. All sources



of income grew during the quarter, with net earnings increasing the most at an annual rate of 7.8%.

Government transfer payments increased at a rate of 2.7% while dividends, interest, and rent increased 6.7%. The BEA estimates that the total annualized level of Arizona personal income was \$419.4 billion in the 3rd quarter.

State Agency Data

As of January 1, 2023, the total **AHCCCS caseload** was 2.44 million members. Total monthly enrollment increased 0.5% in January over December and increased 7.2% compared to a year ago.

Parent and child enrollment in the Traditional population increased by 0.2% in January and was 5.1% 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 January – an increase of 0.9% over December and 10.0% above last year. For January 2023, Elderly, Physically Disabled and Developmental Disabilities Long-Term Care enrollment increased by 0.1%. At 67,325, this population is 2.7% higher than a year ago.

There were 11,637 **TANF** Cash Assistances cases in December 2022, representing a (0.7)% decrease from November. The year-over-year number of cash benefit recipients has decreased by (11.6)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In December 2022, 908,311 people received food stamp assistance. This was a 0.5% increase from November and a 10.3% increase from December 2021.

Based on information the Department of Child Safety provided for November 2022, **reports of child maltreatment** totaled 47,286 over the last 12 months, a decrease of (3.6)% from the prior year.

There were 12,014 **children in out-of-home care** as of November 2022, or (11.0)% less than in November 2021. Compared to the prior month, the number of out-of-home children decreased by (1.3)%.

The Arizona Department of Corrections' **inmate population** was 33,810 as of December 31, 2022, which was essentially unchanged from the prior month, and a (0.1)% decrease since December 2021.



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	4.0%	(0.1)%	0.2%
- Total Unemployment Rate (discouraged/underemployed)	3 rd Q 2022	6.8%	(0.0)%	(3.3)%
- Initial Unemployment Insurance Claims	Week Ending Dec 31	2,142	(11.6)%	0.0%
- Continued Unemployment Insurance Claims	Week Ending Dec 24	17,687	(0.2)%	34.4%
- 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	November	\$30.95	0.4%	7.5%
<u>Building</u>				
- Building Permits (12 month sum)				
Single-family	November	39,334	(3.2)%	(16.2)%
Multi-family	November	21,997	(5.1)%	19.1%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	November	3,746	0.1%	(46.2)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	November	\$459,000	(0.2)%	2.9%
- Maricopa Pending Foreclosures	November	1,020	2.2%	25.8%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	November	3,900,839	(3.2)%	0.8%
- State Park Visitors	June	264,245	(6.9)%	(6.3)%
- Revenue Per Available Hotel Room	October	\$112.20	23.5%	13.2%
- Arizona Hotel Occupancy Rate	October	71.0%	4.9%	2.0%
<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
<u>Agency Measures</u>				
- AHCCCS Recipients	January 1st	2,443,100	0.5%	7.2%
Traditional Acute Care		1,269,000	0.2%	5.1%
Other Acute Care		1,106,800	0.9%	10.0%
Long-Term Care – Elderly & DD		67,300	0.1%	2.7%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	November	47,286	(0.8)%	(3.6)%
DCS Out-of-Home Children	November	12,014	(1.3)%	(11.0)%
Filled Caseworkers (1406 Budgeted)	November	1,254	18	31
- ADC Inmate Growth	December	33,810	0.0%	(0.1)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	December	11,637	(0.7)%	(11.6)%
- SNAP (Food Stamps) Recipients	December	908,311	0.5%	10.3%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	3 rd Q, 2022 (3 rd Estimate)	\$20.1 trillion	3.2%	1.9%
- Consumer Confidence Index (1985 = 100)	December	108.3	6.8%	(6.0)%
- Leading Economic Index (2016 = 100)	November	113.5	(1.0)%	(4.8)%
- Consumer Price Index, SA (1982-84 = 100)	December	296.8	(0.1)%	6.5%



JLBC/JCCR Meeting Follow Up

Department of Juvenile Corrections – Door Replacement Capital Project – Pursuant to a provision from the December 2021 meeting of the Joint Committee on Capital Review, the Department of Juvenile Corrections (DJC) submitted a report detailing the final project scope and budget for the capital project to replace doors and locks at the Adobe Mountain School facility. DJC reports that the total contract of \$2.6 million will address 3 west housing units, with \$2.4 million for construction, \$106,800 for design costs, and \$46,500 set aside for contingency. DJC reports that it will contribute an additional \$100,000 above the \$2.5 million capital appropriation reviewed by the Committee from its FY 2023 State Charitable, Penal, and Reformatory Institutions Land Fund appropriation, with any unused monies reverting back to the fund. (Ryan Fleischman)

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Repayment of State Debt and Obligations – Pursuant to A.R.S. § 41-726, the Arizona Department of Administration (ADOA) is required to report on the amount of potential savings if the state repays the balance of any outstanding long-term General Fund financing obligations, under the following repayment scenarios: \$50 million, \$100 million, \$150 million, and \$200 million. Based on the state's remaining debt, ADOA provided the following 3 scenarios:

- Scenario 1: \$50 million in debt payoff would result in \$12 million in net lifetime savings.
- Scenario 2: \$100 million in debt payoff would result in \$20 million in net lifetime savings.
- Scenario 3: \$150 million in debt payoff would result in \$25 million in net lifetime savings.

ADOA's report only listed debt obligations that are eligible for early retirement (also known as "callable") before the debt's final maturity date. Under this limited standard, ADOA did not provide a \$200 million debt payoff scenario.

For debt obligations that are not callable, the state may go through a process known as "cash defeasance". Under the defeasance process, the state deposits sufficient monies into an escrow account, so that the escrow account pays out all future required debt service payments. Once the defeasance process is completed, the associated debt is effectively removed from the state's list of outstanding obligations.

ADOA also provided a separate report listing various cash defeasance options. In terms of escrow deposit required and total net debt service savings to the General Fund, those options were as follows:

- Phoenix Convention Center (State Portion): \$430 million deposit, \$211 million net savings
- University 2003 Research Infrastructure: \$238 million deposit, \$27 million net savings
- University Lottery Bonds: \$543 million deposit, \$43 million net savings

(Morgan Dorcheus)

AHCCCS – Report on Inpatient Psychiatric Treatment Availability – Pursuant to A.R.S. § 36-2903.13, the Arizona Health Care Cost Containment System (AHCCCS) reported the availability of inpatient psychiatric treatment from Regional Behavioral Health Authorities.

The number of licensed psychiatric beds decreased slightly from 2,431 in 2020 to 2,426 in 2021. However, the number of inpatient psychiatric days increased, resulting in an occupancy rate of 70.3% in 2021. This compares to an occupancy rate of 58.1% in 2020.

AHCCCS separately provided inpatient psychiatric treatment expenditures and the number of unique members receiving those services out of state for 2 populations: 1) members younger than 21, and 2) members aged 21 and older. Regarding the former population, AHCCCS spent \$75.9 million in FY 2022 with



180 members having one or more inpatient stays out of state. For members 21 and older, AHCCCS spent \$174.7 million with 234 members having one or more inpatient stays out of state.

While AHCCCS is required to report the prevalence of psychiatric boarding for at least 24 hours before transferring the patient to a psychiatric facility, relevant data is currently unavailable. AHCCCS is working with Managed Care Organizations to implement a standardized reporting methodology. (Maggie Rocker)

Arizona Health Care Cost Containment System – Report on Tracking Methodology for ADA SMI Accommodations –

Pursuant to Laws 2022, Chapter 305, the Arizona Health Care Cost Containment System (AHCCCS) was required to develop and report a methodology for tracking accommodations requested pursuant to the Americans with Disabilities Act (ADA) by persons with disabilities who have a serious mental illness, as well as implementation costs of the proposed tracking methodology.

AHCCCS estimates a one-time cost of \$400,000 Total Funds in the first year, with ongoing annual staffing costs of \$160,000 Total Funds to manage the reporting process. The initial one-time funding would support the modification of the Quality Management Portal, which would house the online form that health care providers would fill out for each reasonable accommodation request. The form would gather information such as the accommodation requested, whether the request was granted or denied, whether the outcome was appealed, and the number of days to process the request, among other data points. AHCCCS anticipates the portal update would take approximately 18 months to complete. (Maggie Rocker)

AHCCCS – Report on Interstate Agreement with Hawaii –

Pursuant to A.R.S. § 36-2925H, the Arizona Health Care Cost Containment System (AHCCCS) submitted its annual report on the status of an Interstate Agreement with the State of Hawaii. Under the agreement, AHCCCS provides ongoing IT operations and maintenance for Hawaii's Medicaid program. Hawaii reimburses AHCCCS for work done by AHCCCS staff and independent contractors, a specified percentage of other AHCCCS IT personnel costs, all direct Hawaii costs, and some indirect operating costs.

In FY 2022, Arizona received \$10.7 million in revenues from Hawaii while spending \$11.9 million for staffing and automation costs associated with implementing the agreement. During FY 2022, the balance of the 2 funds used for the agreement decreased by \$1.3 million, from \$4.2 million to \$2.9 million. (Maggie Rocker)

Arizona Commerce Authority – Report on Water Infrastructure Grants – In the FY 2023 budget, the Legislature appropriated \$15.0 million from the General Fund to the newly-created Water Infrastructure and Commerce Grant Fund. Pursuant to A.R.S. § 41-1510, the Arizona Commerce Authority (ACA) is required to submit an annual report including actual expenditures from the fund by project and an expenditure plan for all remaining monies in the fund by project. ACA reports granting no monies from this fund through November 30, 2022. The authority also reports planned expenditures of \$15.0 million, but they did not specify any grant recipients or amounts. (Nate Belcher)

Arizona Commerce Authority – Report on Major Event Fund Expenditures –

Pursuant to A.R.S. § 41-1506.02, the Arizona Commerce Authority (ACA) is required to submit a semiannual report including actual expenditures from the Major Events Fund by purpose and an expenditure plan for all remaining monies in the fund by purpose. ACA's report covers funding through November 30, 2022.

Through November, ACA reported spending just under \$2.0 million of the \$15.0 million appropriated into the Major Events Fund in FY 2022 and FY 2023. Of the \$2.0 million, the authority granted the L. William Seidman Research Institute \$13,200 to conduct a study of the economic impact of hosting the Super Bowl. The remaining \$1.9 million of expenditures was granted to the Arizona Major Events Host Committee for operating costs.

ACA plans to grant \$11.9 million from the remaining \$13.0 million fund balance to 2 committees. ACA projects granting \$10.0 million to the Super Bowl Host Committee, funding up to 25% of the operating expenditures required under the event support contract between the host organization and the local organizing committee. The remaining \$1.9 million in planned grants would go to the Arizona Major Events Host Committee for operating costs.

The authority has not yet committed the remaining \$1.1 million but plans on using the monies for operating costs to support the 2024 NCAA Final Four, including an economic impact analysis, among other future events. (Nate Belcher)

Arizona Criminal Justice Commission – Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund –

Pursuant to A.R.S. § 41-2409 G, the Arizona Criminal Justice Commission (ACJC) reported on expenditures for the prior fiscal year from the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund.



In FY 2022, the State Aid to County Attorneys Fund received revenues totaling \$688,300. ACJC reports that county attorneys had expenditures of \$661,900 in FY 2022, leaving an ending cash balance of \$508,900 in the State Aid to County Attorneys Fund. Of the \$661,900, \$614,000 was spent on salary and benefits, \$3,600 on equipment, \$2,300 on operating costs, \$1,500 on contractual expenses, and \$40,500 on travel and other expenses.

Out of the 15 agencies, 12 reported an increase in the number of felony cases filed in FY 2022. Of the 12 agencies that provided statistics on the percentage of felony cases adjudicated within 180 days between FY 2021 and FY 2022, 5 agencies reported an increase in the percentage of felony cases that were adjudicated within 180 days.

The report also includes felony case processing statistics by county from the Arizona Computerized Criminal History (ACCH) system. According to that data, a total of 35.2% of the 8,731 cases adjudicated in Arizona during FY 2022 were finalized within 180 days of arrest. This is an increase from FY 2021 when 32.5% of cases adjudicated were finalized within 180 days.

In FY 2022, ACJC disbursed \$693,400 in State Aid to Indigent Defense Fund revenues to counties. In prior years, these funds were appropriated for other non-Indigent Defense areas. ACJC reports that counties had Indigent Defense expenditures of \$270,800 in FY 2022, leaving an ending balance of \$130,700. Of the \$270,800, \$206,600 was spent on salary and benefits, \$26,000 on operating costs, \$17,700 on contractual expenses, and \$20,400 on travel and other expenses. (Ryan Fleischman)

Arizona Criminal Justice Commission – Report on Criminal Justice Enhancement Fund – Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) provided its annual report on Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 42% assessment on certain fines, penalties, and forfeitures imposed and collected by the courts. In FY 2022, CJEF revenues totaled \$26.2 million, a (1.7)% decrease from FY 2021. Total funds available for the fiscal year, including the beginning balance, interest, adjustments, and fund sweeps was \$51.3 million. FY 2022 CJEF expenditures totaled \$25.0 million; CJEF ended the year with a cash balance of \$26.3 million. (Ryan Fleischman)

Arizona Criminal Justice Commission – Report on Anti-Racketeering Revolving Fund – Pursuant to A.R.S. § 13-2314.01 and § 13-2314.03, the Arizona Criminal Justice Commission (ACJC) provided its quarterly report on the activities of the Arizona Anti-Racketeering Revolving Fund (ARRF). ACJC is required to compile quarterly expenditures of the Attorney General, department, agency, county attorney, and political subdivision reports into a single comprehensive report of sources and expenditures as well as report on forfeiture orders.

In the first quarter of FY 2023, the ARRF received revenues totaling \$4.4 million and had expenditures totaling \$3.6 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru account of the Attorney General at \$3.1 million. Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with \$1.3 million in ARRF monies spent.

In the first quarter of FY 2023, participating agencies received \$1.2 million in net collections from seized assets originally valued at \$6.4 million. Net collections decreased by \$(1.5) million, or about (55.4)%, from the previous quarter. Net collections were highest in Maricopa County at \$1.0 million, which derived from forfeitures valued at \$1.6 million. Some assets and properties were released back to the owner, but most were retained or sold by law enforcement.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the involved state and local investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited into the fund and used in accordance with state and federal guidelines. Monies in ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (Ryan Fleischman)

Department of Economic Security – Report on Child Support Administration Fund Escalator – Pursuant to an FY 2023 General Appropriation Act footnote, the Department of Economic Security (DES) reported its plan to expend an additional \$7.1 million of Child Support Administration Fund monies received by the department in excess of its \$17.7 million appropriation for FY 2023.

The department plans to use the amount, along with \$25.3 million in related Expenditure Authority, to replace the Arizona Tracking and Location Automated System (ATLAS).



The case management system collects and distributes child support payments. DES reports that the new, web-based system will automate workflows and improve efficiency. At its December 2022 meeting, JLBC favorably reviewed DES' FY 2023 expenditure plan for the system replacement. (Chandler Coiner)

Office of Economic Opportunity – Program Year 2021 Annual Report – Pursuant to A.R.S. § 41-5401C, the Office of Economic Opportunity's Workforce Arizona Council (WAC) submitted its annual report on workforce development, which addresses performance metrics such as number of participants and statewide program costs.

In Program Year 2021 (July 2021 - June 2022), WAC reported \$101.4 million in expenditures on the following 5 workforce programs. The largest groups served were low-income individuals, the long-term unemployed, English language learners, and single parents.

- Adult, youth, and dislocated worker programs provided career services and training to 20,118 individuals at an average cost of \$2,295 per person funded via the Department of Economic Security (DES).
- Adult education and literacy programs provided basic educational opportunities for 12,163 adults at an average cost of \$120 per participant funded via the Arizona Department of Education.
- Employment service offices, which provide one-stop assistance to job seekers, served 35,883 individuals at an average cost of \$291 per person funded via DES.
- Vocational rehabilitation programs provided services to 7,025 persons with disabilities at an average cost of \$5,978 per person funded via DES.
- The state's community colleges expended \$1.3 million on career and training services.

(Ben Newcomb)

Department of Education – Report on Broadband Expansion Fund – Pursuant to A.R.S. § 15-249.07, the Arizona Department of Education (ADE) must report semi-annually on the status of broadband connectivity construction projects that ADE has certified to receive state matching contributions. The FY 2018 General Appropriation Act included a one-time \$3 million appropriation to the Broadband Expansion Fund for state matching contributions for broadband construction projects for schools and libraries. Including another \$8 million raised by a temporary surcharge on consumer phone bills approved by the Arizona Corporation Commission, the \$11 million of state funds are anticipated to generate up to a 9:1 match from federal "E-Rate" funds for the projects.



ADE reports that through December 2022, it paid out \$6.6 million in state matching funds for projects whose total construction costs were \$84.2 million. ADE states that these projects are resulting in broadband connectivity for 174,560 additional students across 67 sites. ADE also reports that it has approved an additional \$3.6 million in state matching funds (\$47.3 million total funds) for an additional 15 projects that would serve 39,278 pupils upon completion. (Patrick Moran)

Department of Environmental Quality – Report on Use of Indirect Cost Recovery Fund – Pursuant to an FY 2023 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) provided its report on the intended use of Indirect Cost Fund monies in excess of \$18.6 million in FY 2023.

Revenue for the Indirect Cost Fund comes from the application of a United States Environmental Protection Agency (EPA) approved formula to each fund. Monies in the fund are used for departmentwide administrative personnel and overhead costs that are not directly allocated to the budget of the contributing programs.

DEQ estimates that FY 2023 revenues will total \$23.7 million; of this amount, DEQ estimates \$20.5 million will be expended in FY 2023, or \$1.9 million above the \$18.6 million appropriated figure. DEQ's intended use of the \$1.9 million in excess expenditures includes the remaining Indirect Cost Fund staff costs for the second, third, and fourth quarters of FY 2023, contractor expenses, and other operating expenses. (Maggie Rocker)

State Mine Inspector – Report on Abandoned Mines Safety Fund Expenditures and Contributions – The State Mine Inspector is required by A.R.S. § 27-131 to establish a program to address public safety hazards at abandoned mines. A.R.S. § 27-131 created the Abandoned Mines Safety Fund (AMSF) to fund the program. The Mine Inspector submitted its annual report detailing the contributions to the AMSF and the expenditures by the fund during FY 2022.

The State Mine Inspector reports that the AMSF received no new revenues and had no new expenditures in FY 2022, retaining its previous carry-forward balance of \$134,800. In addition to the AMSF, the State Mine Inspector also receives a General Fund appropriation (\$1,316,700 and 6 FTE Positions in FY 2023) for the same purpose. (Nate Belcher)

Department of Public Safety – Report on Civil Air Patrol Distributions – Pursuant to a footnote in the FY 2023 General Appropriation Act, the Department of Public Safety (DPS) submitted a report on the status of the

monies distributed from the Civil Air Patrol Infrastructure line item and the intended purposes of the distributions. Through December 2022, DPS reported that no Civil Air Patrol infrastructure distributions have been made so far from the \$5 million FY 2023 General Fund appropriation. (Jordan Johnston)

Supreme Court – Report on County-Approved Probation Officer Salary Adjustments – Pursuant to a General Appropriation Act footnote, the Arizona Administrative Office of the Courts (AOC) submitted its report on county-approved salary adjustments provided to probation officers since the last report on November 1, 2021. The report includes approved salary increases, average number of probation officers by county, average salary, and the net increase in allocations from the AOC to each county.

According to the report, statewide adult probation payroll increased by 4.9% and juvenile payroll increased by 1.1% from FY 2021 to FY 2022. According to the AOC, there were an average of 305.3 adult probation officers and 61.0 juvenile probation officers in FY 2022. The weighted average salary for probation officers in FY 2022 ranged by county from \$42,000 to \$60,000. (Ryan Fleischman)

Arizona Department of Transportation – Report on Aviation Grant Awards and Distribution – Pursuant to a footnote in the FY 2023 Capital Outlay Bill, the Arizona Department of Transportation (ADOT) submitted a report on the status of all aviation grant awards and distributions. From FY 2020 to FY 2023, ADOT awarded to local and state entities across Arizona approximately \$136.6 million in aviation grants. Of that total awarded amount, approximately \$23.7 million has been expended and \$113.0 million are in unspent commitments. (Jordan Johnston)

State Treasurer – Report on School Safety Program Expenditures – Pursuant to A.R.S. § 41-1733(B), the Maricopa, Yavapai, Mohave, and Navajo County Sheriffs each submitted reports to the JLBC detailing all expenditures made for the School Safety Program in FY 2022. The State Treasurer received \$2.5 million in the FY 2022 budget with instructions to distribute \$2.1 million to the Maricopa County Sheriff, \$0.1 million to the Mohave County Sheriff, and \$0.3 million to the Yavapai and Navajo County Sheriffs. Of the \$2.5 million distributed, the counties report a total of \$275,000 has been spent or encumbered, including \$50,000 by Mohave County, \$150,000 by Yavapai County, and \$75,000 by Navajo County. Maricopa County is currently in the process of selecting a vendor for the project. (Nate Belcher)

Arizona Board of Regents/Arizona Community Colleges - Report on Articulation – Pursuant to A.R.S. § 15-1824, the Arizona Board of Regents (ABOR) and the community colleges are required to submit an annual report by December 15 of their progress on both articulation and meeting statewide postsecondary education needs.

Progress in implementing the transfer model and support systems in the 2021-2022 academic year include:

- 9,718 community college students transferred to the public university system.
- 48.1% of new transfer students from Arizona community colleges, or 4,674 students, entered the university system with 60 or more credits.
- 1,228 Arizona community college courses have direct equivalencies at all 3 Arizona public universities.
- 143 new university freshmen received an associate degree from an Arizona Community College prior to entry.
- 32,802 Arizona high schools participated in Dual Enrollment courses.

(Cameron Mortensen)

Arizona Board of Regents – Report on Resident Student Cost Study – Pursuant to A.R.S. § 15-1650.03, the Arizona Board of Regents (ABOR) is required to conduct a comprehensive study to determine the actual cost of educating a full-time resident undergraduate student at each public Arizona university by December 15, 2017 and every 5 years thereafter.

ABOR reports an average annual academic cost per student, including both operating and capital costs, of \$18,855, including:

- \$8,483 in instruction related costs.
- \$2,599 in academic support (Dean's offices, libraries, academic advising, etc.).
- \$2,328 in cash payments to students for living expenses beyond tuition (e.g. housing, meal plans, books, etc.) as part of scholarship and fellowship awards.
- \$1,464 in institutional support (office of the president, HR, finance, IT, etc.).
- \$1,342 in student services (registrar, financial aid, health services, student recreation, counseling, etc.).
- \$1,258 in capital costs and \$694 for operations and maintenance of academic buildings.
- \$686 in academic public service (activities for individuals outside the university including conferences, advisory services, UA's Biosphere, etc.).



The total includes the average costs for undergraduate and graduate students, excluding those in certain programs such as the UA Colleges of Medicine, due to the uniquely higher costs of those programs. The total also excludes costs associated with research and auxiliary functions (e.g. athletics, dining halls, etc.).

As part of the study, A.R.S. § 15-1650.03 requires ABOR to report on the following:

1. The use of instructional fees: ABOR reports that approximately 6% of courses include a course fee, which must be used for expenses directly related to the class and cannot be used for general expenditures. Combined with differential tuition and program fees (charged for specific colleges or programs such as Nursing), student fees generated \$408 million in FY 2021, or roughly 12% of gross tuition and fee revenues.
2. Differentiated costs between programs of study: Costs per student vary significantly across program and university. For example, ASU's Global Management students cost an average of \$41,822 per year to educate, compared to \$16,722 per student for ASU's Integrative Sciences and Arts programs.
3. The costs of faculty and administration differentiated between time related to instruction versus conducting research: ABOR reported that both the University of Arizona and Arizona State University faculty spend approximately 40% of their time on teaching, 40% of their time on research, and 20% of their time on other activities. Northern Arizona University reports their faculty spend approximately 50% of their time on teaching, 30% of their time on research, and 20% of their time on other activities. Faculty salary expenditures totaled \$929.8 million in FY 2021.
4. A breakdown of the use of tuition dollars: ABOR reports that approximately 33% of tuition revenues are used for instruction costs, 27% is for institutional support, 25% is for student services, 12% is for academic support, and 3% is for other purposes.
5. Average and marginal costs of different programs, including online programs: ABOR estimates the annual cost of educating an online student is \$15,270, or about 20% lower than the overall average cost per student.

(Cameron Mortensen)

