Joint Legislative Budget Committee

Monthly Fiscal Highlights

July 2026

Summary

The state's Fiscal Year 2026 ended on June 30th. This *Monthly Fiscal Highlights* provides an analysis of the state's FY 2026 General Fund revenue performance based on current preliminary data.

The total level of FY 2026 General Fund collections was $17.2 billion. Excluding Urban Revenue Sharing and one-time revenue adjustments, overall FY 2026 General Fund revenues were 2.8% above the prior year.

At this collection level, FY 2026 General Fund revenues were $376 million above the Baseline revenue forecast as adjusted for conformity. The recently enacted budget, however, had already incorporated an FY 2026 gain of $354 million. As a result, the state only gained $22 million above the revenue level assumed in the enacted June 2026 budget.

In terms of the impact of these results on the state's bottom line cash balance, we have several comments:

1) While the state generated a modest revenue forecast gain, the final net impact will also depend on whether actual state spending differed significantly from the enacted budget's projection. The FY 2026 spending levels will not be finalized for at least several months.
2) While the state conformed to the H.R. 1 federal tax changes in the spring 2026 tax filing season, those impacts may continue through the tax extension filing deadline in October.
3) The above issues would impact the state's current available resources – under the June 2026 enacted budget, the state's projected ending FY 2027 cash balance is $42 million.

<u>FY 2026 Growth Rates of Key Revenue Categories</u>

- Sales Tax: 3.8% growth – This overall FY 2026 growth rate was an improvement from the tax category's total FY 2025 increase of 2.7%. There was mixed performance throughout Sales Tax – the state saw growth in certain areas such as retail sales of clothing and electronics, along with gains in nonresidential contracting tax collections. In contrast, motor vehicle sales were flat and residential contracting tax declined significantly.

- Individual Income Tax (IIT): 4.6% growth – While the FY 2026 IIT growth rate of 4.6% was consistent with current economic data (such as wage growth), it was surprising given the growth rate occurred as the state realized the impact of the H.R. 1 federal tax changes. Tax payments grew by 8.2% during FY 2026, potentially due to increases in capital gains reported by taxpayers. The amount of refunds paid increased by 6.0% during the year, as taxpayers claimed various H.R. 1 deductions that were made retroactive to Tax Year 2025.

- Corporate Income Tax (CIT): 7.6% growth – Similar to IIT, the growth in Corporate Income Tax collections was consistent with recent patterns (for example, data on overall U.S. corporate profits). However, the FY 2026 growth was surprising given the implementation of H.R. 1 business tax changes.

- Insurance Premium Tax (IPT): 2.3% growth – This modest overall FY 2026 growth was in contrast to several recent years of substantial IPT collection gains. Initial data suggests the IPT slowdown is occurring across a broad segment of insurance categories.

- Overall Non-Tax Revenues: (19.6)% decline – In the last several years, the state has seen a significant surge in non-tax revenues such as certain Medicaid Refunds and Unclaimed Property proceeds that are transferred to the state. The decline in non-tax revenues during FY 2026 represents these other revenue items potentially returning to a more normal collection pattern.

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FY 2026 Revenue Results – Detail By Category

Table 1

General Fund Revenues ($ in Millions)

	FY 2026 Collections	Difference From Forecast	Difference From FY 2025
June	$ 2,241.5	$ 26.0	$ 177.2
Year-to-Date	$ 17,173.5	$ 376.1	$ 715.8

Sales Tax

During FY 2026, Sales Tax collections grew by 3.8%, which was an improvement over last year's increase of 2.7%. The actual level of collections in FY 2026 was $8.47 billion, which resulted in a forecast gain of $70.3 million relative to the Baseline forecast.

Table 2 provides more details on the 5 major sales tax categories, which combined make up 90% of total sales tax revenue deposited into the General Fund. The performance among these sales tax classifications was mixed in FY 2026. While the both the Retail/Remote Seller and Restaurant/Bar classifications of the Transaction Privilege Tax (TPT) grew at faster rates in FY 2026 than in FY 2025, Use Tax and the Utilities classification experienced slower growth. The Contracting classification was the only major sales tax category that experienced an outright decline in collections in FY 2026.

The performance within the combined Retail/Remote Seller category varied widely. The FY 2026 TPT growth rate for "brick-and-mortar" or standard retail stores was 2.0% compared to 16.5% for Remote Sellers. Sales tax collections from Remote Sellers made up 14.3% of total retail TPT for the combined Retail/Remote Seller category in FY 2026.

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 through the first 11 months of FY 2026 suggests that the weakness in the standard retail sector was relatively broad-based.

Retail sales of motor vehicles and parts were up by only 0.3% through May 2026. The sales of building materials and garden supplies increased year-over-year by 0.8% whereas collections from the sale of general merchandise declined by (1.7)%. Tax revenue from retail stores selling furniture, electronics, and appliances increased by 2.8%. The retail sector that includes clothing, accessories, and jewelry was one of the few bright spots in FY 2026 with a year-over-year growth rate of 6.4%.

The Prime Contracting classification of TPT declined by (1.7)% in FY 2026. This was the first such decline in construction related sales tax collections since FY 2016. Detailed taxable sales data from DOR through the month of May indicates that the net reduction in contracting sales tax was almost entirely attributable to residential construction. Taxable sales from this industry were down by (16.1)%, the largest percentage decline since the collapse of the housing market during the Great Recession more than 15 years ago.

Contracting tax from the nonresidential (industrial and commercial) construction sector grew by 11.5% through the first 11 months of FY 2026. A significant portion of this increase was likely related to the building and expansion of manufacturing facilities in the state.

Table 2

FY 2026 Sales Tax Growth Rates Compared to Prior Year

Tax Category	Annual Growth Rate
Retail/Remote Seller	3.8%
Contracting	(1.7)%
Use Tax	4.7%
Restaurant & Bar	4.7%
Utilities	3.0%

Individual Income Tax (IIT)

Individual Income Tax (IIT) collections in FY 2026 totaled $5.73 billion, a 4.6% increase from the FY 2025 total. After adjusting for the impact of conforming to the federal tax changes in H.R. 1, the January Baseline forecast assumed $5.40 billion in revenue. For this reason, IIT ended the year with a total forecast gain of $331.9 million in FY 2026.

Withholding

Withholding revenue was $5.82 billion in FY 2026, an increase of 3.9% from the previous year and $28.6 million greater than the Baseline forecast for the year. This increase was commensurate 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 3.0% per quarter in FY 2026, while national wages grew at an average monthly rate of 4.0%

Payments
Payment revenue (estimated and final) was $1.86 billion in FY 2026, 8.2% more than in FY 2025. Estimated payments grew at a 13.8% rate while final payments increased at a rate of 5.7%. The Baseline forecast assumed payments would be $1.80 billion, so the total forecast gain was $60.6 million after adjusting for the impact of conformity.

The strong year-over-year growth and forecast gain may be the result of higher-than-expected capital gains payments in Tax Year (TY) 2025. According to preliminary TY 2025 tax return data compiled by DOR, capital gains were more than 23% higher than the previous year.

Refunds
At $1.95 billion, IIT refunds in FY 2026 increased 6.0% from FY 2025. Since the Baseline forecast assumed refunds would rise by 19.2% after conformity, to a total of $2.19 billion, the lower-than-anticipated refund level in FY 2026 generated a forecast gain of $242.7 million.

Corporate Income Tax (CIT)
Corporate Income Tax (CIT) net revenue was $1.88 billion in FY 2026, a 7.6% improvement from the previous year. By way of comparison, the January Baseline forecast assumed that CIT would grow by 1.3% after adjusting for conformity, to a total of $1.77 billion. For this reason, there was a net CIT forecast gain of $111.8 million in FY 2026.

Arizona's CIT growth was in line with the increase in pre-tax corporate profits for the same period. According to the U.S. BEA, corporate profits in the U.S. grew by an average of 8.7% per quarter during FY 2026.

Insurance Premium Tax (IPT)
For all of FY 2026, Insurance Premium Tax (IPT) collections were $944.7 million, an increase of 2.3% over the prior fiscal year and $(93.6) million below the January Baseline forecast.

The state's contracted Medicaid health insurance providers pay approximately 50% of annual IPT collections. Although average Medicaid enrollment declined by (10.2)% in FY 2026, projected IPT collections from health insurers have increased. This is largely attributable to substantial adjustments to Contract Year Ending (CYE) 2026 capitation rates that outpaced enrollment declines.

The Department of Insurance and Financial Institutions (DIFI) will release data on FY 2026 IPT collections by insurance line later this year. Once this information becomes available to us, we will be able to make a more detailed assessment of the FY 2026 IPT changes by category.

Tobacco Tax
Tobacco Tax revenues deposited into the General Fund were $16.2 million in FY 2026, which is 0.1% above FY 2025 and $(0.2) million below the Baseline forecast.

Liquor Tax
Liquor Tax revenues deposited into the General Fund were $47.5 million in FY 2026, which is (2.3)% less than in the prior year and $(2.8) million below the Baseline forecast.

Lottery Revenue
The Lottery Commission reported that the total amount of ticket sales in FY 2026 was $1.53 billion, which is an increase of 8.9% over the prior year. Lottery General Fund profit distributions totaled $171.3 million, which is (21.1)% less than the prior year.

Each fiscal year, a delayed profit transfer from the previous year is deposited into the General Fund. Since FY 2025 had a decrease in sales compared to the prior year, the delayed deposit in FY 2026 was reduced. This is the reason that FY 2026 lottery revenue distributed to the General Fund declined despite strong growth in sales.

Gaming Revenue
In FY 2026, the Department of Gaming transferred $53.4 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 a 34.4% increase from last year and a Baseline forecast gain of $5.4 million.

Highway User Revenue Fund (HURF)
HURF collections reached $1.85 billion in FY 2026, an increase of 0.8% over the prior year. HURF collections were $(48.7) million below the January Baseline forecast.

Marijuana Excise Tax
Recreational marijuana excise tax collections were $175.1 million during FY 2026, which is (1.5)% below FY 2025 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 $46.8 million, which is (0.6)% below FY 2025.

Table 3

General Fund Revenue:
Change from Previous Year and Baseline with Conformity
June 2026

	Current Month					FY 2026 YTD (Twelve Months)				
		Change From					Change from			
	Actual	June 2025		Baseline with Conformity		Actual	June 2025		Baseline with Conformity	
	June 2026	Amount	Percent	Amount	Percent	June 2026	Amount	Percent	Amount	Percent
Taxes										
Sales and Use	$715,994,677	$50,719,396	7.6 %	$31,317,541	4.6 %	$8,465,348,419	$313,498,319	3.8 %	$70,301,457	0.8 %
Income - Individual	576,269,375	25,894,320	4.7	28,185,420	5.1	5,734,747,312	251,796,958	4.6	331,946,096	6.1
- Corporate	250,655,247	28,820,472	13.0	41,862,110	20.0	1,884,339,679	133,792,454	7.6	111,794,488	6.3
Property	3,504,009	994,883	39.7	4,115,649	--	40,925,043	5,788,382	16.5	4,353,625	11.9
Luxury - Tobacco	1,560,331	610,712	64.3	580,328	59.2	16,255,473	21,627	0.1	(180,700)	(1.1)
- Liquor	3,933,467	25,198	0.6	(45,630)	(1.1)	47,512,157	(1,097,814)	(2.3)	(2,795,395)	(5.6)
Insurance Premium	193,755,008	(12,401,570)	(6.0)	(24,979,094)	(11.4)	944,690,810	20,930,836	2.3	(93,615,401)	(9.0)
Other Taxes	1,184,473	56,302	5.0	27,861	2.4	36,884,132	17,877,689	94.1	16,947,230	85.0
Sub-Total Taxes	$1,746,856,586	$94,719,713	5.7 %	$81,064,185	4.9 %	$17,170,703,025	$742,608,452	4.5 %	$438,751,399	2.6 %
Other Revenue										
Lottery	0	0	--	0	--	171,343,255	(45,950,807)	(21.1)	0	0.0
Gaming	11,161,945	2,620,824	30.7	1,336,383	13.6	53,389,203	13,654,754	34.4	5,446,871	11.4
License, Fees and Permits	5,242,266	214,013	4.3	3,195	0.1	54,551,631	(918,865)	(1.7)	(525,008)	(1.0)
Interest	41,191,849	(13,999,826)	(25.4)	(5,153,809)	(11.1)	220,450,857	(66,430,345)	(23.2)	(7,549,143)	(3.3)
Sales and Services	3,494,014	225,239	6.9	(89,694)	(2.5)	29,682,700	1,213,190	4.3	(1,733,733)	(5.5)
Other Miscellaneous	307,562,140	(26,340,693)	(7.9)	(37,555,376)	(10.9)	329,811,397	(33,865,200)	(9.3)	(33,865,200)	(9.3)
Medicaid Hospital Revenue	55,820,751	(156,612)	(0.3)	(49)	(0.0)	93,320,751	(71,405,596)	(43.3)	(49)	(0.0)
Transfers and Reimbursements	13,123,454	(25,580,491)	(66.1)	(11,929,635)	(47.6)	66,127,619	(45,091,647)	(40.5)	(22,718,559)	(25.6)
Sub-Total Other Revenue	$437,596,418	($63,017,546)	(12.6) %	($53,388,984)	(10.9) %	$1,018,677,411	($248,794,515)	(19.6) %	($60,944,821)	(5.6) %
TOTAL BASE REVENUE	**$2,184,453,004**	**$31,702,167**	**1.5 %**	**$27,675,201**	**1.3 %**	**$18,189,380,437**	**$493,813,937**	**2.8 %**	**$377,806,578**	**2.1 %**
Other Adjustments										
Urban Revenue Sharing	(98,858,713)	6,829,435	(6.5)	(0)	0.0	(1,186,305,761)	81,952,025	(6.5)	(0)	0.0
One-Time Transfers	155,900,000	138,700,000	806.4	(1,700,000)	(1.1)	155,900,000	125,408,200	411.3	(1,700,000)	(1.1)
Income Tax Rebate	(1,750)	(750)	75.0	(1,750)	--	(6,200)	9,900	(61.5)	(4,950)	396.0
Other One-Time Revenue Adjustments	0	0	--	0	--	14,574,359	14,574,359	--	0	0.0
Sub-Total Other Adjustments	57,039,537	145,528,685	(164.5) %	(1,701,750)	(2.9) %	(1,015,837,602)	221,944,484	(17.9) %	(1,704,950)	0.2 %
TOTAL GENERAL FUND REVENUE	**$2,241,492,541**	**$177,230,852**	**8.6 %**	**$25,973,451**	**1.2 %**	**$17,173,542,835**	**$715,758,421**	**4.3 %**	**$376,101,628**	**2.2 %**
Non-General Funds										
Highway User Revenue Fund	176,044,637	(4,164,340)	(2.3) %	(10,956,475)	(5.9) %	1,852,676,577	15,237,120	0.8 %	(48,716,697)	(2.6) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) 3rd and final estimate of U.S. Real **Gross Domestic Product** (GDP) in the 1st quarter of 2026 is a seasonally adjusted annual growth rate of 2.1%. This is an upward revision of 0.5% from the previous estimate due to a reduction in imports, which are a subtraction to the GDP calculation.

The **Consumer Confidence Index**, published by the Conference Board, was 91.2 in June, an increase of 0.6 points from the downwardly revised May level. Respondents cited lower oil prices as the main source of improvement, though overall a feeling of pessimism pervades. The labor market remains an area of concern for many, with 22.5% of those surveyed reporting jobs as "hard to get", the highest such percentage since the beginning of 2021. Most consumers expect inflation to remain elevated and for interest rates to increase over the next year. Over the last 12 months, the index has decreased by (4.2)%.

The Conference Board's **Leading Economic Index** was 99.3 in May, a 0.1% increase from the April revised level. Strong growth in stock prices and an improved interest rate spread offset a steep decline in consumer expectations. Most other categories, such as manufacturers' orders, unemployment claims, and building permits were stagnant during the month. In the 6 months from November to May, the index decreased by (0.3)%, a slower rate of decline than the (1.3)% in the previous 6-month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased at a seasonally adjusted rate of (0.4)% in June. Energy prices declined during the month, the largest contributor to the overall decrease. The price indices for food and shelter both increased in June. Compared to the same month last year, consumer prices have risen 3.5% before seasonal adjustment. The Core CPI, which excludes food and energy, is up by 2.6%.

ARIZONA

Tourism

Phoenix Sky Harbor Airport Ridership rose to around 4.6 million passengers in May, which is a 1.8% rise over the prior month and 0.2% higher than May 2025's figure.

Hotel occupancy was 64.2% in May, which is a (5.6)% drop from April's rate.

Revenue per available room was $99.20 in May, which represents a (22.1)% decrease from April's average revenue.

Employment

According to the latest employment report released by OEO, the state lost (46,700) **nonfarm jobs** in June compared to May. Slightly more than 80% of June's total net reduction in employment was related to state and local government education. Payroll employment typically decreases in June when schools close for summer recess. 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 2025, the state gained 27,900 jobs in June 2026, an increase of 0.9%. While job growth in Arizona remains anemic by historical standards, the state's labor market has improved in recent months. To provide some perspective, according to OEO's latest report, Arizona experienced net job losses, on a year-over-year basis, in each month from August 2025 through March 2026. Since this time, Arizona has had 3 consecutive months with year-over-year job gains albeit at the slowest rate since the end of COVID pandemic.

The state's seasonally adjusted **unemployment rate** increased from 4.8% in May to 4.9% in June. This is the highest jobless rate in Arizona since June 2021. The U.S. seasonally adjusted unemployment rate decreased from 4.3% in May to 4.2% in June. The last time Arizona's unemployment rate was 0.7% higher than for the nation as a whole was in June 2018.

OEO reported that a total of 2,089 **initial claims for unemployment insurance** were filed in Arizona in the week ending on July 4th, representing a (40.1)% decline in initial claims compared to 52 weeks prior.

According to OEO, there were a total of 24,793 **continued claims for unemployment insurance** in Arizona for the week ending on June 27th, which is (19.2)% below the comparable week in 2025.

Housing

In May, Arizona had a 12-month total of 31,274 **single-family building permits** issued. This represents a (2.2)% decrease from the prior month's rolling total and a decline of (19.9)% from May 2025's 12-month total.

Arizona's 12-month total of 15,081 **multi-family building permits** in May is (5.4)% below April's rolling total and (3.9)% below the 12-month period ending in May 2025.

State Personal Income

The U.S. Bureau of Economic Analysis (BEA) recently released state personal income estimates for the 1st quarter of 2026. Personal income in Arizona grew at an annual rate of 4.8% in the 1st quarter. Net earnings, dividends, interest, rent, and transfer receipts all increased during the quarter, with transfer receipts growing the most at a rate of 12.4%. The BEA estimates that the total level of personal income was $533.5 billion.

State Agency Data

As of July 1, 2026, the total **AHCCCS caseload** was 1.71 million members. Total monthly enrollment decreased (0.2)% from June to July and decreased (10.2)% compared to a year ago.

Parent and child enrollment in the Traditional population decreased (0.2)% in July compared to June and decreased (11.2)% compared to a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 726,528, a decrease of (0.4)% from June and (10.2)% lower than last year.

For July 2026, the Elderly and Physically Disabled Long-Term Care population increased by 0.1% over the prior month. At 27,205, this population is (0.9)% lower than a year ago. The Developmental Disabilities (DD) Long-Term Care population increased by 0.5% over the prior month. At 48,729, this population is 5.3% higher than a year ago.

Based on information the **Department of Child Safety** provided for May 2026, reports of child maltreatment totaled 45,429 over the last 12 months, an increase of 4.5% from the comparable period in the prior year.

There were 8,159 children in out-of-home care as of May 2026, or (3.7)% fewer than in May 2025. Compared to the prior month, the number of out-of-home children decreased by (0.9)%.

There were 4,369 individuals receiving **Temporary Assistance for Needy Families (TANF) Cash Assistance** in May 2026, representing a 4.2% increase from April 2026. Year over year, the number of cash benefit recipients has decreased by (26.2)%.

The **Supplemental Nutrition Assistance Program (SNAP)** provides assistance to low-income households to purchase food. There were 451,762 individuals receiving SNAP benefits in May 2026, representing a 3.8% increase from April 2026. Year over year, the number of SNAP recipients has decreased by (50.4)%.

The Arizona Department of Correction's **Inmate Population** was 34,761 as of May 31, 2026. This was a (0.2)% decrease since April 30, 2026 and a (2.1)% decrease since May 2025.

Table 4

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
Employment				
- Seasonally Adjusted Unemployment Rate	June	4.9	0.1%	0.6%
- Total Unemployment Rate (discouraged/underemployed)	1st Q 2026	8.4%	(0.1)%	0.8%
- Initial Unemployment Insurance Claims	Week Ending July 4	2,089	(23.9)%	(40.1)%
- Continued Unemployment Insurance Claims	Week Ending June 27	24,793	(0.1)%	(19.2)%
- Non-Farm Employment - Total	June	3,231,300	(1.4)%	0.9%
Manufacturing	June	191,500	0.2%	(0.9)%
Construction	June	227,700	1.3%	1.0%
- Average Hourly Earnings, Private Sector	May	$35.78	(0.3)%	3.3%
Housing				
- Building Permits (12 month rolling sum)				
Single-family	May	31,274	(2.2)%	(19.9)%
Multi-family		15,081	(5.4)%	(3.9)%
Tourism and Restaurants				
- Phoenix Sky Harbor Air Passengers	May	4,594,036	1.8%	0.2%
- State Park Visitors	June	182,768	(21.0)%	(23.9)%
- Revenue Per Available Hotel Room	May	$99.20	(22.1)%	0.4%
- Arizona Hotel Occupancy Rate	May	64.2%	(5.6)%	(0.4)%
General Measures				
- Arizona Personal Income, SAAR	1st Q 2026	$533.5 billion	4.8%	4.2%
- Arizona Population (U.S. Census)	July 2025	7,623,818	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	July 2024/Nov 2019	Positive/Stable	N/A	N/A
Agency Measures				
- AHCCCS Recipients	July 1st	1,710,700	(0.2)%	(10.2)%
Traditional Acute Care		908,238	(0.2)%	(11.2)%
Other Acute Care		726,528	(0.4)%	(10.2)%
Long-Term Care – Elderly & Physically Disabled		27,205	0.1%	(0.9)%
Long-Term Care – Developmentally Disabled (DD)		48,729	0.5%	5.3%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	May	45,429	(0.2)%	4.5%
DCS Out-of-Home Children	May	8,159	(0.9)%	(3.7)%
Filled Caseworkers (1406 Budgeted)	May	1,248	2	(9)
- ADC Inmate Growth	May	34,761	(0.2)%	(2.1)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	May	4,369	4.2%	(26.2)%
- SNAP Recipients	May	451,762	3.8%	(50.4)%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	1st Q, 2026 3rd Estimate)	$24.2 trillion	2.1%	2.8%
- Consumer Confidence Index (1985 = 100)	June	91.2	0.7%	(4.2)%
- Leading Economic Index (2016 = 100)	May	99.3	0.1%	(1.6)%
- Consumer Price Index, (1982-84 = 100)	June	334.0	(0.4)%	3.5%

JCCR Meeting Follow-Up

Arizona Department of Agriculture – Sixth Quarterly Report on Nogales Building Sale - Pursuant to a provision from the December 2024 JCCR meeting, the Arizona Department of Agriculture (AZDA) submitted their 6th 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. In December 2025, AZDA moved into the new inspection building. The old Nogales building is listed for sale and the state's broker is promoting the property, but the current appraisal has expired and AZDA is seeking an updated appraisal as a result. AZDA reports no offer or formal interest as of July 1, 2026. (Nate Belcher)

Summary of Recent Agency Reports

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2026 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its third quarterly update of FY 2026 on all current projects funded through the Automation Projects Fund (APF). ADOA's Strategic Enterprise Technology office (ASET) evaluates each project quarterly and labels it as on track, at risk, or off track. Of the 21 projects in the report, ADOA labeled 5 on track, 9 at risk, 4 off track, 2 complete, and 1 on hold. The 4 off track projects are:

Department of Agriculture (AZDA) IT Modernization Licensing Project
ASET downgraded the AZDA IT Modernization Licensing project from at risk to off track after schedule slippage exceeded ASET's 10% allowance. Azure environment setup and data conversion work have fallen behind due to pending task order approvals, external dependencies, and delayed agency data. No monies were expended for this project in Q3, but ASET is meeting with the agency and the Department of Transportation every three weeks to improve the project's status.

Department of Revenue (DOR) STARS Tax System Modernization
ASET continues to consider the DOR STARS project as off track. Its first tax category, the Liquor Luxury Tax, was deployed in November 2025, and focus has shifted to the more complex Withholding Tax release. The project's reviewer, Gartner, rates overall risk as high, citing an approximately nine-month delay that threatens the 2029 target for all 26 tax types, reliance on a vendor platform still under development, and staffing pressures, though the project currently remains within budget.

Department of Water Resources (DWR) Water Application Verification Enterprise System (WAVES)
ASET continues to list the DWR WAVES project as off track. Its July 2025 end date has passed, yet the project has not closed out due to unresolved Salesforce platform and security issues that have been escalated to the Attorney General's Office and the State Procurement Office. ASET also cites delays on final milestones and a backlog of roughly 275 support tickets, though ticket resolution and staffing have improved.

AHCCCS Medicaid Enterprise System (MES) Mainframe Refactor
ASET continues to list the AHCCCS MES Mainframe Refactor as off track. In February 2026, ITAC approved a change request extending completion to December 2027 and adjusting the total development budget estimate to roughly $128.3 million. Even so, the project is trending behind its recovery plan, with testing behind schedule, and faces further potential cost increases if delays force emergency mainframe licensing.

Status of ITAC Projects
In its report, ADOA notes that 2 non-APF projects approved by ITAC are on hold: the Enterprise Email project, due to schedule delays with DCS, DPS, AHCCCS, and DOR; and the DES A to Z Arizona Portal Phase 3,

paused in February 2026 so staff could address a federal SNAP error-rate initiative. ADOA also reported 2 other non-APF projects off track, both downgraded from at risk this quarter: the School Facilities Division IT Modernization (ADOA) and the Juvenile Probation Case Management System Replacement (AOC), the latter placed on hold in April 2026 due to delays in a related Adult Probation project.

ITAC Third-Party Reports
Additionally, pursuant to A.R.S. § 18-104, IT projects over $5.0 million must receive quarterly third-party Independent Verification and Validation (IVV) review from an independent vendor. For Q3, reports were submitted for four AHCCCS MES modules (ServiceNow, Mainframe Refactor, FWA – Program Integrity, and Electronic Data Interchange), the STARS Tax System Modernization (DOR), the DCSS ATLAS Replacement (DES), and ADOT's Capital Project Delivery System and Maintenance Management System. The reports were submitted between February and April 2026 and generally matched ASET's quarterly APF report. (Destin Moss)

ADOA – School Facilities Division – Report on Building Renewal Grant Fund – Pursuant to A.R.S. § 41-5731, the School Facilities Division (SFD) within the Arizona Department of Administration (ADOA) is required to submit an annual report on unobligated monies in the Building Renewal Grant Fund. ADOA-SFD reported that as of June 10, 2026, the unencumbered balance of the fund is $1,131,500. (Gordon Robertson)

ADOA – School Facilities Division – Report on Transfer to Emergency Deficiencies Correction Fund – Pursuant to A.R.S. § 41-5721, the School Facilities Division (SFD) within the Arizona Department of Administration (ADOA) is required to notify the JLBC of any monies transferred from the New School Facilities Fund to the Emergency Deficiencies Correction Fund. SFD may only transfer funds if the agency determines that the transfer will not affect, interfere with, disrupt, or reduce funding for any SFD approved new school construction project. SFD reported transferring $258,700 on May 8, 2026. This funding will be allocated to Valentine Elementary School District to extend the lease of existing temporary classroom space used while the district constructs a new school. (Gordon Robertson)

AHCCCS – Report on the FY 2025 Hospital Assessment – Pursuant to A.R.S. § 36-2901.08, the Arizona Health Care Cost Containment System (AHCCCS) is required to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of the Federal Poverty Level) and the entire Proposition 204 population. In addition, A.R.S. § 36-2903.08 requires AHCCCS to annually report the amount of estimated Medicaid payments each hospital received for services provided to populations whose coverage is funded by the assessment.

AHCCCS estimates that hospitals received coverage payments of $1.50 billion in SFY 2025, or $826.8 million above the $672.1 million in assessments these hospitals paid. AHCCCS reports that coverage payments from Proposition 204 and Adult Expansion enrollees exceeded the costs of Hospital Assessment payments for all but 13 participating hospitals.

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

According to AHCCCS, hospitals received HCIF directed payments of $2.83 billion in SFY 2025. This amount is $2.14 billion above the $683.1 million in assessments paid by the hospitals. Directed payments exceeded the assessment costs for all hospitals but 2. (Brian Belakovsky)

AHCCCS – Report on Reconciliation Payments – Pursuant to an FY 2026 General Appropriations Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) submitted its report on Medicaid reconciliation payments and penalties received and deposited during FY 2026. AHCCCS reports that during that 12-month period, General Fund payments (i.e. payments to contractors that experienced a capitation loss) exceeded recoupments (i.e. the state's share of the contractors' capitation profits) by $1.6 million. Therefore, there will be no General Fund revenue from reconciliation from acute care programs. AHCCCS reports, however, that the Arizona Long Term Care System (ALTCS) program generated a net gain of $2.7 million, which will be shared between the General Fund and the counties.

The state limits financial risks and profits for health plans for most Medicaid populations. The maximum percentage of loss and profit varies by Medicaid population. Reconciliation payments are made by health plans to the state if profits exceed the set level. A penalty, or sanction, may be assessed against health plans for the failure to comply with their contractual responsibilities. (Chandler Coiner)

AHCCCS – Quarterly Report on the Parents as Paid Caregivers Program – Pursuant to A.R.S. § 36-2970.01, the Arizona Health Care Cost Containment System (AHCCCS) submitted an additional quarterly report detailing the utilization of attendant care and habilitation services under the Elderly and Physically Disabled (EPD) Parents as Paid Caregivers (PPCG) program. The report did not include substantially new information compared to the prior quarter's report, which was discussed in the March 2026 Monthly Fiscal Highlights. A discussion of the most recent PPCG report for the Developmental Disabilities (DD) program can be found in the June 2026 Monthly Fiscal Highlights. (Brian Belakovsky)

Department of Economic Security – Report on High-Need Client Supplement Rates for Developmental Disabilities (DD) Programs – Pursuant to A.R.S. § 36-2960, the Department of Economic Security (DES) provided its annual report of the High-Need Client Supplement (HNCS) rates (also referred to as the "Cost Effectiveness Study") for persons receiving services from the Division of Developmental Disabilities (DDD). The federal government only provides DDD home and community-based services (HCBS) matching funds if the net cost of services is less than institutional services for that client. The HNCS program provides 100% state payments above the federal maximum rate.

Table 5 below displays these maximum HNCS rates for each DDD institutional setting. The FY 2027 HNCS 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 $1,920 daily ($700,800 annually) for individuals that would be placed in a facility specializing in behavioral health. The FY 2027 budget appropriates $25.1 million from the General Fund and $1.2 million from the Special Administration Fund in FY 2027 for ALTCS clients with service costs exceeding the HNCS rate.

Table 5

FY 2027 High-Need Client Supplement Rates by Placement Setting

Institutional Setting	FY 2027 Daily Rate
ICF/IID [1/]	$838
Medical/Nursing Level II	$973
Medical/Nursing Level III	$1,426
Medical/Nursing Level IV	$1,693
Behavioral Health Facilities	$1,920

1/ Intermediate Care Facility for Individuals with Intellectual Disabilities

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 (OSPB), 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 $7.9 million was paid by nonresidents in capital gains tax on real estate transactions in Arizona in Tax Year (TY) 2024. This is a 49.2% increase from the estimated TY 2023 level of $5.3 million. (Benjamin Newcomb)