

Summary

May General Fund revenue collections totaled \$1.85 billion, an amount which was 30% above May 2021 collections. May revenues were substantially above projections, exceeding the January Baseline revenue forecast by \$680 million during the month.

Individual Income Tax

The Individual Income Tax (IIT) category generated most of the May forecast gain, coming in at \$611 million above the January Baseline forecast. The IIT gains were concentrated in withholding tax collections and payments. Withholding collections grew by more than 36% during May, helped by strong underlying wage growth and certain one-time factors.

Sales Tax

The Sales Tax category continued its pattern of double-digit growth, with May being the 15th consecutive month of double-digit year-over-year increases. This growth resulted in a forecast gain of \$68 million during May. The main classifications of Sales Tax (retail/remote seller, contracting, restaurant/bar, lodging and amusements) all continued their strong performance during May.

Corporate Income Tax

May Corporate Income Tax (CIT) revenues generated a modest forecast gain of \$6 million above the January Baseline revenue forecast. May is historically a smaller month for CIT collections. Year-to-date, CIT revenue growth is 40% through May.

Year-to-Date Results/Operating Balance

Year-to-date through May, excluding Urban Revenue Sharing and fund transfers, FY 2022 General Fund revenues are 17.8% above the prior year. After adjusting for the deferral of income tax revenues from April 2020 to July 2020, FY 2022 year-to-date revenues are 23.1% above the prior year.

After the May results, the year-to-date gain above the January Baseline forecast is \$1.72 billion. The introduced budget of June 20th has incorporated this gain.

The state’s fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-June 2022 is \$12.44 billion. This amount is significantly higher than May due to the state receiving the second tranche of funding under the American Rescue Plan Act’s Coronavirus State Fiscal Recovery Fund.

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May Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2022	Difference From	Difference
	Collections	Baseline Forecast	From FY 2021
May	\$ 1,853.7	\$ 680.3	\$ 428.2
Year-to-Date	\$ 14,622.5	\$ 1,719.8	\$ 2,379.8

Sales Tax collections of \$638.1 million were 15.6% above May of last year and \$68.0 million above the January Baseline forecast. An estimated \$12 million of May's sales tax revenue was overstated due to duplicate processing of some payments remitted to the Department of Revenue. To correct this processing error, June's sales tax revenue will be reduced by the same amount, or \$(12) million. Year to date, sales tax revenue is up by 16.2% and is \$201.1 million above forecast. May marked the 15th consecutive month that year-over-year collections grew by a double-digit percentage rate. Moreover, the year-over-year growth rate has exceeded 10% in 20 of the last 24 months, which ties the current record set in the 24-month period from October 2004 to September 2006.

As noted in May's *Monthly Fiscal Highlights*, the historically high continuous growth in sales tax collections is likely due to a combination of factors, including strong consumer demand and a high rate of inflation.

Table 2 provides more details on the 5 major sales tax categories as well as the smaller Transient (Hotel/Motel) Lodging and Amusements classifications. All the categories listed in Table 2 below performed well in May, posting double-digit growth rates, except for the Utilities Tax, which grew by 3.8%.

Table 2		
Sales Tax Growth Rates Compared to Prior Year		
	May	YTD
Retail/Remote Seller	11.9%	14.7%
Contracting	31.3%	9.0%
Use	16.9%	10.8%
Restaurant & Bar	17.6%	30.1%
Utilities	3.8%	0.8%
Hotel/Motel Lodging	46.0%	74.1%
Amusements	81.6%	116.2%

Individual Income Tax (IIT) net collections reached a record-high level of \$1.17 billion in May, 44.0% more than May 2021 and \$611.2 million above the January Baseline forecast. Year to date (YTD) through May, net IIT revenue is up by 17.1% over the same period in the prior year and \$1.45 billion above the forecast. After adjusting for the impact of the 2020 tax-filing deferral, which moved the filing due date from April to July, YTD growth is 29.5%.

May withholding collections were \$537.9 million, 36.9% higher than the previous May and \$120.6 million above the January Baseline forecast. As shown in Table 3 below, year to date through May, withholding tax revenue has grown 13.5% compared to the same period in the prior year and exceeds the January Baseline forecast by \$195.8 million. The unusually high May withholding growth is likely attributable to three factors: 1) At the end of April, an Arizona resident won a \$473.1 million Powerball lottery jackpot, which by law is subject to automatic withholding that was likely deposited in early May; 2) May had an additional processing day compared to May 2021; and 3) strong, continued employment and wage growth in Arizona.

Payments in May were \$737.7 million, an increase of 2.6%, over May 2021 and \$483.2 million above the January Baseline forecast. May's large forecast gain was surprising especially considering that payments in May 2021 were "artificially inflated" as a result of the tax filing due date deferral from April 15th to May 17th last year. As shown in Table 3 below, year to date through May, payments have increased 12.1% compared to the same period in FY 2021 and are \$773.1 million above the Baseline forecast. Accounting for the 2020 tax-filing deferral, year to date payments have grown 52.3%.

The amount of refunds in May was \$105.7 million and since this was \$(7.3) million less than projected, it resulted



in a forecast gain of \$7.3 million. Year to date through May, lower-than-projected refunds have generated a forecast gain of \$477.3 million.

As noted above, the IIT forecast gain was \$611.2 million in May and \$1.45 billion through the first 11 months of FY 2022. There are likely several reasons for the much larger-than-projected level of IIT collections, including strong growth in wage and salary disbursements and large capital gains realized by taxpayers in calendar year 2021 and then included on their tax returns filed in 2022.

	<u>May</u>	<u>YTD</u>
Withholding	36.9%	13.5%
Estimated/Final Payments	2.6%	12.1%
Refunds	(64.7)%	17.1%

Corporate Income Tax (CIT) net collections were \$39.7 million in May, (28.6)% lower than May 2021 but \$6.4 million above the January Baseline forecast. Year to date, net collections through May are \$967.4 million, which is 40.0% above the same period in FY 2021 and \$123.4 million above forecast. CIT is currently on track to exceed the record-level of \$986.2 million collected in FY 2007.

Insurance Premium Tax (IPT) revenue was \$46.6 million in May, which was (5.4)% less than in May 2021 and \$(3.1) million below the January Baseline forecast. Year to date through May, IPT revenue is up 10.8% compared to the same period in FY 2021 and \$15.2 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in May was \$2.0 million, which is 7.6% above May 2021 and \$(11,000) below the January Baseline forecast. Year to date, General Fund tobacco tax revenues total \$19.2 million, (4.5)% below the amount collected in the same period in FY 2021 and \$(1.1) million below forecast.

Liquor Tax revenue deposited into the General Fund in May was \$4.0 million. This is (0.4)% below the amount deposited in May 2021 and \$(0.2) million below the January Baseline forecast. Through May, General Fund liquor tax revenue is \$40.0 million, which is 1.3% above the same period in FY 2021 and \$(1.1) million below forecast.

The **Lottery Commission** reported that total ticket sales in May were \$119.9 million. This amount is \$(10.6) million, or (8.1)%, below May 2021. Year to date, ticket sales are \$1.3 billion, which is (5.6)% below the prior year.

Highway User Revenue Fund (HURF) collections of \$131.4 million in May were (2.0)% below the amount collected in May 2021 and \$(6.7) million below forecast. Year to date, HURF collections have increased by 5.4% compared to the same period in the prior year and are \$25.2 million above forecast.

Due to delays in reporting final April revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For April, DOR has increased the amount of prior General Fund revenue collections by \$3,900, and the adjustment has been included in the reported year-to-date results.

The state collected \$13.4 million in dedicated **Marijuana Excise Taxes** in May and \$120.4 million fiscal year to date. May saw the highest level of state revenue collected from the marijuana excise tax so far, continuing a recent trend in recreational marijuana sales and surpassing the previous record set in April by \$0.7 million.

The total combined amount of **Medical and Recreational state Transaction Privilege Tax (TPT)** was \$6.7 million in May and \$67.9 million fiscal year to date. Of this amount, the General Fund received \$4.9 million in May. Year to date, the General Fund has received a total of \$50.1 million in state TPT from medical and recreational marijuana retail sales.

	<u>May</u>	<u>YTD</u>
Marijuana Excise Tax	\$13.4	\$120.4
Medical Marijuana TPT*	\$2.8	\$34.0
<u>Distribution:</u>		
General Fund	\$2.1	\$25.1
Counties	\$0.5	\$5.5
Cities	\$0.3	\$3.4
Recreational Marijuana TPT*	\$3.9	\$33.9
<u>Distribution:</u>		
General Fund	\$2.9	\$25.0
Counties	\$0.6	\$5.5
Cities	\$0.4	\$3.4
Total State Marijuana Tax Collections	\$20.1	\$188.3

* Amounts may not add to total due to rounding



Table 5

General Fund Revenue: Change from Previous Year and Baseline Forecast May 2022

	Current Month					FY 2022 YTD (Eleven Months)				
	Actual May 2022	Change From May 2021		Baseline Forecast		Actual May 2022	Change from May 2021		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$638,101,552	\$86,240,621	15.6 %	\$67,974,377	11.9 %	\$6,560,786,205	\$913,231,012	16.2 %	\$201,118,804	3.2 %
Income - Individual	1,169,946,731	357,254,624	44.0	611,161,525	109.4	6,773,687,781	990,509,157	17.1	1,446,130,335	27.1
- Corporate	39,680,912	(15,864,421)	(28.6)	6,375,225	19.1	967,364,954	276,217,579	40.0	123,407,066	14.6
Property	7,440,105	515,474	7.4	3,755,092	101.9	29,547,560	3,613,530	13.9	4,220,954	16.7
Luxury - Tobacco	1,983,509	140,926	7.6	(10,688)	(0.5)	19,150,745	(892,799)	(4.5)	(1,135,654)	(5.6)
- Liquor	4,025,021	(16,275)	(0.4)	(211,042)	(5.0)	40,038,703	517,626	1.3	(1,149,966)	(2.8)
Insurance Premium	46,590,838	(2,637,469)	(5.4)	(3,106,969)	(6.3)	556,271,025	54,032,965	10.8	15,197,106	2.8
Other Taxes	890,179	(459,696)	(34.1)	4,789	0.5	15,552,467	1,179,650	8.2	1,096,840	7.6
Sub-Total Taxes	\$1,908,658,848	\$425,173,782	28.7 %	\$685,942,311	56.1 %	\$14,962,399,439	\$2,238,408,720	17.6 %	\$1,788,885,485	13.6 %
Other Revenue										
Lottery	0	0	--	0	--	183,680,234	78,939,785	75.4	(38,729,966)	(17.4)
Gaming	3,604,330	3,604,330	--	(396,433)	(9.9)	7,412,575	7,412,575	--	(14,307,014)	(65.9)
License, Fees and Permits	2,268,437	31,481	1.4	379,449	20.1	36,853,973	2,419,742	7.0	2,846,506	8.4
Interest	482	(482)	(50.0)	(3,243)	(87.1)	16,945,156	17,023,366	--	(5,373)	(0.0)
Sales and Services	1,728,646	(407,697)	(19.1)	(282,506)	(14.0)	26,391,098	3,067,593	13.2	2,167,620	8.9
Other Miscellaneous	161,225	(3,584,054)	(95.7)	(3,310,883)	(95.4)	22,044,247	(3,332,665)	(13.1)	(8,368,195)	(27.5)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	315,838	(497,000)	(61.1)	(2,062,322)	(86.7)	40,146,389	(29,055,280)	(42.0)	(12,698,218)	(24.0)
Sub-Total Other Revenue	\$8,078,959	(\$853,422)	(9.6) %	(\$5,675,938)	(41.3) %	\$333,473,671	\$76,475,116	29.8 %	(\$69,094,640)	(17.2) %
TOTAL BASE REVENUE	\$1,916,737,806	\$424,320,360	28.4 %	\$680,266,373	55.0 %	\$15,295,873,110	\$2,314,883,836	17.8 %	\$1,719,790,845	12.7 %
Other Adjustments										
Urban Revenue Sharing	(63,032,358)	6,008,714	(8.7)	(0)	0.0	(693,355,933)	66,095,854	(8.7)	(0)	0.0
One-Time Transfers	0	0	--	0	--	20,000,000	20,000,000	--	0	0.0
Public Safety Transfers	0	(2,122,109)	--	0	--	0	(21,221,091)	--	0	--
Sub-Total Other Adjustments	(63,032,358)	3,886,605	(5.8) %	(0)	0.0 %	(673,355,933)	64,874,763	(8.8) %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,853,705,449	\$428,206,965	30.0 %	\$680,266,373	58.0 %	\$14,622,517,177	\$2,379,758,599	19.4 %	\$1,719,790,845	13.3 %
Non-General Funds										
Highway User Revenue Fund	131,402,926	(2,690,749)	(2.0) %	(6,657,418)	(4.8) %	1,560,048,305	79,970,837	5.4 %	25,219,924	1.6 %

Monthly Indicators

NATIONAL

The U.S. Bureau of Economic Analysis' (BEA) second estimate for 1st quarter **U.S. Real Gross Domestic Product (GDP)** is a decrease of (1.5)%, revised downward from their advance estimate of (1.4)%.

The **Consumer Confidence Index**, published by the Conference Board, fell to 106.4 in May, a (2.0)% decline from the revised April number. In the past year, consumer confidence has fallen (11.3)%. Views of the present situation fell somewhat but are optimistic overall. Future expectations also fell and remain historically low due to inflation and concerns about monetary tightening.

The Conference Board's **U.S. Leading Economic Index (LEI)** decreased (0.3)% in April. According to the Conference Board's press release, this decline is the result of lowered consumer expectations and reduced residential building permits. Despite concerns surrounding inflation, interest rates, supply chain bottlenecks, and pandemic shutdowns in other areas of the world, the Conference Board anticipates moderate growth throughout the remainder of 2022. In the six-month period from October 2021 to April 2022, the LEI increased by 0.9%.

The U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)** rose by 1.0% in May over the prior month. Before seasonal adjustment, prices were 8.6% higher than in May 2021. The year-over-year CPI growth encompassed increases of 5.5% for shelter, 10.1% in the food index, and 34.6% in energy (including 48.7% in gasoline) prices. These were the largest annual increases since March 1981 for food prices and since September 2005 for the energy index. Excluding food and energy, the "core" CPI grew by 6.0% in May over the same month in the prior year.

ARIZONA

Housing

In April, Arizona's 12-month total of **single-family building permits** was 46,353. This was a decrease of (1.7)% from March and (0.5)% below April 2021's 12-month total.

In April, Arizona's 12-month total of 20,172 **multi-family building permits** was 33.4% above the level for the comparable period ending in April 2021.

The **median home price** in Maricopa County rose to \$495,000 in May 2022, representing a 0.3% increase over the prior month and a 23.8% increase over May 2021.

Tourism and Restaurants

In April, **revenue per available room** fell to \$130.21, representing a (15.2)% decrease from March's figure and a 45.5% increase over the amount reported for April 2021.

Hotel occupancy was 74.3% in April, which is (4.1)% below last month's occupancy rate and 6.5% higher than that of April 2021.

Phoenix Sky Harbor Airport Ridership fell to about 3.9 million in April, representing a (8.1)% decrease from March's ridership and a (2.0)% decrease from April 2019's figure.

According to data reported by OpenTable, on June 11, **daily restaurant reservations** were 20.0% above 2019 reservations on the comparable date.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state lost (5,500) **nonfarm jobs** in May compared to the prior month. Prior to the pandemic, nonfarm employment recorded an average loss of (6,700) jobs in May (2010-2019). The private sector recorded a gain of 1,200 jobs over the month. Prior to the pandemic, the private sector averaged a loss of (1,000) jobs in May.

Compared to the same month in the prior year, Arizona gained 102,900 jobs in May, the smallest such gain since the state first started recovering job losses from the pandemic in April 2021. The nonfarm job growth rate in May was 3.5%. Year-over-year job gains were reported in all categories, except for Financial Activities, which lost (1,000) jobs.

As of May, Arizona has recovered 115% of the jobs lost since the start of the pandemic in March 2020. Employment in the state's Leisure and Hospitality sector in May was (6,700) jobs below the pre-pandemic level in February 2020. The U.S. nonfarm job recovery rate was 96% in May, or equivalently, (822,000) jobs short of the employment level in February 2020.

Arizona's seasonally adjusted unemployment rate remained unchanged in May at 3.2%, which is the lowest



jobless rate on record (with data going back to January 1976). The U.S. unemployment rate remained unchanged at 3.6% in May.

OEO reported that a total of 3,201 **initial claims for unemployment insurance** were filed in Arizona in the week ending on May 21st. For the same week in the prior year, 4,818 initial claims were filed.

According to OEO, for the week ending on May 14th, there were a total of 18,266 **continued claims for unemployment insurance** in Arizona. At this time one year ago, the continued claims were 54,566.

State Agency Data

As of June 1, 2022, the total **AHCCCS caseload** was 2.35 million members. Total monthly enrollment increased 0.7% in June over May, and increased 8.0% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.5% in June and was 7.2% higher than a year ago.

Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,046,651 in June – an increase of 0.8% over May and 9.4% above last year. For June 2022, Elderly, Physically Disabled and Developmental Disabilities Long-Term Care enrollment increased by 0.4%. At 66,151, this population is 1.8% higher than a year ago.

There were 12,661 **TANF** Cash Assistances cases in May 2022, representing a (0.7)% decrease from April. The year-over year number of cash benefit recipients has decreased by (14.4)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In May 2022, 862,676 people received food stamp assistance. This was a (0.8)% decrease from April, and a (10.6)% decrease since May 2021.

Based on information the Department of Child Safety provided for April 2022, **reports of child maltreatment** totaled 46,447 over the last 12 months, an increase of 8.1% over the prior year. There were 13,050 **children in out-of-home care** as of April 2022, or 11.6% less than in April 2021. Compared to the prior month, the number of out-of-home children decreased by (1.6)%.

The Arizona Department of Correction's **inmate population** was 33,599 as of May 31, 2022. This was a decrease of (0.1)% since April 30, 2022 and a (7.4)% decrease since May 2021.



Table 6

Indicator	MONTHLY INDICATORS			
	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	May	3.2%	0.0%	(2.2)%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2022	8.1%	(0.9)%	(5.4)%
- Initial Unemployment Insurance Claims	Week Ending May 21	3,201	2.8%	(33.6)%
- Continued Unemployment Insurance Claims	Week Ending May 14	18,266	3.2%	(66.5)%
- Non-Farm Employment - Total	May	3,038,900	(0.2)%	3.5%
Manufacturing	May	188,500	0.2%	5.4%
Construction	May	180,500	0.1%	2.2%
- Average Hourly Earnings, Private Sector	May	\$29.84	5.3%	(0.6)%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	April	46,353	(1.7)%	(0.5)%
Multi-family	April	20,172	(1.5)%	33.4%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	May	6,140	2.8%	(7.1)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	May	\$495,000	0.3%	23.8%
- Maricopa Pending Foreclosures	April	1,088	1.5%	14.3%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	April	3,917,963	(8.1)%	23.6%
- State Park Visitors	March	344,247	30.0%	16.6%
- Revenue Per Available Hotel Room	April	\$130.21	(15.2)%	45.5%
- Arizona Hotel Occupancy Rate	April	74.3%	(4.1)%	6.5%
- Az OpenTable Reservations – % Change from 2019	June 11	N/A	N/A	20.0%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	4 th Q 2021	\$394.4 billion	5.9%	7.7%
- Arizona Population	July 2021	7,276,316	N/A	1.4%
- 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	June 1st	2,351,800	0.7%	8.0%
Traditional Acute Care		1,239,000	0.5%	7.2%
Other Acute Care		1,046,600	0.8%	9.4%
Long-Term Care – Elderly & DD		66,200	0.4%	1.8%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	April	46,447	(0.86)%	8.1%
DCS Out-of-Home Children	April	13,050	(1.6)%	(11.6)%
Filled Caseworkers (1406 Budgeted)	April	1,113	(36)	(134)
- ADC Inmate Growth	May	33,573	(0.1)%	(7.4)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	May	12,661	(0.7)%	(14.4)%
- SNAP (Food Stamps) Recipients	May	862,676	(0.8)%	(10.6)%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	1 st Q, 2022 (2 nd Estimate)	\$19.7 trillion	(1.5)%	3.5%
- Consumer Confidence Index (1985 = 100)	May	106.4	(2.0)%	(11.3)%
- Leading Economic Index (2016 = 100)	April	119.1	(0.3)%	5.4%
- Consumer Price Index, SA (1982-84 = 100)	May	291.5	1.0%	8.6%



JLBC Meeting Summary

At its May 2022 meeting, the Joint Legislative Budget Committee considered the following issues:

Executive Session

Arizona Department of Corrections – Review of Inmate Healthcare Contract per A.R.S. § 38-431.03A2 – An FY 2022 General Appropriation Act footnote requires ADC to submit any proposed change to its inmate healthcare

contracted rates to the Committee for review. The Committee gave a favorable review of the department's proposed new vendor contract. The Committee included a provision requiring the department to submit a report to the JLBC explaining how this contract will improve inmate healthcare outcomes and address the ongoing Parsons v. Shinn litigation.

JLBC Meeting Follow Up

ADOA – Report on FY 2022 Building Renewal Contingency – Pursuant to a provision from the July 2021 JCCR meeting, the Arizona Department of Administration (ADOA) submitted its report on the use of its \$500,000 building renewal emergency allocation. ADOA plans to use the contingency allocation to reconfigure space at 1110 W Washington (Department of Environmental Quality) in order to relocate the Board of Pharmacy and the Clean Elections Commission from 1616 W Adams (Land Department). The Department of Housing is reducing its space in the DEQ building to accommodate the consolidation. The consolidation leaves the Land Department building vacant. (Rebecca Perrera)

ADOA's line item expenditures are within the original FY 2022 appropriation and ADOA has not yet utilized the \$3.0 million transferred to the line item in April 2022. (Rebecca Perrera)

Department of Administration – Risk Management Administrative Expenses Report – Pursuant to a provision from the April 2022 meeting of the Joint Legislative Budget Committee, the Arizona Department of Administration (ADOA) submitted a report on the monthly expenditures for contracted Risk Management legal expenses. ADOA reported expenditures of \$687,800 from the line item in May 2022 (through May 26) with year-to-date expenditures at \$8.7 million.

Attorney General – Deferred Maintenance Capital Project – Pursuant to a provision from the December 2021 meeting of the Joint Committee on Capital Review, the Attorney General submitted a report detailing the final project scope and budget for the deferred maintenance capital project to replace ceiling grid and lighting, HVAC water source heat pumps, restroom fixtures and piping, and conduct ceiling maintenance at the 15 S. 15th Avenue building. The Attorney General reports that \$2.0 million of the \$4.0 million reviewed by the Committee has been expended as of May 2022. The project is in the design stage and is on track for completion on the original estimated completion date of June 30, 2023. (Ryan Fleischman)

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Capital Project Spending – Pursuant to an FY 2022 Capital Outlay Bill footnote, the Arizona Department of Administration (ADOA) reported the status of capital projects and capital project expenditures.

As of May 31, 2022, ADOA has spent \$16.9 million of its \$17.0 million FY 2020 building renewal appropriation. Most of the FY 2020 building renewal projects are complete with the remaining projects on track and encumbering an additional \$100,000. ADOA also reports completing 1 capital project, the replacement of the air handlers at the Legislature, which was appropriated funding in FY 2020. The FY 2022 budget extended the lapsing date of these appropriations through FY 2022.



In addition, ADOA has spent \$9.9 million of its \$16.0 million FY 2021 building renewal appropriation. The majority of FY 2021 projects are in the process of encumbering an additional \$4.9 million. The majority of the FY 2021 projects have started or are complete. Further, ADOA has spent \$5.5 million and encumbered an additional \$6.2 million for its \$24.2 million FY 2022 building renewal appropriation. The majority of the FY 2022 projects have started.

Finally, ADOA reported on several capital projects that is managing, including phase 2 replacement of the air handlers at the Legislature, demolition of the Department of Corrections buildings and an Arizona State Hospital building, Fire Alarm replacement at the State Fair, a Wellness Center at the Department of Public Safety, and several federally funded projects at State Parks. ADOA reports that all these projects are on track. (Rebecca Perrera)

Arizona Department of Administration – Report on Private Leases – Pursuant to A.R.S. § 41-792D, the Arizona Department of Administration (ADOA) is biennially required to submit a report on all approved office leases that exceeded the Lease Cost Review Board’s (LCRB) estimated average cost per square foot for privately-owned office space during the prior 2 years. ADOA approved 48 leases in FY 2021 and FY 2022. Eight of the leases approved in these years exceeded the LCRB’s \$22.93 average cost per square foot for FY 2021/FY 2022. In the past 2 years, ADOA reported that the state has reduced privately leased square footage by (6.53)% and annual lease costs by \$(4.28)%. The LCRB made no changes to the average cost per square foot of \$22.95 for FY 2023 and FY 2024. (Rebecca Perrera)

AHCCCS – Report on Nursing Facility Assessment Distribution Notification – An FY 2022 General Appropriation Act footnote allows the Arizona Health Care Cost Containment System (AHCCCS) to make nursing facility supplemental payments above its \$109.9 million appropriation so long as AHCCCS reports the increased payment total prior to expenditure. In May 2022, AHCCCS reported it expects to make \$124.0 million in supplemental payments in FY 2022. The \$14.1 million increase is due to the 6.2% federal match rate increase associated with the federally-declared COVID-19 public health emergency. While a transfer from the Long-Term Care Fund to the Nursing Facility Assessment addressed most of the increase, the agency still requires a federal expenditure authority increase of \$4.8 million for nursing facility distributions.

AHCCCS levies the Nursing Facility Assessment to receive matching Federal Funds, which are used to make supplemental payments to facilities for covered Medicaid expenditures. (Maggie Rocker)

Department of Corrections – Report on Sentencing Calculation Implementation – Pursuant to an FY 2022 General Appropriation Act footnote, ADC submitted its report on the progress made to incorporate all sentence calculations into the Arizona Corrections Information System (ACIS). The ACIS system has been in use since February 2020 and ADC reports that there are currently 14 sentencing calculations enhancement projects in progress and 3 additional legislative modifications. The existing software contract allows for up to 10,000 hours per year from the vendor for system updates and improvements. ADC estimates that the 14 sentencing enhancements will require between 8,800-11,000 hours of labor at a cost of up to \$1.2 million. The 3 legislative changes combined will take 9,286 hours of labor and are being completed with the existing 10,000 hours in the contract. (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 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 2022, the ARRF received revenues totaling \$9.7 million and had expenditures totaling \$5.6 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru account of the Attorney General at \$3.1 million. Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with \$1.9 million in ARRF monies spent.

In the third quarter of FY 2022, participating agencies received \$3.3 million in net collections from seized assets originally valued at \$6.9 million. Net collections decreased by \$(2.8) million, or about (45.3)%, from the previous quarter. Net collections were highest in the Attorney General’s Office at \$1.8 million, which derived from forfeitures valued at \$4.7 million. Some assets and properties were released back to the owner, but most were retained or sold by law enforcement.



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

Department of Economic Security – Report on 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 ALTCS may not exceed the net cost of institutional services for that client.

Table 7 below displays the CES for each DDD institutional setting. The FY 2023 CES ranges from approximately \$681 per day (\$248,565 in annual costs) for clients that would be placed in an Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/IID) to \$1,479 daily (\$539,835 annually) for individuals that would be placed in a nursing home with the most intensive level of supervision. The rates have increased 12.5% to 15.0% above the FY 2022 rates. The FY 2022 budget continued to appropriate \$1.2 million from the Special Administration Fund in FY 2022 for ALTCS clients with service costs exceeding the CES rate; the FY 2023 appropriation has not yet been finalized. (Chandler Coiner)

<u>Institutional Setting</u>	<u>FY 2023 Daily Rate</u>
ICF/IID ^{1/}	\$681
Medical/Nursing Level II	\$750
Medical/Nursing Level III	\$819
Medical/Nursing Level IV	\$1,479
Behavioral Health	\$1,282

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

Department of Environmental Quality – Report on Use of Indirect Cost Recovery Fund – Pursuant to an FY 2022 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) provided its report on the intended use of Indirect Cost Fund monies in excess of \$13,962,600 in FY 2022.

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

DEQ estimates that FY 2022 revenues will total \$14,700,000, or \$737,400 above the \$13,962,600 appropriated figure. DEQ's intended use of the \$737,400 in excess revenues includes the remaining Indirect Cost Fund staff costs for the fourth quarter of FY 2022, contractor expenses, and other operating expenses. (Ryan Fleischman)

Arizona State Parks Board – Report on the Status of Capital Improvement Projects – Pursuant to a provision in the FY 2022 Capital Bill (Laws 2021, Chapter 406), the Arizona State Parks Board (ASPB) reported on the status of all capital improvement projects and capital improvement expenditures.

The Governor’s Office has allocated monies from the Federal Coronavirus State and Local Fiscal Recovery Fund (CSLFRF), which is part of the American Rescue Plan Act, to address the wastewater needs of Buckskin Mountain State Park. ADOA will be administering the project. With this change in fund source, ASPB's State Lake Improvement Fund (SLIF) allocation for the Buckskin Mountain Redevelopment project has decreased to \$500,000 from its original \$1.0 million. The remaining SLIF balance for this project is \$436,000.

The Governor’s Office has also allocated monies from the CSLFRF to address the wastewater needs of Roper Lake State Park, with ADOA administering the project. With this allocation, ASPB is requesting that the \$400,000 FY 2018 non-lapsing appropriation be lapsed and redirected towards issuing grants.

The funding sources for ASPB's capital projects include \$1.2 million from SLIF and \$1.9 million from SPRF for a total of \$3.1 million in capital project funding. Of the \$3.1 million amount, ASPB has expended \$69,200 on capital projects as of May 2022. A total of 8 projects remain active. *Please see Table 8 below for more details.* (Nate Belcher)



Table 8

ASPB Status of Active Major Capital Projects

<u>Project Title</u>	<u>Year Reviewed</u>	<u>Amount Reviewed</u>	<u>Expenditures as of May '22</u>	<u>Remaining Balance</u>
<u>State Lake Improvement Fund (SLIF)</u>				
Buckskin Mountain Redevelopment	FY 2019	\$500,000 ^{1/}	\$64,000	\$436,000
Cattail Cove Compost Toilets	FY 2018	250,000	5,200	244,800
Roper Lake Wastewater System	FY 2018	<u>400,000</u>	<u>0</u>	<u>400,000</u>
SLIF Subtotal		\$1,150,000	\$69,200	\$1,080,800
<u>State Parks Revenue Fund (SPRF)</u>				
Deadhorse Amphitheater	FY 2022	\$150,000	\$ 0	\$150,000
Kartchner Roof Replacement	FY 2022	450,000	0	450,000
Red Rock Fire Suppression	FY 2022	126,000	0	126,000
Red Rock Maintenance Building	FY 2022	435,200	0	435,200
Rockin' River	FY 2022	<u>750,000</u>	<u>0</u>	<u>750,000</u>
SPRF Total		\$1,911,200	\$ 0	\$1,911,200

^{1/} The amount originally reviewed by the JCCR for this project was \$1,000,000 from SLIF, however the Governor's Office has allocated \$500,000 from ARPA toward this project, thereby reducing the SLIF amount to \$500,000.

Department of Public Safety – Report on Microwave Backbone Communication System – Pursuant to a footnote in the FY 2022 General Appropriation Act, DPS is required to submit a report on the status of and expenditures on the update to the microwave backbone communication system, which will focus on the North Loop. The department reports the focus of the project so far has been obtaining land use permits. In some cases, sites with favorable permitting have been authorized for final site planning including construction drawing, engineering, further environmental assessments, and equipment selections. DPS reports the main risks for the project are currently land use designation and private use fees, environmental impact assessments, landowner process changes, and manufacturing lead time and delivery costs.

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 2022, the department has expended \$1.0 million and projects to expend \$2.4 million by the end of FY 2022. The department anticipates expending the full remaining amount of \$45.8 million to complete the project in FY 2026. The completion of the project is dependent primarily on the issuance of construction permits and land acquisition. (Jordan Johnston)

