

Summary

The state's Fiscal Year 2023 ended on June 30th. This *Monthly Fiscal Highlights* provides an analysis of the state's FY 2023 General Fund revenue performance based on the most current preliminary data. The state will continue its FY 2023 book closing process over the next several months.

June 2023 Revenue Results

- June revenues were \$254 million above forecast. This overage turned a \$(175) million year-to-date shortfall in May into a \$79 million year-to-date surplus in June.
- Almost all the June gain was generated from non-tax sources such as unclaimed property deposits, interest earnings and Medicaid reimbursements. Some of these gains were likely one-time in nature.
- June collections from the state's main tax categories continued prior month trends – high Corporate Income Tax collections were offset by disappointing Sales Tax and Individual Income Tax proceeds.
- June Corporate Income Tax collections grew by 34% compared to last year. In contrast, Individual Income Tax revenues declined by (39.2)% due to a drop off in payments. Sales Tax collections fell by (1.9)% during June, which was the third straight month of very slow or negative growth for the category.
- Across all tax categories, June collections were only \$2 million above the enacted budget forecast.

While the overall June revenue results were encouraging, we will need to continue to closely monitor revenue results in the new fiscal year as the budgeted FY 2024 ending balance is only \$10 million.

For example, the ending balance may not remain positive if Sales Tax and Individual Income Tax collections continue their recent trend of poor performance during FY 2024.

In addition, our office will address FY 2023 spending in next month's *Monthly Fiscal Highlights* to determine whether actual state spending differed significantly from the enacted budget's projection.

Overall FY 2023 Revenue Results

The total level of FY 2023 General Fund collections was \$13.49 billion. Excluding Urban Revenue Sharing, one-time transfers, and the FY 2023 budget's one-time Sales Tax diversions, total FY 2023 General Fund revenues were (3.6)% below the prior year. As noted above, these results were \$79 million above the enacted budget forecast.

Main Tax Categories

During the first half of FY 2023, the state's core tax collections posted robust growth of 10% with gains seen in every major tax category. However, several categories slowed significantly in the second half of the fiscal year.

Due to this recent slowdown, the state's tax revenue categories actually posted an overall forecast loss of \$(184) million during FY 2023, with the major category performance as follows:

- Sales Tax: \$(62) million loss – After seeing strong growth through March, the category began to rapidly decelerate in April/May before posting a year-over-year decline in June.

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- Individual Income Tax (IIT): \$(234) million loss – While IIT was expected to decline due to the phased-in tax reductions, the category performed significantly worse-than-expected during tax filing season due to lower payments and more refunds issued.
- Corporate Income Tax (CIT): \$102 million gain – The CIT category continued to defy expectations and grew by over 30% in each of the final months of FY 2023. Total FY 2023 collections were a phenomenal \$1.8 billion, compared to just \$514 million 4 years ago in FY 2019.
- Insurance Premium Tax (IPT): \$11 million gain – A modest gain above the budget forecast.

- Transfers and Reimbursements: \$158 million gain – This category's gain came mostly from the Medicaid transfers from excess funding in the DES developmentally disabled program and "reconciliation payments" from AHCCCS health plans.
- Interest Earnings: \$67 million gain – Given actions by the Federal Reserve to increase short-term interest rates, State Treasurer interest earnings were higher than expected. FY 2023 Interest earnings totaled \$367 million compared to just \$46 million a year ago.
- Other Miscellaneous: \$22 million gain – This gain was related to state revenue from unclaimed property. Total unclaimed property proceeds were \$159 million, an all-time high.
- All Other: \$16 million gain – Mostly due to collections from hospital "disproportionate share" revenue.

Other State Revenue Categories

While the state's tax categories generated a substantial forecast loss for the whole fiscal year, this was more than offset by significant gains in non-tax revenue categories. These other revenue categories posted an overall forecast gain of \$263 million during FY 2023, with the category performance as follows:

FY 2023 Revenue Results – Detail By Category

Table 1 displays the FY 2023 performance of the state's major revenue categories, along with how their collections compared to the forecast under the enacted budget.

And finally, the contracting category had another year of robust growth of 17.8%. The contracting growth during FY 2023 was driven by strong residential contracting activity, in comparison to FY 2022 where commercial construction was the leading growth component.

	<u>Prelim.</u> <u>Actual</u>	<u>\$ in M</u> <u>+/-</u> <u>Forecast</u>
Sales Tax	6.5%	\$(62)
Individual Income Tax	(30.4)%	\$(234)
Corporate Income Tax	55.3%	\$102
Insurance Premium Tax	7.6%	\$11

<u>Tax Category</u>	<u>Annual</u> <u>Growth Rate</u>
Retail/Remote Seller	4.3%
Contracting	17.8%
Use Tax	6.1%
Restaurant & Bar	11.0%
Utilities	(1.4)%

Sales Tax

During FY 2023, Sales Tax collections grew by 6.5%, which is a moderate growth rate following a surge in collections during FY 2021 and FY 2022 (both years grew at over 15%).

As noted previously, the performance of the Sales Tax category tailed off in the last quarter of FY 2023. This trend may be related to several issues:

As shown in Table 2, the retail/remote seller and use tax categories grew at generally modest rates of 4.3% and 6.1%, respectively, during FY 2023. In contrast, the state continued to see strong growth of 11.0% in the restaurant/bar category, which is consistent with post-pandemic trends of increased travel and services spending.

- National data indicates that taxable goods spending has slowed significantly, while non-taxable services spending has continued to grow at a healthy rate. This trend is the result of: 1) Post-pandemic consumer shifts (preferring items such as travel over durable goods like home appliances); and 2) Inflationary pressure for essential services crowding out goods spending.



- Economic conditions and uncertainty may be putting general downward pressure on Sales Tax collections. According to the Urban Institute, 14 states reported year-over-year declines in Sales Tax during May (the latest available data).

Individual Income Tax

For the entire year, FY 2023 Individual Income Tax (IIT) collections totaled \$5.24 billion. This is \$(2.29) billion less than the FY 2022 total, a decline of (30.4)%. Lower payments and higher refunds were the main contributors to this sharp decrease as well as a decrease in withholding tax revenue. This is the lowest yearly IIT total since FY 2020.

Withholding

Withholding tax collections fell by (4.6)% in FY 2023 compared to FY 2022. The decline is primarily the result of the lower state withholding rates that were implemented in January 2023. At that time, the state lowered the withholding rate selections available to employees due to the implementation of the new 2.5% single tax rate that began in Tax Year 2023. Most notably, the default withholding rate (if an employee takes no action), was reduced from the previous 2.7% rate to a new default rate of 2.0% in Tax Year 2023.

Overall, Arizona wages improved during FY 2023. According to the U.S. Bureau of Economic Analysis (BEA), growth in Arizona wages and salary disbursements never dropped below 7.4% through the 3rd quarter of FY 2023, the most recent available data. More up-to-date national data shows growth above 5% through May. This data suggests that the decrease in withholding collections is not the result of lower wages.

Through December, the halfway point of the fiscal year, withholding had grown 4.8%. From January through June, withholding collections declined by (13.1)%, due to the lower withholding rate.

Payments

Revenue from IIT payments decreased (37.4)% from FY 2022 to FY 2023. Two of the major factors contributing to this drop-off in revenue are: 1) the lower IIT rates, and 2) taxable capital gains declining between TY 2021 and TY 2022.

The top marginal tax rate was reduced from 4.5% in TY 2021/FY 2022 to 2.98% in TY 2022/FY 2023, a decrease of over (33)%. This decreased the overall tax liability of Arizona filers despite the BEA reporting increased personal income during the year.

In TY 2021/FY 2022, the state experienced a record level of capital gains, which were 69% higher than the prior year. Preliminary data from the Arizona Department of Revenue shows that Arizona capital gains fell (32.9)% in TY 2022. Such a decline in TY 2022 capital gains significantly reduced revenue from IIT payments made in the spring 2023 (FY 2023) tax filing season.

Refunds

The state issued \$2.48 billion in IIT refunds in FY 2023, a 46.5% increase from the preceding fiscal year. The high refund total stems from the lower IIT rates in TY 2022 which, combined with the old state withholding rates, led to overpayment in withholding during TY 2022. Taxpayers may have also overestimated their TY 2022 IIT liability after making record high payments for TY 2021.

Corporate Income Tax

In FY 2023, net Corporate Income Tax (CIT) revenue was \$1.81 billion, the highest level ever recorded. FY 2023 collections were 55.3% higher than FY 2022.

Recent analysis done by the Urban Institute shows that nationally, overall state-level CIT revenue declined year-over-year by (3.4)% based on the latest available data (through May 2023). In addition, federal FY 2023 CIT collections through June 2023 have been generally flat compared to the prior year. These data points suggest that the 55.3% growth in Arizona is related to state-specific factors.

Part of this increase is likely due to growth in corporate profits. While specific Arizona Corporate tax filing data is not available to us, according to the Department of Revenue (DOR) the largest 250 companies in the state (out of nearly 48,000) comprise about two-thirds of total CIT collections. The performance of Arizona CIT collections suggests the state's largest companies are concentrated within industries that have seen strong above-average profit growth.

In terms of another potential Arizona-specific CIT issue – Laws 2021, Chapter 425 created an optional income tax for partnerships and S corporations, known as pass-through entities (PTE), beginning in TY 2022. This entity-level taxation allows PTEs to be taxed as a separate entity rather than having the partners or shareholders pay individual income tax on their portion of the PTEs income.

This entity-level taxation has no impact on the overall level of state tax collected, but it does shift IIT revenue to CIT. PTEs that elect to pay taxes at the entity level are required to make corporate estimated payments. Prior to TY 2022, partners and shareholders of PTEs were required to make IIT estimated payments.



We cannot discern from the data the magnitude of the shift from IIT to CIT. However, CIT estimated payments grew 52.7% in FY 2023 while IIT estimated payments declined (28.2)%.

Insurance Premium Tax

For all of FY 2023, Insurance Premium Tax (IPT) collections were \$761.3 million, an increase of 7.6% over the prior fiscal year.

As noted in prior *Monthly Fiscal Highlights*, a significant portion of the increase in IPT collections is likely related to premium taxes levied on the state's Medicaid program. AHCCCS health plans represent approximately 50% of IPT collections. The state has experienced an increase in Medicaid caseloads, as federal legislation prohibited disenrollment of members for financial eligibility reasons starting in March 2020. That disenrollment provision ended on April 1, 2023, however the impact of the disenrollment process will likely begin to appear in IPT collections starting in FY 2024.

The Department of Insurance and Financial Institutions (DIFI) will release detailed data on FY 2023 IPT collections by insurance line later this year.

Tobacco Tax

Tobacco Tax revenues deposited into the General Fund totaled \$18.8 million, which is (10.5)% below FY 2022 collections and \$(1.4) million below forecast.

Liquor Tax

Liquor Tax revenue deposited into the General Fund totaled \$45.5 million, which is 4.1% greater than the previous year's total but \$(1.7) million below forecast.

Lottery Revenue

The Lottery Commission reports that total FY 2023 ticket sales were \$1.52 billion, which was 11.5% greater than FY 2022.

Gaming Revenue

For all of FY 2023, the Department of Gaming transferred \$49.3 million of revenue to the General Fund related to event wagering and fantasy sports. This amount reflects licensing fees and privilege fee (tax) revenue, less any department administrative expenses allowed by statute.

This amount of FY 2023 Gaming collections is more than 4 times the amount of collections in the prior year due to: 1) FY 2023 being the first full year of gaming activities; and 2) The deposit of initial gaming license fees (\$750,000 per operator) was delayed from FY 2022 into FY 2023 for technical reasons.

Highway User Revenue Fund (HURF)

HURF collections reached \$1.75 billion, an increase of 1.2% over the prior year. However, HURF collections were \$(66.9) million below forecast.

Marijuana Excise Tax

Marijuana excise tax collections were \$168.9 million during FY 2023, which is 27.2% above FY 2022 total collections. Monies from this excise tax are deposited into dedicated non-General Fund accounts.

	<u>June</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$14.3	\$168.9
Medical Marijuana TPT*	\$1.5	\$20.2
<u>Distribution:</u>		
General Fund	\$1.1	\$14.9
Counties	\$0.2	\$3.3
Cities	\$0.2	\$2.0
Recreational Marijuana TPT*	\$4.2	\$48.1
<u>Distribution:</u>		
General Fund	\$3.1	\$35.5
Counties	\$0.7	\$7.8
Cities	\$0.4	\$4.8
Total State Marijuana Tax* Collections	\$20.0	\$237.2

* Amounts may not add to total due to rounding



Table 4

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

	Current Month					FY 2023 YTD (Twelve Months)				
	Actual June 2023	Change From June 2022		Enacted Forecast		Actual June 2023	Change from June 2022		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$636,076,403	(\$11,990,933)	(1.9) %	(\$32,572,029)	(4.9) %	\$7,677,573,421	\$468,719,880	6.5 %	(\$61,749,330)	(0.8) %
Income - Individual	460,042,806	(296,373,789)	(39.2)	(47,314,132)	(9.3)	5,239,526,384	(2,290,484,350)	(30.4)	(234,447,629)	(4.3)
- Corporate	262,764,368	66,631,790	34.0	71,123,967	37.1	1,806,337,145	642,868,273	55.3	102,418,291	6.0
Property	(688,887)	2,071,225	--	(1,983,642)	--	22,208,013	(4,579,435)	(17.1)	(1,364,941)	(5.8)
Luxury - Tobacco	1,780,220	(10,185)	(0.6)	(199,562)	(10.1)	18,751,884	(2,189,266)	(10.5)	(1,351,620)	(6.7)
- Liquor	5,255,932	1,573,955	42.7	1,163,041	28.4	45,509,913	1,789,233	4.1	(1,708,421)	(3.6)
Insurance Premium	155,064,778	3,681,797	2.4	11,618,254	8.1	761,341,988	53,687,982	7.6	11,405,655	1.5
Other Taxes	916,938	168,041	22.4	249,844	37.5	18,354,047	2,052,683	12.6	2,344,036	14.6
Sub-Total Taxes	\$1,521,212,559	(\$234,248,099)	(13.3) %	\$2,085,741	0.1 %	\$15,589,602,796	(\$1,128,135,000)	(6.7) %	(\$184,453,960)	(1.2) %
Other Revenue										
Lottery	0	0	--	0	--	175,811,973	(7,868,261)	(4.3)	(127)	(0.0)
Gaming	9,708,954	6,684,567	221.0	7,520,017	343.5	49,377,174	38,940,212	373.1	4,832,570	10.8
License, Fees and Permits	3,167,813	(579,008)	(15.5)	(1,637,273)	(34.1)	42,181,769	1,580,974	3.9	(2,003,821)	(4.5)
Interest	82,960,097	53,522,246	181.8	54,392,408	190.4	366,763,184	320,380,177	690.7	66,763,185	22.3
Sales and Services	1,984,849	(1,975,571)	(49.9)	(1,747,178)	(46.8)	33,156,268	2,804,750	9.2	(731,715)	(2.2)
Other Miscellaneous	164,576,833	30,850,415	23.1	25,522,096	18.4	178,644,523	22,873,859	14.7	22,368,723	14.3
Disproportionate Share	98,138,975	10,305,476	11.7	13,660,975	16.2	98,138,975	10,305,476	11.7	13,660,975	16.2
Transfers and Reimbursements	171,019,093	42,809,360	33.4	153,872,500	897.4	277,234,373	108,878,250	64.7	158,284,729	133.1
Sub-Total Other Revenue	\$531,556,614	\$141,617,483	36.3 %	\$251,583,545	89.9 %	\$1,221,308,239	\$497,895,437	68.8 %	\$263,174,519	27.5 %
TOTAL BASE REVENUE	\$2,052,769,173	(\$92,630,616)	(4.3) %	\$253,669,286	14.1 %	\$16,810,911,035	(\$630,239,564)	(3.6) %	\$78,720,559	0.5 %
Other Adjustments										
Urban Revenue Sharing	(92,246,556)	(29,214,199)	46.3	0	(0.0)	(1,106,958,676)	(350,570,385)	46.3	0	(0.0)
One-Time Transfers	0	0	--	0	--	75,462,096	55,462,096	277.3	0	0.0
TPT Diversions	-	-	--	-	--	(2,287,489,600)	(2,287,489,600)	--	0	0.0
Sub-Total Other Adjustments	(92,246,556)	(29,214,199)	46.3 %	0	(0.0) %	(3,318,986,180)	(2,582,597,889)	350.7 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$1,960,522,617	(\$121,844,815)	(5.9) %	\$253,669,286	14.9 %	\$13,491,924,855	(\$3,212,837,453)	(19.2) %	\$78,720,559	0.6 %
Non-General Funds										
Highway User Revenue Fund	174,783,304	5,693,876	3.4 %	(7,541,264)	(4.1) %	1,749,294,512	20,156,780	1.2 %	(66,913,660)	(3.7) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) third estimate of the U.S. **Real Gross Domestic Product (GDP)** is an annualized growth rate of 2.0% in the 1st quarter of 2023. This estimate was revised upward from their advance estimate of 1.3%.

The Conference Board's **Consumer Confidence Index** increased 7.2 points to 109.7 in June. This is the highest level the index has recorded since January 2022. Consumers' views of both the present situation and the future improved. There was greater optimism in the labor market as respondents noted jobs were more "plentiful" than in prior months. Business conditions were also viewed favorably, both in the short and long-term. Despite the overall increase in confidence, there are still lingering concerns about the banking system. Year-over-year, the index has increased 11.3 points, or 11.5%, since June 2022.

The **U.S. Leading Economic Index (LEI)**, published by the Conference Board, declined (0.6)% in May to 106.7 points. Consumer business expectations, manufacturing orders, and credit conditions all worsened during the month. This is the 14th consecutive month that the LEI decreased, and the index has fallen (4.3)% over the past 6 months. In their June press release, the Conference Board stated that "Rising interest rates paired with persistent inflation will continue to further dampen economic activity ahead... we project that the US economy will contract over the Q3 2023 to Q1 2024 period."

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased at a seasonally adjusted rate of 0.2% month-over-month in June. Rising shelter prices accounted for over 70% of the increase, with food and energy prices also contributing to the rise. The overall CPI has increased 3.0% year-over-year since last June, the smallest such increase since March 2021; food prices increased 5.7%; energy prices fell (16.7)% (including a (26.5)% decrease for gasoline and (36.6)% decline for oil); and shelter costs increased 7.8%. Excluding food and energy, the year-over-year "core" CPI increased by 4.8% in June.

ARIZONA

Housing

In May, Arizona's 12-month total of **single-family building permits** was 28,579. This was a reduction of (2.2)% from last month's total and (38.4)% below May 2022's 12-month total. May was the 24th consecutive month with a decline in the year-over-year growth rate.

In May, Arizona's 12-month total of 25,104 **multi-family building permits** was 25.0% greater than the same 12-month period ending in May 2022. May 2023 is the 21st consecutive month with an annual growth rate greater than 10%, and it is the 16th month during this time span with over 20% annual growth.

The **median home price** in Maricopa County rose to \$475,000 in June, representing a 2.2% increase from last month's median sale price and a (5.0)% decrease compared to the same month in 2022. This was the 7th consecutive month with a year-over-year decline in the median sales price. Previously, the median sales price had not declined on a year-over-year basis since November 2011.

Tourism

In May, **revenue per available room** decreased to \$101.06, representing a (17.1)% reduction from April's average and a 0.1% increase over last May's figure.

Hotel occupancy was 66.9% in May, which is (3.9)% below last month's occupancy rate and (1.4)% lower than that of May 2022.

Phoenix Sky Harbor Airport Ridership was about 4.2 million in May, which represents a (1.4)% decrease from April's figure and a 9.5% increase over May 2022 ridership.

Employment

The Office of Economic Opportunity (OEO) reported that a total of 4,783 **initial claims for unemployment insurance** were filed in Arizona in the week ending on July 8th. This marks a (4.7)% year-over-year decrease in initial claims, as the week ending July 9, 2022, saw 5,017 initial claims filed. This was the first year-over-year decline in initial claims since mid-November last year.



According to OEO, for the week ending on July 1st there were a total of 28,660 **continued claims for unemployment insurance** in Arizona. This is 34.9% greater than last year's total of 21,245 on the comparable date. The number of continued claims continues to rise, a trend that began in November 2022. Prior to start of the pandemic, the average number of weekly continued claims was 22,613.

State Personal Income

The U.S. Bureau of Economic Analysis (BEA) recently released **state personal income** estimates for the 1st quarter of 2023. Personal income in Arizona rose at an annual rate of 7.5% in the 1st quarter of the year, with net earnings, dividends, interest, rental income, and government transfer payments all increasing. The largest increase was in transfer payments, which grew at an annualized rate of 16.7% from the previous quarter. The BEA estimates that the total level of personal income was \$436.5 billion.

State Agency Data

As of July 1, 2023, the total **AHCCCS caseload** was 2.24 million members. Total monthly enrollment decreased (2.3)% from June and decreased (5.1)% 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 (2.3)% 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 (1.6)% in July, or (7.7)% lower than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,026,423 – a decrease of (3.1)% from June, or (2.5)% lower than last year. For July 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.1%. At 68,271, this population is 2.9% higher than a year ago.

There were 10,738 **TANF Cash Assurances** cases in June 2023, representing a (4.3)% decrease from May 2023. The year-over-year number of cash benefit recipients has decreased by (3.8)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In June 2023, 939,412 people received food stamp assistance. This was a 1.8% increase from May 2023 and a 9.2% increase from June 2022.

Based on information the Department of Child Safety provided for May 2023, **reports of child maltreatment** totaled 47,100 over the last 12 months, a decrease of (5.6)% from the prior year.

There were 11,072 **children in out-of-home care** as of May 2023, or (12.5)% less than in May 2022. Compared to the prior month, the number of out-of-home children decreased by (1.2)%.

The Arizona Department of Correction's **inmate population** was 34,377 as of June 30, 2023. This was a 0.7% increase from May 31, 2023 and a 3.0% increase since June 2022. On a year-over-year basis, the ADC inmate population has not grown by more than 3.0% since March 2014.



Table 5				
MONTHLY INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	May	3.4%	0.0%	(0.3)%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2023	6.5%	(0.1)%	(1.6)%
- Initial Unemployment Insurance Claims	Week Ending July 8	4,783	30.5%	(4.7)%
- Continued Unemployment Insurance Claims	Week Ending July 1	28,660	(0.8)%	34.9%
- Non-Farm Employment - Total	May	3,139,100	(0.6)%	1.6%
Manufacturing	May	195,400	0.4%	2.2%
Construction	May	195,800	(0.7)%	1.0%
- Average Hourly Earnings, Private Sector	May	\$31.61	(1.5)%	5.6%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	May	28,579	(2.2)%	(38.4)%
Multi-family	May	25,104	(0.3)%	25.0%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	June	5,943	(8.4)%	(9.9)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	June	\$475,000	2.2%	(5.0)%
- Maricopa Pending Foreclosures	June	1,041	(11.1)%	(1.5)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	May	4,199,133	(1.4)%	9.5%
- State Park Visitors	March	394,996	62.9%	14.7%
- Revenue Per Available Hotel Room	May	\$101.06	(17.1)%	0.1%
- Arizona Hotel Occupancy Rate	May	66.9%	(3.9)%	(1.4)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	1 st Q 2023	\$436.5 billion	7.5%	7.7%
- Arizona Population	July 2022	7,359,197	N/A	1.3%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	May 2015/Nov 2019	Stable/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	July 1st	2,242,000	(2.3)%	(5.1)%
Traditional Acute Care		1,147,300	(1.6)%	(7.7)%
Other Acute Care		1,026,400	(3.1)%	(2.5)%
Long-Term Care – Elderly & DD		68,300	0.1%	2.9%
- Department of Child Safety (DCS) Annual Reports of Child Maltreatment (12-month total)	May	47,100	(6.0)%	(5.6)%
DCS Out-of-Home Children	May	11,072	(1.2)%	(12.5)%
Filled Caseworkers (1406 Budgeted)	May	1,281	(12)	146
- ADC Inmate Growth	June	34,377	0.7%	3.0%
- Department of Economic Security				
- TANF Cash Assistance Recipients	June	10,738	(4.3)%	(3.8)%
- SNAP (Food Stamps) Recipients	June	939,412	1.8%	9.2%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	1 st Q, 2023 (3 rd Estimate)	\$20.3 trillion	2.0%	1.8%
- Consumer Confidence Index (1985 = 100)	June	109.7	7.0%	11.5%
- Leading Economic Index (2016 = 100)	May	106.7	(0.6)%	(9.6)%
- Consumer Price Index, (1982-84 = 100)	June	305.1	0.2%	3.0%



Summary of Recent Agency Reports

Arizona Department of Administration – Report on Employee Benefits Change – Pursuant to A.R.S. § 38-654, the Arizona Department of Administration (ADOA) is required to report to the JLBC any changes to state employee health insurance benefits including associated costs and the reason the change was made before the next plan year. The report is required at least 45 days before making the benefits change. ADOA reported on June 27, 2023, that effective August 11, 2023, gender reassignment surgery will be a covered benefit. ADOA estimates the expected cost of the benefit to the Health Insurance Trust fund (HITF) is \$788,000 annually. (Rebecca Perrera)

Arizona Department of Administration – Report on FY 2024 Rent Exemption – Pursuant to A.R.S. § 41-792.01, the Arizona Department of Administration is required to report to the JLBC Staff each proposed partial or whole Capital Outlay Stabilization Fund (COSF) rental exemption. ADOA is authorizing a full rent exemption for the ADOA-School Facilities Division (SFD) totaling \$62,900 for FY 2024. ADOA-SFD has relocated from office space it occupied during its time as a separate state agency and has moved to space co-located with other ADOA divisions. The 3,519 square feet of space previously occupied by ADOA-SFD in the Executive Tower remains vacant and unallocated to another agency. (Rebecca Perrera)

ADOA - School Facilities Division – Report on Building Renewal Grants Fund– Pursuant to A.R.S. § 41-5731, the School Facilities Division (SFD) within the Arizona Department of Administration is required to submit an annual report on unobligated monies in the Building Renewal Grant fund. ADOA-SFD reported that as of June 8, 2023, the unencumbered balance of the fund is \$11.4 million. In addition, ADOA reports that the division has substantially reviewed 255 project applications totaling \$132 million that are pending funding from the enacted budget's \$200 million FY 2024 appropriation. (Rebecca Perrera)

AHCCCS – Report on Arnold v. Sarn – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) reported on its implementation of the *Arnold v. Sarn* joint agreement. The state had been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population in Maricopa County. In January 2014, a joint agreement was filed with the court to terminate the lawsuit, and in February 2014, the agreement received court approval.

The agreement requires availability of certain behavioral health services for individuals with an SMI designation in Maricopa County ("class members"). These services include assertive community treatment teams (ACT), peer support services, supported employment, supportive housing, and crisis services. AHCCCS continues to comply with these service capacity requirements. AHCCCS estimates that the annual cost of providing *Arnold v. Sarn* services is \$57.3 million, including \$23.2 million from the General Fund. The General Fund amounts consists of:

- \$4.9 million for Assertive Community Treatment teams.
- \$473,200 for Peer Support Services.
- \$427,700 for Supported Employment.
- \$17.4 million for Supported Housing, which consists of \$16.0 million for rental subsidies and \$1.4 million for support services.

As of April 2023, these funds have provided supportive housing services for 4,190 members, peer support for 1,561 members, and supportive employment services for 1,274 members. These are in excess of the agreement criteria by 2,990, 61, and 524 members, respectively. Funds additionally support 9 ACT teams. This is in excess of the agreement criteria by 1 team. (Maggie Rocker)

AHCCCS – Report on Reconciliation Payments – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) submitted its report on Medicaid reconciliation payments and penalties received and deposited during FY 2023. AHCCCS reports that during that 12-month period it received \$210.2 million from reconciliation payments and penalties/sanctions, depositing \$19.7 million into the General Fund, paying \$16.1 million to the Hospital Assessment Fund, and using the remaining \$174.4 million to offset Federal Medicaid Authority expenditures.

The state limits financial risks and profits for health plans and RBHAs for most Medicaid populations (the maximum percentage of loss and profit varies by Medicaid population). Reconciliation payments are made by health plans/RBHAs to the state if profits exceed the set level. A penalty, or sanction, may be assessed against health plans/RBHAs for the failure to demonstrate compliance with their contractual responsibilities. Reconciliation payments received by AHCCCS in FY 2023 totaled \$210.1 million while penalties and sanctions totaled \$148,900. (Maggie Rocker)



AHCCCS – Report on Title XIX Reimbursement Rates to Behavioral Health Providers – Pursuant to A.R.S. § 36-3403, AHCCCS must contract with an independent consulting firm to report on the adequacy of Title XIX reimbursement rates to behavioral health providers on or before October 1 of each year.

The report concludes that behavioral health provider reimbursement rates are "broadly adequate" in the State of Arizona, as the rates are competitive at both a service level and a broader program level when compared to those of neighboring states. The report additionally notes major trends, including an overall utilization increase year over year, as well as a sharp increase in substance use disorder (SUD) services utilization. As a result, the consulting firm recommends AHCCCS continue enhancing access to services for members, specifically targeting the North Geographic Service Area. (Maggie Rocker)

AHCCCS – Report on Graduate Medical Education Residency Positions – Pursuant to A.R.S. § 36-2903.01, the Arizona Health Care Cost Containment System (AHCCCS) submitted its annual report on the number of residency positions funded by local, county, or tribal governments. The agency reported that FY 2022 contributions provided \$381.3 million for partial funding of 2,114 residency positions at 23 hospitals. The largest recipients included Banner University Medical Center - Tucson (\$79.2 million), Valleywise Health Medical Center (\$61.5 million), Banner University Medical Center - Phoenix (\$58.0 million), St. Joseph’s Hospital - Phoenix (\$45.4 million), and Phoenix Children’s Hospital (\$44.2 million).

The \$381.3 million in Total Funds included local contributions of \$90.7 million and a federal match of \$290.6 million. Local government contributors included University of Arizona (\$48.3 million), Valleywise Health (\$21.8 million), Arizona State University (\$17.1 million), the City of Tucson (\$2.6 million) and Mohave County (\$1.0 million). (Maggie Rocker)

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 fourth quarter of FY 2023, the AG received \$1,125,000 for deposit into the ICAC Enforcement Fund. For technical reasons, the amount the AG received in FY 2023 is \$225,000 greater than the annual deposit of \$900,000. A total of \$1.0 million was expended from the fund balance through the fourth quarter of FY 2023 to help pay for the operating costs of the ICAC Task Force. As of June 30, 2023, the ICAC Enforcement Fund had an unencumbered fund balance of \$1.5 million. (Gordon Robertson)

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 fourth quarter of FY 2023, the AG has expended \$600,000 from the CFAF. As of June 30, 2023, the fund had an unencumbered balance of \$100,000. (Gordon Robertson)

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

In the fourth quarter of FY 2023, the AG deposited a total of \$10.3 million into various consumer accounts. Of that amount, \$11,900 was deposited in the CPCF Revolving Fund, \$13,500 was deposited into the Antitrust Enforcement Revolving Fund, \$1.7 million was deposited into the Consumer Restitution Subaccount, and \$8.5 million was deposited into the Consumer Remediation Subaccount. The AG made no deposits into the General Fund.

Deposits to the CPCF Revolving Fund
The AG deposited \$11,900 into the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. This amount resulted from various small legal settlements. As of June 30, 2023, the fund had an unencumbered balance of \$22.6 million.

Deposits to the Antitrust Enforcement Revolving Fund

The AG deposited \$13,500 into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. This amount resulted from various small legal settlements. As of June 30, 2023, the fund had an unencumbered balance of \$1.2 million.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$1.7 million into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from a \$1.3 million deposit from a settlement with Uber Technologies resolving allegations regarding consumer fraud and data breaches related to a 2016 data breach, \$266,100 in small legal settlements, and \$130,400 of interest income. As of June 30, 2023, the fund had an unencumbered balance of \$10.3 million.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$8.5 million into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. This amount resulted from: a deposit of \$571,200 from a settlement with McKinsey & Company, Inc. resolving allegations regarding deceptive acts in connection with the opioid industry; a deposit of \$5.9 million from a settlement with Johnson & Johnson, Janssen Pharmaceuticals, Inc., Ortho-McNeil-Janssen Pharmaceuticals, Inc., and Janssen Pharmaceutica, Inc. resolving allegations regarding misleading statements and deceptive acts in connection with the advertising and sale of opioids; a deposit of \$1.6 million from a settlement with Mallinckrodt plc relating to the company's bankruptcy filing and subsequent settlement of debts via restructuring support agreement; \$25,000 in small legal settlements; and \$493,200 from interest income. As of June 30, 2023, the fund had an unencumbered balance of \$44.8 million.

Deposits to the General Fund

The AG made no deposits into the General Fund.

Opioid Claims-Related Litigation

Laws 2023, Chapter 137, the FY 2024 Criminal Justice Budget Reconciliation Bill, permanently amended the quarterly report components to include a separate report of receipts and disbursements for all opioid claims-related litigation monies (opioid monies). Through the fourth quarter of FY 2023, the AG received \$38.0 million of opioid monies for deposit in the partially-appropriated Consumer Remediation Subaccount. This amount resulted from: \$19.8 million from opioid settlements with Cardinal Health, McKesson, and Amerisource

Bergen; \$15.9 million from opioid settlements with Janssen/Johnson & Johnson; \$1.6 million from opioid settlements with Mallinckrodt; and \$631,200 of interest income. A total of \$5.0 million was expended from the balance of opioid monies through the fourth quarter of FY 2023 to pay operating expenses and aid to others. As of June 30, 2023, the fund had an unencumbered balance of \$33.0 million. (Gordon Robertson)

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 June 30, 2023.

From December 1, 2022 through June 30, 2023, ACA reported spending \$10.0 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 also plans to award \$3.0 million in grants to the Final Four Host Committee for operating costs. In addition, ACA intends to direct \$15,700 to the L. William Seidman Research Institute to conduct a study of the economic impact of hosting the Final Four.

The authority has previously awarded \$2.0 million in Major Events Fund monies to other projects, including a \$1.9 million grant to the Arizona Major Events Host Committee and a \$13,200 grant to the L. William Seidman Research Institute for a study of the economic impact of hosting the Super Bowl. ACA has now allocated all \$15.0 million of its Major Events Fund appropriations. (Nate Belcher)

Department of Corrections – Report on Health Care Credits Taken Against Payments to Health Care Vendor –

The state can seek Medicaid reimbursement for the costs of outside medical care for eligible inmates. To receive reimbursement, the care is paid by the Arizona Health Care Cost Containment System (AHCCCS). The Department of Corrections (ADC) pays the state match portion, and AHCCCS covers the federal portion. Since ADC already pays for all health care of inmates in state facilities in the inmate health care services contract, the total dollar amount of Medicaid expenditures is offset on subsequent invoices by the vendor. The net savings to the department is the federal portion.



A.R.S. § 35-142.01 allows the department in the current fiscal year to take credit against payments for the total expenditures paid for hospitalization and outside medical care from the current fiscal year or previous years. Pursuant to statute, ADC submitted its report on the credits taken for the previous fiscal year.

For FY 2023, the department took \$2.1 million in credits. The department paid \$301,000 for the state match, and received \$1.8 million in net savings. Of the net savings, \$1.2 million was for services rendered in FY 2022, and \$708,400 was for services rendered in FY 2023, with a further \$(35,900) in prior year adjustments. ADC utilizes the net savings to augment funding for the inmate health care contracted services.

Beginning in October 2022 ADC contracted with a new vendor for inmate health care services. The new contract no longer requires the vendor to track Medicaid-eligible services. As a result, ADC does not expect to receive these credits after October 2022. At the June 2023 JLBC meeting, the Committee gave the department a favorable review to utilize vacancy savings for other department shortfalls. As part of that review, the Committee required the department to work with the health care vendor to amend the existing contract to restore federal Medicaid funding for these services. (Geoffrey Paulsen)

Department of Economic Security – Report on Cost Effectiveness Study Rates for Developmental Disabilities Programs – Pursuant to A.R.S. § 36-2960, the Department of Economic Security (DES) provided its annual report of the cost-effectiveness study (CES) rate for persons receiving services from the Division of Developmental Disabilities (DDD). The CES reflects a federal requirement for Arizona’s Medicaid program that the net cost of home and community-based services (HCBS) for a DDD client enrolled in the Arizona Long Term Care System (ALTCS) may not exceed the net cost of institutional services for that client.

Table 6 below displays the CES for each DDD institutional setting. The FY 2024 CES ranges from approximately \$735 per day (\$268,275 in annual costs) for clients that would be placed in an Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/IID) to \$1,597 daily (\$582,905 annually) for individuals that would be placed in a nursing home with the most intensive level of supervision. The FY 2024 budget continues to appropriate \$7.2 million from the General Fund and \$1.2 million from the Special Administration Fund in FY 2024 for ALTCS clients with service costs exceeding the CES rate. (Chandler Coiner)

<u>Institutional Setting</u>	<u>FY 2024 Daily Rate</u>
ICF/IID ^{1/}	\$735
Medical/Nursing Level II	\$810
Medical/Nursing Level III	\$885
Medical/Nursing Level IV	\$1,597
Behavioral Health	\$1,175
<hr/>	
^{1/} Intermediate Care Facility for Individuals with Intellectual Disabilities	

Department of Emergency and Military Affairs – Report on the Status of Yuma County Fairgrounds Relocation Project – Pursuant to an FY 2022 Capital Outlay footnote, the Department of Emergency and Military Affairs (DEMA) submitted a report detailing the current status of the expenditures and the progress in relocating the Yuma County fairgrounds.

DEMA reported that Yuma County completed their plans for the design of the project with a vendor for \$65,700. Yuma County signed a contract with another vendor for \$4.2 million in May 2023 to begin construction of site installations such as site grading, water and sewer, and demolition of existing buildings. The vendor anticipates that construction will start no later than July 6, 2023 and complete the project by March 2024.

For the design and construction of the commercial building in the new midway location, Yuma County Fair Board (YCFB) contracted with a vendor in May 2023 for \$2.9 million. The design phase has already started and construction is anticipated to be completed by March 2024. The final closeout of the project will be in April 2024.

The accumulated contract costs for the project is \$7.1 million and the total funding sources are as follows:

- \$5,000,000 from DEMA
- \$135,400 from YCFB
- \$2,000,000 loan from Yuma County Board of Supervisors to YCFB

(Mitchell Wenzel)

Department of Emergency and Military Affairs – Report on Border Security Fund Expenditures – Pursuant to a footnote in the FY 2023 General Appropriation Act, DEMA, in consultation with the Department of Public Safety (DPS) and the Arizona Department of Homeland Security, is required to submit a quarterly report on the status of



Table 7
Border Security Fund Allocations and Expenditures/Encumbrances

	FY 2023 <u>Allocations</u>	FY 2023 <u>Spending/Encumbrance Through March</u>
Cochise County Jail	\$20,000,000	\$ 0
Local ICE Reimbursement	15,000,000	0
Antihuman Trafficking Grant Fund	10,000,000	8,840,900
Local Prosecution Costs ^{1/}	20,000,000	20,000,000
Arizona National Guard ^{1/}	20,000,000	20,000,000
Emergency Testing and Care	10,000,000	0
Asylum Transportation	15,000,000	6,204,000
Deputy Sheriff Compensation	53,405,000	53,405,000
State Guard – Chain of Command	800,000	0
Emergency Operations Center	30,000,000	0
Coordinated Response Center	15,000,000	15,000,000
Border Fence and Border Security Technologies	<u>335,000,000</u>	<u>194,730,700</u>
Total	\$544,205,000	\$318,180,600

^{1/} At the December 2022 JLBC meeting, the Committee approved a transfer of \$10,000,000 from the local prosecution cost allocation to the Arizona National Guard allocation.

project allocations and monies expended from the Border Security Fund. *Table 7* delineates the various allocations from the \$544.2 million FY 2023 Border Security Fund appropriation as well as the current FY 2023 expenditures and/or encumbrances through March 31, 2023.

Through March 2023, DEMA reports spending or encumbering \$318.2 million from the Border Security Fund, an increase of \$16.0 million since the last report. This increase is primarily due to the encumbrance of \$20.0 million for local prosecution costs and a \$(5.8) million reduction to DEMA's estimated border barrier construction and removal costs.

DEMA is continuing the asylum seeker transportation program. In FY 2023, from January 1, 2023 through March 31, 2023, DEMA has expended \$831,200, bringing their FY 2023 year-to-date total to \$6.2 million. Between January 1, 2023, through March 31, 2023, 11 buses transported 471 migrants." Since the beginning of the mission on May 9, 2022, through March 31, 2023, 100 buses have transported 3,648 migrants

Furthermore, DEMA reports that they've expended funds to both place and remove a physical barrier along the southern border. Through March 2023, the department expended \$100.05 million to erect cargo containers along the border in Yuma and Cochise Counties. The department further expended \$64.2 million to remove the barrier, as was required under federal mandate. The department also expended \$20.5 million to stage shipping containers in Nogales and Sierra Vista and \$9.8 million to move shipping containers to the Arizona State Prison Complex in Tucson.

In addition to the physical barrier expenses, DEMA has opened grant applications for any programs that develop and deploy border security technologies which include cameras, sensors, software, and other types of equipment. As of March 2023, the department has received grant applications totaling \$134.6 million. (Mitchell Wenzel)

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 10,200 applications were received for childcare assistance during the reporting period of December 1, 2022, to May 31, 2023. Of those, one application was denied because criteria for citizenship or legal residency were not met.

Department of Education – The department reported that 7,557 people applied for instruction in Arizona Adult Education during the reporting period of January to June 2023. Of this amount, 117 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. (Mitchell Wenzel)



Department of Revenue – Report on Capital Gains Tax Paid by Nonresidents on Real Estate Transactions -
Pursuant to A.R.S. § 43-312B, the Department of Revenue (DOR) is required to report to the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSP), by June 30, 2023, the amount of capital gains tax paid by nonresidents of this state on real estate transactions in Arizona. Based on the most recent data available, DOR estimates that \$26.1 million was paid by nonresidents in capital gains tax on real estate transactions in Arizona in Tax Year (TY) 2021. (Benjamin Newcomb)

