

Summary

The state's Fiscal Year 2025 ended on June 30th. This *Monthly Fiscal Highlights* provides an analysis of the state's FY 2025 General Fund revenue performance based on current preliminary data.

The total level of FY 2025 General Fund collections was \$16.6 billion. Excluding Urban Revenue Sharing and one-time revenue adjustments, total FY 2025 General Fund revenues were 6.0% above the prior year.

At this collection level, FY 2025 General Fund revenues are \$217 million above the level assumed in the recently enacted budget. We have several comments about this estimate:

- 1) The overall net gain to the FY 2025 budget will also depend on whether actual state spending differed significantly from the enacted budget's projection. The FY 2025 spending levels will not be finalized for at least several months.
- 2) The revenue gain from FY 2025 actually continued a theme seen during FY 2024 – almost the entire revenue overage was related to non-tax revenue categories. For example, Unclaimed Property proceeds unexpectedly grew by \$120 million over last year.
- 3) The enacted budget assumed that Arizona would receive \$187 million of revenue from the federal government to reimburse various Medicaid and health-related costs. As of this writing, those monies have not yet been received, but we anticipate that the state will be paid. As a result, we have not scored the \$187 million as a revenue loss at this time.
- 4) The enacted budget's 3-year plan projected an FY 2028 cash balance of \$55 million. While the state's budget picture is improved due to these forecast gains, there is still considerable uncertainty surrounding the implementation of federal budget, tax and trade policy changes.

- FY 2025 Growth Rates of Key Revenue Categories
- Sales Tax: 2.7% growth – FY 2025 represented the slowest percentage increase since FY 2011. With the exception of remote online sales, growth was weak across all the main Sales Tax components (retail, contracting, restaurant/bar).
- Individual Income Tax (IIT): 13.1% growth – The category experienced a significant gain of 11.4% in tax payments especially during the spring filing season. Withholding increased by a moderate 5.6% rate.
- Corporate Income Tax (CIT): 0.3% growth – Total collections were \$1.75 billion. CIT revenues have plateaued near this level for the last 3 years following rapid growth since FY 2018. At that prior time, CIT revenues were only \$373 million.
- Insurance Premium Tax (IPT): 12.6% growth – This double-digit IPT collection increase is likely explained by the substantial rise in premiums for health, vehicle and homeowner insurance. Compared to IPT collections of \$550 million in FY 2019, the state collected \$924 million in FY 2025.
- Unclaimed Property: 56.9% growth – As part of the Miscellaneous revenue category, unclaimed property proceeds grew from \$211 million in FY 2024 to an all-time high of \$331 million in FY 2025. The proceeds of Unclaimed Property are deposited into the General Fund once each year at the end of June. Unclaimed Property is a financial asset (such as stocks, bonds or checks) that is considered unclaimed when there has been no owner contact for a specified period of time (usually between 1 and 3 years) after which time the property is presumed abandoned and transferred to the state. An individual or entity may claim a refund for the unclaimed property within 35 years of the monies being transmitted to the state.

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FY 2025 Revenue Results – Detail By Category

Table 1 displays the FY 2025 performance of the state's major revenue categories, along with how their collections compared to the January Baseline forecast. The enacted budget forecast had already captured some of the year-to-date gains.

Table 1 FY 2025 Performance By Revenue Category Growth Rates and Collections Compared to Baseline Forecast		
	<u>Prelim.</u> <u>Actual</u>	<u>\$ in M</u> <u>+/-</u> <u>Forecast</u>
Sales Tax	2.7%	\$(30)
Individual Income Tax	13.1%	\$283
Corporate Income Tax	0.3%	\$(114)
Insurance Premium Tax	12.6%	\$42

Sales Tax

During FY 2025, Sales Tax collections grew by 2.7%, which is the smallest percentage increase for this revenue category since FY 2011. Actual collections for FY 2025 ended up \$(30) million below the January Baseline forecast.

Table 2 provides more details on the 5 major sales tax categories. In FY 2025, all the major categories with the exception for the Utilities classification underperformed relative to their long-run average growth rates.

As shown in Table 2, the Retail/Remote Seller, Contracting, and Restaurant & Bar classifications of the Transaction Privilege Tax (TPT) all grew at low single-digit percentage rates in FY 2025. Combined, these 3 TPT categories make up 78% of state sales tax collections deposited into the General Fund.

The performance within the combined Retail/Remote Seller category varied widely. The FY 2025 TPT growth rate for "brick-and-mortar" or standard retail stores was 1.4% compared to 11.2% for Remote Sellers. Sales tax collections from Remote Sellers make up 13% of total retail TPT for the combined Retail/Remote Seller category.

The Department of Revenue (DOR) provides more detailed taxable sales data by retail sector for traditional "brick-and-mortar" stores but not for Remote Sellers. Available

taxable sales data from DOR indicates that the weakness in the standard retail sector was relatively broad-based with many industries experiencing outright year-over-year declines in FY 2025, including the following sectors: automotive parts and accessories (-1.6%), furniture and home furnishings (-8.0%), building material, lawn & garden supplies (-1.2%), and general merchandise (-1.6%).

The slowdown in retail sales tax growth in Arizona, as in many other states, appears to have started when most of the pandemic-induced federal fiscal stimulus ended in 2022 and this trend has largely continued since this time. Contributing factors to this trend of slower growth include slower real (inflation-adjusted) wage growth, higher consumer prices and interest rates, as well increased uncertainty surrounding the economy, tariffs, and trade policy.

After 7 consecutive fiscal years with double-digit growth, the Prime Contracting classification of TPT increased by a modest 1.0% in FY 2025. Detailed taxable sales data from DOR indicates that a significant portion of the double-digit growth over the last few years was attributable to nonresidential (industrial and commercial) construction. However, unlike in prior years, tax collections from Nonresidential Contractors declined by (2.2)% in FY 2025. The only major sector of the construction industry with a worse record in FY 2025 was the Specialty Trade Contracting sector (plumbers, electricians, painters, etc.), which declined by (6.9)%.

Table 2 FY 2025 Sales Tax Growth Rates Compared to Prior Year	
<u>Tax Category</u>	<u>Annual</u> <u>Growth Rate</u>
Retail/Remote Seller ^{1/}	2.5%
Contracting	1.0%
Use Tax ^{2/}	12.2%
Restaurant & Bar	2.0%
Utilities	5.9%

^{1/} If this amount were adjusted for corrections of previously filed tax returns in 2023 and 2024, the FY 2025 Retail/Remote Seller growth would have been 3.5%.
^{2/} If this amount were adjusted for corrections of previously filed tax returns in 2023 and 2024, Use Tax collections would have declined by (1.0)% in FY 2025.



Individual Income Tax (IIT)

Individual Income Tax (IIT) collections in FY 2025 totaled \$5.48 billion, a 13.1% increase from the FY 2024 total. The January Baseline forecast assumed \$5.20 billion in revenue, so IIT ended the year with a total forecast gain of \$282.7 million in FY 2025.

Withholding

Withholding revenue was \$5.60 billion in FY 2025, an increase of 5.6% from the previous year and \$62.2 million higher than the Baseline forecast for the year. This increase was in line with the growth in wages and salaries at both the state and national level. According to the most recent data from the U.S. Bureau of Economic Analysis (BEA), Arizona wages grew an average of 5.8% per quarter in FY 2025.

Payments

Payment revenue (estimated and final) was \$1.72 billion in FY 2025, 11.4% greater than in FY 2024. Estimated and final payments both grew at double-digit rates compared to the prior year. The Baseline forecast assumed payments would be \$1.50 billion, so the total forecast gain was \$211.9 million.

The strong year-over-year growth and forecast gain may be the result of higher-than-expected capital gains payments in Tax Year (TY) 2024. According to preliminary TY 2024 tax return data compiled by DOR, capital gains were more than 63% higher than the prior year.

Refunds

At \$1.84 billion, IIT refunds in FY 2025 were (8.2)% lower than in FY 2024. Since the Baseline forecast assumed refunds would decline by (7.8)%, to a total of \$1.85 billion, the lower-than-anticipated refund level in FY 2025 generated a forecast gain of \$8.6 million.

Corporate Income Tax (CIT)

Corporate Income Tax (CIT) net revenue was \$1.75 billion in FY 2025, a 0.3% increase from the previous year. By way of comparison, the January Baseline forecast assumed that CIT would grow by 6.9%, to a total of \$1.86 billion. For this reason, there was a net CIT forecast loss of \$(114.1) in FY 2025.

Arizona's flat CIT growth was surprising in light of federal data that showed strong U.S. corporate profit growth in 2024. However, we know from past reporting by DOR that most of Arizona CIT revenue is generated from a relatively small number of large corporations. This suggests that the modest CIT increase in FY 2025 could be attributable to a relatively small set of large corporations operating in the state.

**Insurance Premium Tax**

For all of FY 2025, IPT collections were \$923.8 million, an increase of 12.6% over the prior fiscal year and \$41.8 million above the January Baseline forecast.

The state's contracted Medicaid health insurance providers pay approximately 50% of IPT collections. Several significant capitation rate increases may have contributed to the increase in IPT collections. Premium increases across non-AHCCCS insurance types (such as motor vehicle and property insurance) over the last year may have also contributed to the 12.6% growth in FY 2025 IPT collections.

The Department of Insurance and Financial Institutions (DIFI) will release data on FY 2025 IPT collections by insurance line later this year.

Tobacco Tax

Tobacco Tax revenues deposited into the General Fund were \$16.2 million in FY 2025, which is (16.9)% below FY 2024 and \$(1.9) million below the Baseline forecast.

Liquor Tax

Liquor Tax revenues deposited into the General Fund were \$48.6 million in FY 2025, which is 8.2% greater than the prior year and \$2.3 million above the Baseline forecast.

Lottery Revenue

The Lottery Commission reported that the total amount of ticket sales in FY 2024 was \$1.40 billion, which is a decrease of (8.2)% over the prior year. Lottery General Fund profit distributions totaled \$217.3 million, which is (2.2)% less than the prior year.

Gaming Revenue

In FY 2025, the Department of Gaming transferred \$39.7 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 is an 8.9% increase from last year, but a Baseline forecast loss of \$(1.0) million.

Highway User Revenue Fund (HURF)

HURF collections reached \$1.84 billion in FY 2025, an increase of 2.0% over the prior year. HURF collections were \$(4.5) million below the January Baseline forecast.

Marijuana Excise Tax

Recreational marijuana excise tax collections were \$177.8 million during FY 2025, which is 0.7% above FY 2024 total collections. Monies from this excise tax are deposited into dedicated non-General Fund accounts. General Fund TPT collections from marijuana (both medical and recreational) totaled \$47.1 million, which is (6.2)% below FY 2024.

Table 3

General Fund Revenue: Change from Previous Year and Baseline Forecast June 2025

	Current Month					FY 2025 YTD (Twelve Months)				
	Actual June 2025	Change From				Actual June 2025	Change from			
		June 2024		Baseline Forecast			June 2024		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$665,275,280	(\$4,443,195)	(0.7) %	(\$17,136,488)	(2.5) %	\$8,151,850,101	\$217,935,899	2.7 %	(\$29,998,921)	(0.4) %
Income - Individual	550,375,055	95,013,924	20.9	62,674,671	12.9	5,482,950,353	637,184,469	13.1	282,716,695	5.4
- Corporate	221,834,774	(44,822,623)	(16.8)	(55,198,793)	(19.9)	1,750,547,224	5,725,549	0.3	(114,143,700)	(6.1)
Property	2,509,126	2,720,404	--	1,882,744	300.6	35,136,661	9,141,653	35.2	(3,150,359)	(8.2)
Luxury - Tobacco	949,619	(953,886)	(50.1)	(714,615)	(42.9)	16,233,847	(3,307,586)	(16.9)	(1,894,627)	(10.5)
- Liquor	3,919,504	139,293	3.7	(151,962)	(3.7)	48,621,206	3,702,066	8.2	2,288,026	4.9
Insurance Premium	206,156,578	52,928,116	34.5	37,133,483	22.0	923,759,974	103,324,885	12.6	41,792,252	4.7
Other Taxes	1,128,171	211,503	23.1	121,320	12.0	19,006,443	1,809,963	10.5	(714,524)	(3.6)
Sub-Total Taxes	\$1,652,148,109	\$100,793,536	6.5 %	\$28,610,360	1.8 %	\$16,428,105,808	\$975,516,898	6.3 %	\$176,894,843	1.1 %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	217,294,062	(4,991,096)	(2.2)	0	0.0
Gaming	8,541,121	(1,278,284)	(13.0)	(1,671,924)	(16.4)	39,734,448	3,257,138	8.9	(977,025)	(2.4)
License, Fees and Permits	5,028,252	340,580	7.3	134,027	2.7	55,470,496	2,806,002	5.3	3,230,292	6.2
Interest	55,191,674	(8,646,891)	(13.5)	14,243,066	34.8	286,881,201	(84,284,605)	(22.7)	36,881,201	14.8
Sales and Services	3,268,775	864,033	35.9	536,641	19.6	28,469,510	(2,287,504)	(7.4)	(892,310)	(3.0)
Other Miscellaneous	333,902,834	131,496,766	65.0	136,543,714	69.2	363,676,597	136,696,958	60.2	132,122,524	57.1
Medicaid Hospital Revenue	56,193,800	(33,931,195)	(37.6)	3,751,000	7.2	164,942,784	74,817,789	83.0	74,999,984	83.4
Transfers and Reimbursements	169,779,989	(21,651,489)	(11.3)	119,055,889	234.7	242,295,310	(85,722,050)	(26.1)	138,905,473	134.4
Sub-Total Other Revenue	\$631,906,445	\$67,193,521	11.9 %	\$272,592,414	75.9 %	\$1,398,764,408	\$40,292,630	3.0 %	\$384,270,139	37.9 %
TOTAL BASE REVENUE	\$2,284,054,554	\$167,987,057	7.9 %	\$301,202,774	15.2 %	\$17,826,870,216	\$1,015,809,528	6.0 %	\$561,164,982	3.3 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(105,688,149)	24,713,501	(19.0)	(0)	0.0	(1,268,257,785)	296,562,009	(19.0)	(0)	0.0
One-Time Transfers	19,200,000	(822,364,700)	(97.7)	(1,500,000)	(7.2)	32,491,800	(809,072,900)	(96.1)	(1,500,000)	(4.4)
Income Tax Rebate	(1,000)	10,900	(91.6)	(1,000)	--	(16,100)	273,534,000	(100.0)	(6,350)	65.1
Sub-Total Other Adjustments	(86,489,149)	(797,640,299)	(112.2) %	(1,501,000)	1.8 %	(1,235,782,085)	(238,976,891)	24.0 %	(1,506,350)	0.1 %
TOTAL GENERAL FUND REVENUE	\$2,197,565,405	(\$629,653,242)	(22.3) %	\$299,701,774	15.8 %	\$16,591,088,130	\$776,832,637	4.9 %	\$559,658,632	3.5 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	180,208,977	(2,911,959)	(1.6) %	(8,164,331)	(4.3) %	1,837,439,457	36,307,910	2.0 %	(4,540,046)	(0.2) %

Monthly Indicators

NATIONAL

According to the Bureau of Economic Analysis' (BEA) 3rd estimate of U.S. real **Gross Domestic Product (GDP)**, economic output declined at a seasonally adjusted annual rate of (0.5)% in the 1st quarter of 2025. This estimate was revised downward from the 2nd estimate of (0.2)% released in the prior month.

The Conference Board's **Consumer Confidence Index** fell (5.4) points to 93.0 in June. While worries about inflation has lessened, concerns about the job market and business conditions persist. Over the last 12 months, the index has decreased by (4.9)%.

The **U.S. Leading Economic Index (LEI)**, published by the Conference Board, declined to 99.0 in May, a (0.1)% decrease from the revised April level. Lower consumer confidence and fewer manufacturing new orders offset recovering stock prices for an overall decline in the index. In the 6 months from November to May, the LEI declined (2.7)%, compared to the (1.4)% decrease in previous 6-month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** in June increased at a seasonally adjusted rate of 0.3% from the previous month. Compared to the same month last year, consumer prices are up by 2.7% before seasonal adjustment. The largest contributor to the increase was shelter prices, while energy and food prices also rose during the month. The Core CPI, which excludes food and energy, is up by 2.9% from a year ago.

ARIZONA

Housing

In May, Arizona had a 12-month total of 39,020 **single-family building permits** issued. This represents a decrease of (1.6)% from the prior month's rolling total and a decrease of (4.5)% from the previous May's 12-month total.

Arizona's 12-month total of 15,694 **multi-family building permits** in May is 4.3% higher than the prior month's rolling total and (22.8)% below the 12-month period ending in May 2024.

The **median home price** in Maricopa County was \$475,000 in June, (1.3)% below the level in May and (1.5)% less than in June 2024's median sale price.

Tourism

Phoenix Sky Harbor Airport Ridership held steady at 4.6 million passengers in May with a roughly 2,000 passenger increase over April's ridership, or (3.1)% below May 2024's figure.

May 2025 **state park visitation** fell (12.7)% from April's level, reaching a total of 258,367 for the month. Visitation is also down (11.6)% from May 2024 levels.

Hotel occupancy was 64.6% in May, which is (5.1)% lower than April's occupancy rate and (2.6)% below that of May 2024.

Revenue per available room was \$98.79 in May, a figure (21.0)% below the prior month's average and (3.7)% below the May 2024 mean.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state lost (59,100) **nonfarm jobs** in June compared to May. In the 10-year period prior to the pandemic (2010-2019), Arizona experienced an average net loss of (51,600) jobs in June. Compared to the same month in 2024, the state gained 14,400 jobs in June 2025, an increase of 0.5%.

The state's seasonally adjusted **unemployment rate** remained at 4.1% for the fourth consecutive month in June. The U.S. seasonally adjusted unemployment rate fell from 4.2% in May to 4.1% in June, ending a 14-month stretch in which Arizona's unemployment rate was below the national rate.

OEO reported that a total of 3,310 **initial claims for unemployment insurance** were filed in Arizona in the week ending on June 28th. This represents a (23.8)% year-over-year decrease in initial claims compared to a year ago.

According to OEO, there were a total of 32,802 **continued claims for unemployment insurance** in Arizona for the week ending June 21st, which is 5.3% higher than last year. Prior to the start of the pandemic, the average number of weekly continued claims was 22,613.



State Agency Data

As of July 1, 2025, the total **AHCCCS caseload** was 1.9 million members. Total monthly enrollment remained steady from June to July and decreased (10.2)% compared to a year ago.

Parent and child enrollment in the Traditional population saw no change in July compared to June and decreased (6.0)% compared to a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 808,987 – a decrease of (0.1)% from June and (16.1)% lower than last year.

For July 2025, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.5% over the prior month. At 73,747, this population is 4.4% higher than a year ago.

Based on information the **Department of Child Safety** provided for May 2025, reports of child maltreatment totaled 43,461 over the last 12 months, an increase of 1.4% from the comparable period in the prior year.

There were 8,516 children in out-of-home care as of May 2025, or (9.0)% less than in May 2024. Compared to the prior month, the out-of-home children population decreased by (0.2)%.

There were 7,466 individuals receiving **TANF Cash Assistance** in June 2025, representing a (5.7)% decline from May 2025. Year over year, the number of cash benefit recipients has decreased by (29.6)%.

The **Supplemental Nutrition Assistance Program (SNAP)** provides assistance to low-income households to purchase food. There were 909,869 individuals receiving SNAP benefits in June 2025, representing less than a (0.1)% decline from May 2025. Year over year, the number of SNAP recipients has decreased by (4.5)%.

The Arizona Department of Correction's **Inmate Population** was 35,513 as of May 31, 2025. This was a (0.1)% decrease since April 30, 2025 and a 1.0% increase since May 2024.



Table 4

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	June	4.1%	0.0%	0.6%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2025	7.7%	0.7%	0.5%
- Initial Unemployment Insurance Claims	Week Ending June 28	3,310	(4.7)%	(23.8)%
- Continued Unemployment Insurance Claims	Week Ending June 21	32,802	3.5%	5.3%
- Non-Farm Employment - Total	June	3,202,600	(1.8)%	0.5%
Manufacturing	June	192,400	0.6%	(2.2)%
Construction	June	225,000	0.3%	(0.6)%
- Average Hourly Earnings, Private Sector	June	\$34.63	(0.1)%	4.3%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	May	39,020	(1.6)%	(4.5)%
Multi-family		15,694	4.3%	(22.8)%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	June	5,486	(6.7)%	6.9%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	June	\$475,000	(1.3)%	(1.5)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	May	4,583,254	0.0%	(3.1)%
- State Park Visitors	May	258,367	(12.7)%	(11.6)%
- Revenue Per Available Hotel Room	May	\$98.79	(21.0)%	(3.7)%
- Arizona Hotel Occupancy Rate	May	64.6%	(5.1)%	(2.6)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	1 st Q 2025	\$506.6 billion	5.4%	4.5%
- Arizona Population (U.S. Census)	July 2024	7,582,384	N/A	1.5%
- 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	July 2024/Nov 2019	Positive/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	July 1st	1,905,220	0.0%	(10.2)%
Traditional Acute Care		1,022,486	0.0%	(6.0)%
Other Acute Care		808,987	(0.1)%	(16.1)%
Long-Term Care – Elderly & DD		73,747	0.5%	4.4%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	May	43,461	0.4%	1.4%
DCS Out-of-Home Children	May	8,516	(0.2)%	(9.0)%
Filled Caseworkers (1406 Budgeted)	May	1,257	4	(16)
- ADC Inmate Growth	May	35,513	(0.1)%	1.0%
- Department of Economic Security				
- TANF Cash Assistance Recipients	June	7,466	(5.7)%	(29.6)%
- SNAP Recipients	June	909,869	(0.1)%	(4.5)%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	1 st Q, 2025 3 rd Estimate)	\$23.5 trillion	(0.5)%	2.0%
- Consumer Confidence Index (1985 = 100)	June	93.0	(5.5)%	(4.9)%
- Leading Economic Index (2016 = 100)	May	99.0	(0.1)%	(4.1)%
- Consumer Price Index, (1982-84 = 100)	June	322.6	0.3%	2.7%

JCCR Meeting Follow-Up

Arizona Department of Agriculture – Second Quarterly Report on Nogales Building Sale - Pursuant to a provision from the December 2024 JCCR meeting, AZDA submitted a 2nd quarterly status report on the status of selling the old inspection building in Nogales. The Committee favorably reviewed the purchase of a new inspection building in Rio Rico with the provision that AZDA provide quarterly reports until final sale of the Nogales building. AZDA reports that the Nogales building has not been listed for sale as of June 25, 2025. If updates to the new building can be finished by August 2025, AZDA plans to list the Nogales building in July 2025. The first quarterly report projected the building finishing in July 2025 and listing in June 2025. (Nate Belcher)

Department of Emergency and Military Affairs – Annual Expenditure and Progress Report on West Valley Readiness Center – Pursuant to a provision from the September 2019 JCCR meeting, the Department of

Emergency and Military Affairs (DEMA) is required to annually report on the status of the West Valley Readiness Center construction project. The FY 2020 budget appropriated \$3.9 million for the state's portion of the project. The Committee favorably reviewed this amount for the construction of a new readiness center in Surprise with the provision that DEMA provide annual reports on the project status and expenditures until construction is completed. The FY 2024 budget included an additional \$1.1 million in funding, bringing the state total to \$5.0 million. According to DEMA, \$19.8 million in federal funding was awarded. As part of its quarterly capital reports, DEMA states that the project is still in the design phase and construction is expected to begin in September 2025, with the goal of completion by August 2026. DEMA has expended \$42,700 as of March 31, 2025. (Destin Moss)

Summary of Recent Agency Reports

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 2025 contributions provided \$459.7 million for partial funding of 2,371 residency positions at 34 hospitals. The largest recipients included Banner University Medical Center - Tucson (\$89.4 million), Valleywise Health Medical Center (\$78.1 million), Phoenix Children's Hospital (\$62.5 million), Banner University Medical Center - Phoenix (\$60.9 million), and St. Joseph's Hospital - Phoenix (\$47.4 million).

The \$459.7 million in Total Funds included local contributions of \$146.6 million and a federal match of \$313.1 million. Local government contributors included University of Arizona (\$75.6 million), Valleywise Health (\$36.8 million), Arizona State University (\$28.5 million), the City of Tucson (\$4.4 million) and Mohave County (\$1.4 million). (Chandler Coiner)

AHCCCS – Report on Reconciliation Payments – Pursuant to an FY 2025 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 2025. AHCCCS reports that during that 12-month period it received \$302.2 million from reconciliation payments and penalties/sanctions, depositing \$17.3 million into the General Fund, paying \$24.6 million to the Hospital Assessment Fund, and using the remaining \$260.3 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 2025 totaled \$301.9 million while penalties and sanctions totaled \$329,400. (Maggie Rocker)



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 2025, the department took \$12.4 million in credits. The department paid \$2.0 million for the state match and received \$10.4 million in net savings. Of the net savings, \$10.2 million was taken against the inmate health care contract for state-operated prisons, and \$220,500 was taken against private prison vendor contracts. (Geoffrey Paulsen)

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

In the third quarter of FY 2025, the ARRF received revenues totaling \$5.1 million, and had expenditures totaling \$6.0 million. Of these revenues and expenditures, revenues reported to ACJC by county attorneys totaled \$3.6 million and expenditures totaled \$2.8 million.

In the third quarter of FY 2025, participating agencies received \$1.9 million in net collections from seized assets originally valued \$7.4 million.

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

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 5 below displays the CES for each DDD institutional setting. The FY 2026 CES ranges from approximately \$838 per day (\$305,870 in annual costs) for clients that would be placed in an Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/IID) to \$1,693 daily (\$617,945 annually) for individuals that would be placed in a nursing home with the most intensive level of supervision. The FY 2026 budget appropriates \$22.0 million from the General Fund and \$1.2 million from the Special Administration Fund in FY 2026 for ALTCs clients with service costs exceeding the CES rate.

Table 5

FY 2026 Cost-Effective Study Rates by Placement Setting

<u>Institutional Setting</u>	<u>FY 2026 Daily Rate</u>
ICF/IID ^{1/}	\$838
Medical/Nursing Level II	\$892
Medical/Nursing Level III	\$1,004
Medical/Nursing Level IV	\$1,693
Behavioral Health	\$1,175

^{1/} Intermediate Care Facility for Individuals with Intellectual Disabilities



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 third quarter of FY 2025 on the Empowerment Scholarship Account (ESA) program:

- There were 87,602 total enrollees in the program, including 64,133 universal ESA enrollees.
- Of the students grades 1-12 newly entering into the universal ESA program, 7,275, or 57.2%, were enrolled in a public school immediately preceding their enrollment in the ESA program. The percentage for FY 2024 was 47.6%.
- 9.6% of ESA students were kindergarteners or preschoolers with disabilities, 68.6% were in grades 1-8, and 21.8% were in grades 9-12.
- There were 242 ESA students who were English Language Learners and 16,553 students with disabilities.
- ESA enrollees incurred \$198.1 million of expenses in Quarter 3 of FY 2025, including \$101.9 million for private school tuition, \$26.9 million for tutoring and teaching services, \$11.5 million for online school tuition, \$10.4 million for supplemental materials, and \$47.4 million for all other expenses.

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

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 7,229 applications were received for childcare assistance during the reporting period of December 1, 2024, to May 31, 2025. Of those, 8 applications were denied because of failure to provide evidence of citizenship or legal residence in the United States.

Department of Education – The department reported that 11,175 people applied for instruction in Arizona Adult Education during the reporting period of December 2024 to May 2025. Of this amount, 123 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. (Grace Timpany)

Department of Public Safety (DPS) – Report on Microwave Backbone Communication System – Pursuant to a footnote in the FY 2022 General Appropriation Act, DPS is required to submit an annual report on the status of and expenditures on the update to the microwave backbone communication system, which will focus on the North Loop. DPS submitted its fourth report covering the period from May 1, 2024 to April 30, 2025. The department reports it has completed 8 site builds and broke ground on 11 new sites this year. The department reports that they've obtained 31 of 36 total land use permits, started construction on 25 of 36 total sites, and installed 13 of 47 total radio towers. DPS further reports the main risks for the project are currently 5 delayed land use permit approvals, unexpected cost increase from tariffs, environmental restrictions on at least 4 construction sites, and finalizing Federal Communications Commission (FCC) licensing on the microwave network.

The FY 2022 budget appropriated \$48.2 million from the General Fund for the Microwave Backbone Statewide Communication System line item. Through the end of April 2025, the department has expended \$27.0 million and has \$13.1 million in outstanding encumbrances. The department anticipates expending the \$13.1 million in encumbrances in the next reporting period and an additional \$9.6 million to complete the project in FY 2026. The estimated expenditures assume a \$1.5 million funding increase in the FY 2026 budget, for a total budget of \$49.7 million. The FY 2026 budget appropriated \$1.5 million from the Highway Patrol Fund for this project. The department anticipates that the project will be complete and operational by the end of FY 2026, with an expected close out date of January 1, 2027. (Jordan Johnston)

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 estimate and report to the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSP), by June 30 of each year, 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 \$5.3 million was paid by nonresidents in capital gains tax on real estate transactions in Arizona in Tax Year (TY) 2023. This is a (63.9)% decline from the estimated TY 2022 level of \$14.7 million. (Benjamin Newcomb)

