

Summary

December 2023 General Fund revenues were \$1.38 billion, which was (16.1)% below December 2022. December collections generated a forecast loss of \$(75) million below the enacted budget revenue forecast, with losses occurring in the Corporate and Individual Income Tax categories, partially offset by modest gains in Sales Tax.

The upcoming February *Monthly Fiscal Highlights* (which will discuss the January revenue results), will begin to benchmark the state's revenue collections against the new Baseline revenue forecast released on January 12th.

Corporate Income Tax

December Corporate Income Tax (CIT) collections experienced a significant decline during the month, with revenues being (24.3)% below December 2022 and posting a loss of \$(80) million compared to the budget forecast.

The December CIT performance marked a dramatic shift for the tax category. Since FY 2020, the category has experienced cumulative growth of over 250% and showed no sign of slowing growth – prior to the December results, the CIT category had year-to-date positive growth during FY 2024 and was generating significant forecast gains for the state. With the large decline in December, however, CIT has now turned negative for the year, with a year-to-date FY 2024 growth rate of (8.1)% and the tax category is now posting a net forecast loss for the fiscal year.

Individual Income Tax

Overall Individual Income Tax (IIT) collections in December were (20.3)% below December 2022 and were \$(60) million below the enacted budget forecast. The IIT category experienced losses across all 3 components (withholding, payments and refunds).

With the implementation of the 2.5% single tax rate, the state updated the default IIT withholding rate starting January 2023 – so December 2023 collections were expected to decline compared to December 2022 due to

the new default rate. However, the (14.9)% decline in December withholding was greater-than-expected and generated a forecast loss of \$(32) million.

December payments (both estimated and final) were (17.6)% below the prior year and were \$(9) million under forecast for the month. The next major data point for IIT payments is January, due to the January 15th deadline for taxpayer estimated payments. This January estimated payment activity can sometimes provide a preview of payment trends for the upcoming tax filing season.

December IIT refund activity was 65.2% higher than the prior year, although because December is a minor month for IIT refunds, the large percentage increase only translated into a moderate forecast loss of \$(20) million.

Sales Tax

December Sales Tax collections (which represent November sales activity) increased by 10.9% above December 2022, and generated a forecast gain of \$30 million during the month. However, because of technical corrections made last year by DOR to the December 2022 collection amount, this year-over-year growth rate is overstated. After adjusting for that issue, December Sales Tax growth was 2.8%, a rate which is slightly lower than the category's performance seen so far during FY 2024.

Year-to-Date Results

Year-to-date through December, excluding Urban Revenue Sharing and the one-time tax rebate, FY 2024 General Fund revenues are (8.5)% below the prior year. Total FY 2024 General Fund revenues are \$(481) million below the enacted budget forecast.

Given the significant forecast loss through the first 6 months of FY 2024 revenue results, the Baseline revenue projections include a significant downward revision to the FY 2024 enacted budget revenue forecast.

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December Revenues

Table 1

General Fund Revenues (\$ in Millions)

	FY 2024 Collections	Difference From Enacted Forecast	Difference From FY 2023
December	\$ 1,376.2	\$ (74.8)	\$ (264.8)
Year-to-Date	\$ 6,773.8	\$ (481.5)	\$ (1,367.5)

Sales Tax collections of \$659.0 million in December were 10.9% above the same month in the prior year and \$30.3 million above the enacted budget forecast. Absent several technical year-end adjustments made in December 2022, the year-over-year growth last month would have been 2.8%. Year to date through December, sales tax revenue is up by 4.2% compared to the same period in the prior year and is \$(35.6) million below forecast.

Table 2 shows the December growth rate for the 5 major sales tax categories, which combined make up about 90% of total sales tax collections.

Table 2

**December Sales Tax Growth Rates
Compared to Prior Year**

	<u>Dec.</u>	<u>YTD</u>
Retail/Remote Seller ^{1/}	3.8%	5.0%
Contracting ^{2/}	63.1%	17.3%
Use Tax ^{2/}	27.0%	(39.8)%
Restaurant & Bar	3.2%	2.9%
Utilities ^{2/}	79.3%	35.8%

^{1/} Absent DOR's technical corrections in August and October, Retail/Remote Seller YTD growth would have been 2.8%.

^{2/} December's year-over-year growth for this category is overstated due to technical year-end adjustments made by DOR in December 2022.

The combined Retail/Remote Seller category, which makes up more than half of total sales tax revenue, increased by 3.8% in December compared to the same month in the prior year and is up by 5.0% year to date through December.

While several of the major sales tax classifications, including Contracting, Use Tax, and Utilities, increased at double-digit percentage rates in December, these growth rates were overstated due to large year-end technical adjustments made in December 2022, as noted above.

Individual Income Tax (IIT) net collections were \$442.2 million in December, a decrease of (20.3)% from last year and \$(59.9) million below the enacted budget forecast. Year to date (YTD) through December, IIT revenue has declined by (27.7)% compared to the same period in FY 2023 and is \$(481.4) million below forecast.

December withholding revenue was \$449.3 million, a decline of (14.9)% from December 2022 and \$(31.5) million lower than the forecast. YTD, withholding is down by (14.2)% and is \$(160.5) million below the enacted budget forecast.

Total payments in December were \$50.9 million, (17.6)% under last December and \$(8.5) million below the enacted budget forecast. December is historically a minor month for payment collections, typically comprising about 3.0% of the fiscal year total. YTD through December, total payments are \$455.4 million, (39.4)% less than last year's level and \$(121.4) million less than forecast.

December refunds were \$58.1 million, an increase of 65.2% over the previous December and \$19.9 million higher than projected, thereby resulting in a forecast loss of \$(19.9) million for the month. YTD, refunds are up 72.0% from the same period last year, with a cumulative forecast loss of \$(199.5) million.

Table 3

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

	<u>December</u>	<u>YTD</u>
Withholding	(14.9)%	(14.2)%
Estimated/Final Payments	(17.6)%	(39.4)%
Refunds	65.2%	72.0%

Corporate Income Tax (CIT) net collections in December were \$325.6 million, a decrease of (24.3)% from December 2022, and \$(80.3) million below the enacted budget forecast. December is an important month for CIT collections, making up about 19% of the yearly total on



average. Despite being the second highest level of collections ever for the month of December, there was a significant year-over-year decline because of the record high December 2022 CIT total. Year to date through December, net revenue is down (8.1)% and the forecast loss is \$(8.8) million.

Insurance Premium Tax (IPT) revenue was \$90.4 million in December, an increase of 2.5% compared to the same month in the prior year and \$5.8 million above the enacted budget forecast. This is the highest amount of IPT revenue ever collected in the month of December despite an expected drop in AHCCCS caseloads throughout Calendar Year 2023. Fiscal year to date, IPT revenue is up by 2.9% and is \$(12.0) million below forecast.

The amount of **Tobacco Tax** deposited into the General Fund in December was \$1.4 million, which is (24.5)% below December 2022 collections and \$(0.6) million below the enacted budget forecast. Year to date, General Fund tobacco tax revenues total \$9.5 million, 1.6% greater than the amount collected for the comparable period in FY 2023, and \$(0.6) million under forecast.

Liquor Tax revenue deposited into the General Fund in December was \$4.0 million, which marks a (4.8)% decrease from the amount deposited in December 2022 and is \$(0.8) million below the enacted budget forecast. Year to date, General Fund deposits from liquor tax collections total \$20.8 million, a (6.2)% decline from the comparable period in FY 2023, and \$(2.1) million below forecast.

Laws 2023, Chapter 147 provides a one-time **Individual Income Tax Rebate** to Arizona taxpayers who meet certain requirements, as outlined in the December 2023 *Monthly Fiscal Highlights*. The enacted budget forecast assumed that the one-time cost of the rebate program would be \$259.8 million. The actual amount of rebates, however, exceeded this estimate by \$6.0 million in November, followed by an additional \$7.2 million in December, for a year-to-date total of \$273.0 million. Therefore, relative to the original estimate included in the enacted budget, the forecast loss was \$(7.2) million in December. Year to date through December, the forecast loss is \$(13.2) million.

The **Lottery Commission** reported that total ticket sales in December were \$127.7 million. This amount is \$3.9 million, or 3.2% greater than December 2022.

Highway User Revenue Fund (HURF) collections of \$164.3 million in December were 2.8% above the amount collected in December 2022 but \$(6.4) million lower than forecast. Year to date, HURF collections are \$871.6 million, 3.0% above the prior year and \$(6.0) million below forecast.

The state collected \$14.3 million in dedicated **Marijuana Excise Taxes** in December, marking an 8.8% increase over December 2022 revenues. Monies from this excise tax are deposited into dedicated non-General Fund accounts. The total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) was \$5.7 million in December. Of this amount, the General Fund received \$4.2 million. (*Table 4* details December 2023 collections).

	<u>December</u>	<u>YTD</u>
Marijuana Excise Tax	\$14.3	\$86.0
Medical Marijuana TPT*	\$1.4	\$8.9
<u>Distribution:</u>		
General Fund	\$1.0	\$6.6
Counties	\$0.2	\$1.4
Cities	\$0.1	\$0.9
Recreational Marijuana TPT*	\$4.3	\$25.8
<u>Distribution:</u>		
General Fund	\$3.2	\$19.1
Counties	\$0.7	\$4.2
Cities	\$0.4	\$2.6
Total State Marijuana Tax Collections	\$20.0	\$120.8

* Amounts may not add to total due to rounding



Table 5

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

	Current Month					FY 2024 YTD (Six Months)				
	Actual December 2023	Change From December 2022		Enacted Forecast		Actual December 2023	Change from December 2022		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$659,041,179	\$64,899,408	10.9 %	\$30,258,340	4.8 %	\$3,870,666,518	\$155,819,867	4.2 %	(\$35,617,427)	(0.9) %
Income - Individual	442,159,755	(112,320,335)	(20.3)	(59,906,892)	(11.9)	2,461,585,689	(944,948,964)	(27.7)	(481,391,965)	(16.4)
- Corporate	325,636,284	(104,801,530)	(24.3)	(80,333,303)	(19.8)	804,768,301	(70,657,281)	(8.1)	(8,837,082)	(1.1)
Property	(1,257,655)	(3,693,602)	--	(3,378,053)	--	15,286,380	2,124,663	16.1	2,385,292	18.5
Luxury - Tobacco	1,372,315	(445,698)	(24.5)	(560,229)	(29.0)	9,519,758	146,676	1.6	(612,918)	(6.0)
- Liquor	3,981,415	(202,262)	(4.8)	(765,662)	(16.1)	20,828,097	(1,373,376)	(6.2)	(2,066,020)	(9.0)
Insurance Premium	90,434,989	2,182,536	2.5	5,839,615	6.9	305,561,995	8,613,697	2.9	(12,038,240)	(3.8)
Other Taxes	980,266	124,383	14.5	94,191	10.6	5,912,970	833,230	16.4	759,248	14.7
Sub-Total Taxes	\$1,522,348,548	(\$154,257,100)	(9.2) %	(\$108,751,993)	(6.7) %	\$7,494,129,709	(\$849,441,489)	(10.2) %	(\$537,419,113)	(6.7) %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	170,952,858	48,670,785	39.8	1,041,823	0.6
Gaming	4,573,457	(846,029)	(15.6)	1,392,598	43.8	11,832,391	(16,926,014)	(58.9)	(2,805,471)	(19.2)
License, Fees and Permits	4,936,245	2,367,853	92.2	1,141,872	30.1	27,949,373	4,289,572	18.1	1,965,675	7.6
Interest	65,586,664	65,580,229	--	13,312,827	25.5	166,920,354	87,960,328	111.4	44,287,363	36.1
Sales and Services	2,196,375	(225,163)	(9.3)	98,937	4.7	14,876,652	742,855	5.3	(1,272,398)	(7.9)
Other Miscellaneous	3,723,918	(1,453,172)	(28.1)	(1,185,994)	(24.2)	17,122,139	6,939,621	68.2	(592,388)	(3.3)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	40,890,504	(156,694)	(0.4)	26,418,066	182.5	55,764,509	(17,474,257)	(23.9)	26,471,114	90.4
Sub-Total Other Revenue	\$121,907,164	\$65,267,024	115.2 %	\$41,178,306	51.0 %	\$465,418,275	\$114,202,891	32.5 %	\$69,095,718	17.4 %
TOTAL BASE REVENUE	\$1,644,255,712	(\$88,990,076)	(5.1) %	(\$67,573,687)	(3.9) %	\$7,959,547,984	(\$735,238,599)	(8.5) %	(\$468,323,394)	(5.6) %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(260,803,299)	(168,556,743)	182.7	(0)	0.0	(912,811,547)	(359,332,209)	64.9	(0)	0.0
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Income Tax Rebate	(7,224,250)	(7,224,250)	--	(7,224,250)	--	(272,956,350)	(272,956,350)	--	(13,156,350)	5.1
Sub-Total Other Adjustments	(268,027,549)	(175,780,993)	190.6 %	(7,224,250)	2.8 %	(1,185,767,897)	(632,288,559)	114.2 %	(13,156,350)	1.1 %
TOTAL GENERAL FUND REVENUE	\$1,376,228,163	(\$264,771,069)	(16.1) %	(\$74,797,937)	(5.2) %	\$6,773,780,088	(\$1,367,527,157)	(16.8) %	(\$481,479,745)	(6.6) %
<u>Non-General Funds</u>										
Highway User Revenue Fund	164,296,114	4,418,011	2.8 %	(6,387,634)	(3.7) %	871,629,749	25,551,920	3.0 %	(6,031,691)	(0.7) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) third and final estimate of U.S. **Real Gross Domestic Product (GDP)** in the 3rd quarter of 2023 increased at an annual rate of 4.9%. This is a downward revision of the BEA's second estimate of 5.2%, but matches its initial estimate for the quarter.

The **Consumer Confidence Index**, published by the Conference Board, was 110.7 in December, an increase of 9.7 points from the revised November level. The indices measuring views on the present situation and future expectations both improved during the month. Consumers generally became more optimistic about the labor market, inflation, and sales conditions. Year-over-year, the consumer confidence index has grown 1.6%.

The Conference Board's **U.S. Leading Economic Index (LEI)** decreased to 103.0 points in November, a decline of (0.5)% from a downwardly revised October level. Conditions became worse for the housing and labor markets, credit indicators were unchanged, but stock prices increased. The LEI fell by (3.5)% over the 6-month period between May and November 2023, a smaller decrease than the (4.3)% contraction over the previous 6 months.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** rose in December by a seasonally adjusted rate of 0.3% over the prior month. Compared to the same month last year, consumer prices are up by 3.4% before seasonal adjustment. The indices for shelter and gasoline both rose during December, The Core CPI, which excludes food and energy, is up by 3.9% from a year ago.

ARIZONA

Housing

In November, Arizona reached a 12-month total of 32,980 **single-family building permits** issued. This was an increase of 3.3% above October's total and (16.2)% below November 2022's 12-month total.

Arizona's 12-month total of 24,899 **multi-family building permits** in November is 6.9% above October's total and 13.2% greater than the same 12-month period ending in November 2022.

The **median home price** in Maricopa County dropped to \$455,000 in December, representing a (4.2)% decrease from November's median sale price and a 3.6% increase over December 2022's median home price. Year-over-year changes in median sale price were negative from November 2022 through September 2023. Previously, the median sales price had not declined on a year-over-year basis since November 2011.

Tourism

Phoenix Sky Harbor Airport Ridership was 4.3 million in November, which represents a (1.4)% decrease from October's figure and a 9.9% increase over last November's ridership.

Hotel occupancy was 65.4% in November, which is (3.7)% below the prior month's occupancy rate and (3.7)% lower than that of November 2022.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state added 8,100 net **nonfarm jobs** in December compared to November.

The state also gained a net 64,800 nonfarm jobs in December 2023 over December 2022, an increase of 2.0%. From 2010-2019, the average annual increase in nonfarm employment was about 61,200 jobs.

The state's seasonally adjusted **unemployment rate** remained at 4.3% in December. The U.S. unemployment rate also stayed steady at 3.7%.

OEO reported that a total of 3,248 **initial claims for unemployment insurance** were filed in Arizona in the week ending on January 6th. This represents a (3.6)% year-over-year decline in initial claims, with the week ending January 7, 2022 seeing 3,371 initial claims.

According to OEO, for the week ending on December 30th there were a total of 21,599 **continued claims for unemployment insurance** in Arizona. This is 21.2% greater than last year's total of 17,814 on the comparable date. Prior to the start of the pandemic, the average number of weekly continued claims was 22,613.

State Personal Income

The U.S. Bureau of Economic Analysis (BEA) recently released state personal income estimates for the 3rd quarter of 2023. Personal income in Arizona rose at an annual rate of 3.3% in the 3rd quarter of the year, with net earnings, dividends, interest, and rental income all



increasing while government transfer receipts declined during the period. The largest increase was in net earnings, which grew at an annualized rate of 6.2% from the previous quarter. The BEA estimates that the total level of personal income was \$461.4 billion.

State Agency Data

As of January 1, 2024, the total **AHCCCS caseload** was 2.13 million members. Total monthly enrollment decreased (0.2)% from December and decreased (12.7)% compared to a year ago. Pursuant to a provision in the federal 2023 Consolidated Appropriations Act, AHCCCS began removing members who do not meet the financial eligibility requirements of the program on April 1. AHCCCS had previously been prohibited from disenrolling members who would have otherwise lost eligibility based on income, pursuant to federal legislation in March 2020. As a result, the (0.2)% decline is likely attributable to that policy change and we anticipate further caseload declines in the coming months.

Parent and child enrollment in the Traditional population decreased by (0.5)% in January, or (14.6)% lower than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 980,837 – an increase of 0.1% from December, or (11.4)% lower than last year. For January 2024, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.2%. At 69,158, this population is 2.7% higher than a year ago.

Based on information the **Department of Child Safety** provided for November 2023, reports of child maltreatment totaled 43,996 over the last 12 months, a decrease of (1.5)% from the prior year.

There were 10,293 children in out-of-home care as of November 2023, or (12.8)% less than in November 2022. Compared to the prior month, the number of out-of-home children decreased by (1.2)%.

There were 11,369 individuals receiving **TANF** Cash Assistance in December 2023, representing a 3.2% increase from November 2023. Year over year, the number of cash benefit recipients has decreased by (2.3)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food.

In December 2023, 953,764 people received food stamp assistance. This was a 0.8% increase from November 2023 and a 5.0% increase from December 2022.

The Arizona Department of Correction's **inmate population** was 34,422 as of December 31, 2023. This was unchanged from November 30, 2023 and a 1.8% increase since December 2022.



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	4.3%	0.0%	0.3%
- Total Unemployment Rate (discouraged/underemployed)	3 rd Q 2023	6.8%	0.0%	0.0%
- Initial Unemployment Insurance Claims	Week Ending Jan. 6	3,248	41.3%	(3.6)%
- Continued Unemployment Insurance Claims	Week Ending Dec. 30	21,599	1.0%	21.2%
- Non-Farm Employment - Total	December	3,238,400	0.3%	2.0%
Manufacturing	December	194,600	0.1%	(1.3)%
Construction	December	204,500	(0.3)%	6.2%
- Average Hourly Earnings, Private Sector	December	\$32.10	0.9%	4.1%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	November	32,980	3.3%	(16.2)%
Multi-family	November	24,899	6.9%	13.2%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	December	3,979	7.6%	(4.2)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	December	\$455,000	(4.2)%	3.6%
- Maricopa Pending Foreclosures	December	1,017	(0.4)%	(4.5)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	November	4,288,405	(1.4)%	9.9%
- State Park Visitors	September	217,311	24.2%	5.8%
- Revenue Per Available Hotel Room	November	\$104.41	(6.0)%	(2.2)%
- Arizona Hotel Occupancy Rate	November	65.4%	(3.7)%	(3.7)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	3 rd Q 2023	\$461.4 billion	3.3%	6.2%
- Arizona Population, U.S. Census	July 2023	7,431,344	N/A	0.9%
- 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	2,133,500	(0.2)%	(12.7)%
Traditional Acute Care		1,083,500	(0.5)%	(14.6)%
Other Acute Care		980,800	0.1%	(11.4)%
Long-Term Care – Elderly & DD		69,200	0.2%	2.7%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	November	43,996	0.3%	(1.5)%
DCS Out-of-Home Children	November	10,293	(1.2)%	(12.8)%
Filled Caseworkers (1,406 Budgeted)	November	1,324	(11)	(70)
- ADC Inmate Growth	December	34,422	0.0%	1.8%
- Department of Economic Security				
- TANF Cash Assistance Recipients	December	11,369	3.2%	(2.3)%
- SNAP (Food Stamps) Recipients	December	953,764	0.8%	5.0%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	3 rd Q, 2023 3 rd Estimate)	\$22.5 trillion	4.9%	2.9%
- Consumer Confidence Index (1985 = 100)	December	110.7	9.6%	1.6%
- Leading Economic Index (2016 = 100)	November	103.0	(0.5)%	(7.6)%
- Consumer Price Index, (1982-84 = 100)	December	306.7	0.3%	3.4%



Summary of Recent Agency Reports

Arizona Department of Administration – Report on State Personnel System – Pursuant to A.R.S § 41-743, the Arizona Department of Administration (ADOA) published their annual report on the State Personnel System (SPS). The SPS includes all agencies in the Executive Branch excluding employees in the Department of Public Safety, Arizona State Schools for the Deaf and the Blind, Cotton Research Council, Peace Officer Standards Training Board, and the Arizona Board of Regents and state universities. ADOA reports that there were 34,231 SPS employees at the end of FY 2023, an increase of 2,136 employees from FY 2022. ADOA reported the average salary is \$59,500. The statewide employee turnover rate in FY 2023 declined to 17.3% from the FY 2022 level of 23.8%.

In addition, the statute requires ADOA to provide an advisory recommendation for state employee salaries. However, ADOA makes no specific recommendation for employee salaries but noted the FY 2024 budget included \$4.0 million from the General Fund for a statewide compensation study. (Ethan Schieder)

Arizona Department of Administration – Report on Financial Status and Performance Standards for Special Employee Health Insurance Trust Fund – Pursuant to A.R.S. § 38-654F, the Arizona Department of Administration (ADOA) submitted their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF) for Plan Year (PY) 2022 through PY 2024 and the performance standards for its health plans during PY 2022.

ADOA reported that the plan was not considered actuarially sound in any of the 3 years due to inadequate ongoing resources.

If a vendor fails to meet any of the measures within the specified performance range, a percentage of the vendor's annual payment, or a previously agreed upon amount, is then withheld by ADOA as a performance penalty. ADOA estimates that performance penalties paid to Benefit Services Division related to PY 2022 will total approximately \$2.7 million. In comparison, ADOA collected \$1.3 million from PY 2021 penalties. ADOA attributes the increase in penalties to vendor contracts including more stringent terms than in prior years. (Chandler Coiner)

Arizona Department of Administration - School Facilities Division – Annual Report on Vacant Buildings – A.R.S. § 15-119 requires the ADOA School Facilities Division to annually report vacant square footage owned by the state or by school districts that may be suitable for the operation of a school, including for use as a charter school. In the Division's January 2024 report, 19 school districts reported owning a total of 1,086,164 square feet of vacant space. In addition, the Division surveyed 20 state agencies, all of which reported no vacant space suitable for the operation of a charter school.

<u>District</u>	<u>Vacant Sq. Ft.</u>
Altar Valley Elementary District	11,890
Casa Grande Elementary District	4,122
Cave Creek Unified District	20,497
Deer Valley Unified District	18,344
Dysart Unified District	186,700
Kingman Unified District	82,408
Mammoth-San Manuel Unified District	173,726
Miami Unified District	59,976
Mohave Valley Elementary District	55,110
Oracle Elementary District	8,527
Parker Unified District	14,245
Red Rock Elementary District	15,390
Safford Unified District	65,980
Scottsdale Unified District	178,668
Sedona-Oak Creek Joint Unified District	28,445
Stanfield Elementary District	7,708
Tucson Unified District	132,112
Yuma Elementary District	1,568
Yuma Union High School District	20,748
Total	1,086,164

(Gordon Robertson)

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



As of October 2023, AHCCCS projects its ARPA HCBS spending plan will total \$1.52 billion, or \$8.0 million higher than its original spending plan and \$(117.0) million lower than the July 2023 quarterly report. Major changes from last quarter include:

- \$26.5 million in increased funding for grant programs aimed at improving HCBS infrastructure and supports.
- \$5.9 million in increased funding for an in-depth review of Arizona's capacity to meet the demand of individuals with complex behavioral health needs. AHCCCS is working with a third party to conduct the review and to make trainings available to providers through September 30, 2024.
- \$(15.0) million in decreased funding for development of a training curriculum for intellectual/development disability providers. Originally this initiative contemplated the use of a consultant, but based on DES's own multi-state evaluation of training curriculums, the agency has decided to develop its own curriculum.
- \$(30) million to remove funding for updates to the Division of Developmental Disabilities' electronic case management system. DES has opted to pause this initiative until it completes other system updates.
- \$(94.1) million to remove funding for time-limited payments for providers to establish new telehealth delivery models. Based on the results of a contracted assessment, AHCCCS states it is "no longer interested" in making payments to providers for adopting remote technologies. The agency will instead hire a contractor to conduct additional research on remote technology options for the state.
- \$(10.3) million for other miscellaneous programmatic changes.

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

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 2023, Arizona received \$12.7 million in revenues from Hawaii while spending \$12.2 million for staffing and automation costs associated with implementing the agreement. During FY 2023, the balance of the 2 funds used for the agreement increased by roughly \$400,000, from \$2.9 million to \$3.3 million. (Maggie Rocker)

Arizona Commerce Authority – Report on Major Event Fund Expenditures – Pursuant to A.R.S. § 41-1506.02, the Arizona Commerce Authority (ACA) submitted its 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, 2023.

Through November 30, 2023, ACA reported spending \$12.0 million of the \$15.0 million appropriated into the Major Events Fund in FY 2022 and FY 2023. ACA granted \$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. ACA reported granting a further \$1.9 million to the Arizona Major Events Host Committee for operating costs, and about \$27,100 to the L. William Seidman Research Institute at Arizona State University for studies of the economic impacts of hosting the Super Bowl and the Final Four.

ACA also plans to award \$3.0 million in grants to the Final Four Host Committee for up to 25% of the operating expenditures required under the event support contract between the host organization and the local organizing committee for the NCAA Men's Final Four. With this planned award, ACA has allocated all \$15.0 million of its Major Events Fund appropriations. (Nate Belcher)

Arizona Community Colleges – Annual Report – Pursuant to A.R.S. § 15-1427, the Arizona Community Colleges are required to report by December 1 of each year on their progress during the previous year. They recently submitted their FY 2023 report, which includes the following summary information on the state system:

- 231,393 students (headcount) were enrolled for credit, resulting in a Full-Time Student Equivalent (FTSE) count of 90,532.
- 87% of enrolled students resided within the district, while 13% did not reside within the district.
- Total number of instructors employed was 8,859, of which 2,348 (26.5%) were full-time and 6,511 (73.5%) were part-time.



- Total operating revenues were \$1.90 billion (this amount excludes bond proceeds and fund balance which total \$65.1 million).
 - Total expenditures were \$1.87 billion.
- (Cameron Mortensen)

Department of Economic Security – Report on the Workforce Investment Act (WIA) Grant – Pursuant to an FY 2024 General Appropriation Act footnote, the Department of Economic Security (DES) reported its plan to expend an additional \$27.5 million of federal WIA Grant monies received by the department in excess of its \$87.1 million appropriation for FY 2024. Of this amount, DES would increase the operating budget by \$5.8 million, increase the spending of the Office of Governor's support by \$3.5 million to support statewide workforce projects by the Governor and ADC second chance centers, and increase Local Workforce Development Area (LWDA) allocations by \$18.2 million.

The department also reports that it will expend an additional \$14.5 million to address program costs incurred by LWDAs in the last weeks of FY 2023. The initially revised appropriation authority for FY 2023 was \$85.6 million. The request increase will bring this total to \$100.1 million. (Mitch Wenzel)

Department of Education – Report on Extraordinary Special Education Needs Fund– Pursuant to A.R.S. § 15-774G, the Department of Education (ADE) reported on the Extraordinary Special Education Needs Fund. ADE may use monies in the fund to reimburse districts and charter schools with students receiving special education services who incur costs of at least three times the statewide per pupil funding average. The fund receives monies from legislative appropriations, and was last funded in FY 2022 at a level of \$5 million. ADE reported the following data for the fund for FY 2023:

- There were 18 districts and charter schools that submitted a total of 126 claims for reimbursement in FY 2023.
- Of the 126 claims submitted, ADE approved funding for 69 claims at a cost of \$983,000.
- The most common expenses covered by the \$983,000 included tuition, staffing, and transportation. The department reports that the \$983,000 represented 55% of the \$1,777,900 in costs incurred by the districts and charters for the students for whom a claim was submitted and covered additional costs beyond what the basic state aid formula generated for the student. (Patrick Moran)

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 total FY 2018 allocation was \$11 million of state funds. In addition, the FY 2024 General Appropriation act included a new \$5 million appropriation for deposit in the Broadband Expansion Fund, raising cumulative state matching funds to \$16 million. 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 2023, the department approved projects that are completed, in process, or awaiting federal approval totaling \$131.7 million, including \$11.2 million in state funds. An additional \$4.8 million remains available for new projects. ADE states that the deadline for applying for funding for FY 2025 is February 28th, 2024. (Patrick Moran)

Department of Education – Report on Empowerment Scholarship Accounts – Pursuant to A.R.S. § 15-2406, the Arizona Department of Education (ADE) reported data for the first quarter of FY 2024 on the Empowerment Scholarship Account (ESA) program:

- There were 66,457 total enrollees in the program, including 50,317 universal ESA enrollees.
- Of the students grades 1-12 newly entering the universal ESA program, 6,421, or 47%, were enrolled in a public school immediately preceding their enrollment in the ESA program. The percentage for FY 2023 was 21%.
- 9% of ESA students were kindergartners or preschoolers with disabilities, 70% were in grades 1-8, and 21% were in grades 9-12.
- There were 188 ESA students who were English Language Learners and 11,029 students with disabilities.
- ESA enrollees incurred \$132.0 million of expenses, including \$68.1 million for private school tuition, \$28.1 million for curricula and supplementary materials, \$12.3 million for tutoring and teaching services, and \$23.5 for all other expenses.

The report also delineates all ESA awards by formula allocation and by zip code. (Patrick Moran)



Department of Health Services – Report on Suicide Prevention Progress – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Health Services (DHS) submitted a report on the department's suicide prevention accomplishments in FY 2023.

Per the goals set forth in the Arizona Health Improvement Plan (the 5-year plan that establishes strategic priorities for the state), DHS and its suicide prevention coordinator achieved the following in FY 2023:

- Facilitated monthly suicide prevention workgroups for high-risk populations.
- Facilitated monthly steering committees and resource development workgroups.
- Attended various meetings, including 4-corners suicide prevention workgroups; 988 (national Suicide and Crisis Lifeline) meetings, quarterly Arizona Health Improvement Plan implementation workgroups, and monthly ADE/AHCCCS collaboration workgroup meetings.
- Gave 18 presentations on a variety of topics, including 988, suicidal presentation in adults and children, suicide data, Arizona resources for suicide prevention, and the state's prevention plan.
- Authored or contributed to 9 documents, including a rough draft for the 2023-2025 Suicide Prevention Action Plan.
(Maggie Rocker)

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 11,844 applications were received for childcare assistance during the reporting period of June 1, 2023, to November 30, 2023. Of those, no applications were denied because of criteria for citizenship or legal residency.

Department of Education – The department reported that 10,314 people applied for instruction in Arizona Adult Education during the reporting period of June to December 2023. Of this amount, 119 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States.
(Mitch Wenzel)

State Mine Inspector – Report on Abandoned Mines Safety Fund Expenditures and Contributions – The State Mine Inspector is required by A.R.S. § 27- 129 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, and required an annual report detailing contributions to the AMSF and fund expenditures.

For FY 2023, the State Mine Inspector reports that the AMSF received no new revenues and had no expenditures in FY 2023, retaining its previous carry-forward balance of \$134,800. In addition to the AMSF, the State Mine Inspector receives a General Fund appropriation (\$825,400 and 6 FTE Positions in FY 2024) for the same purpose.
(Nate Belcher)

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 2023 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 6,025 total cases in FY 2023 including 4,676 involving coaching, 643 needing assistance, and 706 requesting investigations. The Department of Economic Security (DES) accounts for 18% of the caseload, and DCS accounts for 22% of the caseload. Last year, DES was responsible for 28% of the FY 2022 caseload.

Overall, the agency caseload decreased by (11)% from FY 2022 primarily due to declining cases. There was a net decrease of (726) cases in FY 2023. The primary reason for the decline was fewer unemployment insurance cases.
(Micaela Larkin Andrews)

Arizona Department of Transportation – Report on Aviation Grant Awards and Distribution – Pursuant to a footnote in the FY 2024 Capital Outlay Bill, the Arizona Department of Transportation (ADOT) submitted a report on the status of all aviation grant awards and distributions. Since the previous report in late 2023, ADOT had approximately \$166.8 million in aviation grants to local and state entities across Arizona that had not previously been spent. Of that total awarded amount, approximately \$47.1 million has been expended and \$119.7 million are in unspent commitments. The \$166.8 million in total commitments included \$42.2 million of new FY 2024 commitments, of which ADOT expended \$23.8 million.
(Jordan Johnston)



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 2022-2023 academic year include:

- 7,926 community college students transferred to the public university system.
- 49.6% of new transfer students from Arizona community colleges, or 3,931 students, entered the university system with 60 or more credits.
- 1,233 Arizona community college courses have direct equivalencies at all 3 Arizona public universities.
- 116 new university freshmen received an associate degree from an Arizona Community College prior to entry.
- 302 Arizona high schools offer dual enrollment courses.

(Cameron Mortensen)

Water Infrastructure Finance Authority – Report on Small Drinking Water Systems Fund— Pursuant to an FY 2022 General Appropriation Act footnote requiring a report of fund expenditures for FY 2021, FY 2022, and FY 2023, the Water Infrastructure Finance Authority of Arizona (WIFA), submitted its FY 2023 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 December 2023, WIFA reports this \$2,027,300 of total funding (the appropriations plus interest) has been allocated as follows: \$1.6 million was expended for 34 completed projects and \$382,900 has been granted towards 5 pending projects. For the pending projects, WIFA reports expenditures of \$164,200. If the pending projects use their remaining allocated funds of \$218,700, the fund balance will be \$10,400. (Micaela Larkin Andrews)

