

## Summary

May General Fund revenues totaled \$1.03 billion, which was a decline of (44.3)% below May 2022 collections. While the state was projected to have a revenue decline during May due to the phase-in of the income tax reduction, the actual decline significantly exceeded expectations and generated a loss of \$(183) million compared to the enacted budget forecast.

These May revenue results are the first time the state has posted a monthly forecast loss since March 2020, a time when the state was under a broad COVID-19 related shutdown.

Based on final data for May, Individual Income Tax had a forecast loss of \$(181) million, meaning the category generated almost all of the state's total monthly loss.

As our office noted in a [Preliminary May 2023 Revenue Update](#), the primary driver of this loss during May was Individual Income Tax payments. The larger-than-expected payment decline was likely the result of 2 factors: 1) Lower tax liability due to base economic conditions (such as fewer taxable capital gains); and 2) The dollar value of the state's income tax reduction to rates of 2.55%/2.98% was higher than projected.

While the state's other revenue categories did not generate any notable forecast gains or losses during May, there are still some potential concerns in these categories.

Sales Tax collections continued their recent pattern of deceleration, growing by only 0.3% during May and posting a forecast loss of \$(18) million. Within Sales Tax, the retail classification has now declined for a second consecutive month, which could be caused by several factors. First, general economic conditions (such as high gasoline prices and interest rates) are likely dampening consumer activity.

In addition, national economic data suggests that consumers may be starting to reverse pandemic spending patterns. During 2020 and 2021, the state benefited from increased spending on taxable goods (including durable goods such as home improvement products) while consumers pulled back on non-taxable services spending. Recent data from the federal Bureau of Economic Analysis indicates consumer spending on goods has slowed while growth in spending on services (such as out-of-state travel) has remained strong.

Other state revenue categories continue to show positive data as of now, but will need to be monitored closely for trends in the upcoming months.

The Corporate Income Tax (CIT) category will have important data points in both June and September as these represent estimated payment collection months.

In addition, the Insurance Premium Tax (IPT) may experience volatility as the state begins disenrolling AHCCCS members who do not meet the program's financial eligibility requirements (federal legislation had prohibited this disenrollment since March 2020). This policy may have a significant impact as AHCCCS health plans represent approximately 50% of IPT collections.

### Year-to-Date Revenues

Through May, excluding Urban Revenue Sharing and one-time transfers, FY 2023 General Fund revenues are (3.5)% below the prior year.

After tracking against the enacted budget forecast for 2 months, FY 2023 General Fund revenues have a cumulative forecast loss of \$(175) million.

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May Revenues

**Table 1**

**General Fund Revenues (\$ in Millions)**

	<b>FY 2023 Collections</b>	<b>Difference From Enacted Forecast</b>	<b>Difference From FY 2022</b>
May	\$ 1,032.3	\$ (182.6)	\$ (821.3)
Year-to-Date	\$ 13,818.9	\$ (174.9)	\$ (803.5)

**Sales Tax** collections of \$640.3 million were 0.3% above May of last year and \$(17.8) million below the enacted budget forecast. Year to date, sales tax revenue is up by 7.3% and is \$(29.2) million below forecast.

Table 2 shows the May growth rate for the 5 major sales tax categories, which together make up approximately 85% of total sales tax collections.

**Table 2**

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

	<u>May</u>	<u>YTD</u>
Retail/Remote Seller	(2.9)%	4.2%
Contracting	14.0%	18.3%
Use Tax	(19.2)%	7.2%
Restaurant & Bar	8.5%	11.7%
Utilities	3.2%	(2.8)%

May was the second consecutive month for which the level of sales tax revenue for the combined Retail/Remote Seller category decreased relative to the same month in the prior year. Excluding remote sellers, tax revenue from retail sales declined by (4.4)% in May and is up by 2.6% year to date, which is the lowest growth rate for the comparable period in the last 13 years.

Based on a recent report from the Urban Institute, Arizona is one of several states experiencing slower growth in sales tax collections.

**Individual Income Tax (IIT)** net revenue in May was \$315.6 million, a decline of (73.0)% from the previous May and \$(181.1) million below the enacted budget forecast. The forecast loss is mostly the result of a steep decline in payment collections and a record level of refunds issued in the month of May. Year to date (YTD), net collections are down by (29.4)% compared to the same period last year and \$(187.1) million below the forecast.

May withholding revenue was \$468.2 million, a decrease of (12.9)% from last year and \$(0.1) million less than the enacted budget forecast. This year-over-year decline was expected due to the lower state withholding rates implemented in January 2023. Year to date (YTD) through May, withholding revenue has declined (3.8)% and is \$(24.5) million under the forecast.

Payments in May were \$166.3 million, (77.5)% lower than May 2022 and \$(163.3) million below forecast. May has increasing become an important IIT payment month. Prior to 2019, May payments typically made up about 1%-3% of collections for the fiscal year. Since 2019, approximately 20% of yearly payments have been collected in May. As shown in Table 3, total payments YTD are (34.4)% below last year.

May refunds were \$319.0 million, which is over 3 times last year's level and the most ever issued in the month of May. The enacted budget anticipated a lower level of refunds with a forecast of \$301.2 million, resulting in a forecast loss of \$(17.8) million. YTD, the amount of refunds is 47.1% above the same period in the prior fiscal year.

**Table 3**

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

	<u>May</u>	<u>YTD</u>
Withholding	(12.9)%	(3.8)%
Estimated/Final Payments	(77.5)%	(34.4)%
Refunds	201.7%	47.1%

**Net Corporate Income Tax (CIT)** collections in May were \$52.7 million, an increase of 32.8% from the previous May and \$2.7 million greater than the enacted budget forecast. YTD, corporate income tax revenue is \$1.54 billion, which is 59.6% more than in the same period last year. With one month remaining, this is already the largest CIT total ever collected in any fiscal year.



**Insurance Premium Tax (IPT)** revenue was \$55.6 million in May, an increase of 19.3% over May 2022 collections and \$3.9 million above the enacted budget forecast. Fiscal year to date, IPT revenue is up by 9.0% and is \$(0.2) million below forecast.

The amount of **Tobacco Tax** deposited into the General Fund in May was \$1.3 million, which is (35.4)% below May 2022 collections and \$(0.8) million below the enacted budget forecast. Fiscal year to date through May, General Fund tobacco tax revenue totals \$17.0 million, which is (11.4)% below FY 2022 collections over the same period and \$(1.2) million below forecast.

**Liquor Tax** revenue deposited into the General Fund in May was \$4.7 million. This is 17.1% higher than the amount deposited in May 2022 and \$0.4 million above the enacted budget forecast. Fiscal year to date, General Fund liquor tax revenue totals \$40.3 million, which is 0.5% greater than last year's total through May but \$(2.9) million below forecast.

The **Lottery Commission** reported that total ticket sales in April were \$119.0 million. This amount is \$(2.9) million, or (0.8)%, below May 2022. Year to date, ticket sales are \$1.4 billion, which is 11.5% above the prior year.

**Highway User Revenue Fund (HURF)** collections of \$134.8 million in May were 2.6% above the amount collected in May 2022 but \$(2.3) million below forecast. Year to date, HURF collections have increased by 0.9% compared to the same period in the prior year and are \$(59.4) million below forecast.

As shown in *Table 4*, the state collected \$17.5 million in **Marijuana Excise Taxes** in May, which represents a 30.8% increase over May 2022 collections. Fiscal year to date through May, \$154.6 million in excise taxes have been collected, which is 28.5% above FY 2022 collections over the same period. Monies from this excise tax are deposited into dedicated non-General Fund accounts.

	<u>May</u>	<u>FY 2023</u>
<b>Marijuana Excise Tax</b>	<b>\$17.5</b>	<b>\$154.6</b>
<b>Medical Marijuana TPT*</b>	<b>\$1.8</b>	<b>\$18.7</b>
<u>Distribution:</u>		
General Fund	\$1.3	\$13.8
Counties	\$0.3	\$3.0
Cities	\$0.2	\$1.9
<b>Recreational Marijuana TPT*</b>	<b>\$4.7</b>	<b>\$43.8</b>
<u>Distribution:</u>		
General Fund	\$3.5	\$32.3
Counties	\$0.8	\$7.1
Cities	\$0.5	\$4.4
<b>Total State Marijuana Tax* Collections</b>	<b>\$24.0</b>	<b>\$217.1</b>

\* Amounts may not add to total due to rounding



Table 5

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

	Current Month					FY 2023 YTD (Eleven Months)				
	Actual May 2023	Change From May 2022		Enacted Forecast		Actual May 2023	Change from May 2022		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$640,261,630	\$2,160,078	0.3 %	(\$17,799,623)	(2.7) %	\$7,041,497,018	\$480,710,814	7.3 %	(\$29,177,301)	(0.4) %
Income - Individual	315,560,191	(854,292,899)	(73.0)	(181,118,219)	(36.5)	4,779,483,578	(1,994,110,561)	(29.4)	(187,133,497)	(3.8)
- Corporate	52,675,412	13,023,159	32.8	2,681,066	5.4	1,543,572,778	576,236,483	59.6	31,294,324	2.1
Property	5,191,568	(2,248,537)	(30.2)	1,536,137	42.0	22,896,900	(6,650,660)	(22.5)	618,701	2.8
Luxury - Tobacco	1,281,641	(701,868)	(35.4)	(811,287)	(38.8)	16,971,663	(2,179,081)	(11.4)	(1,152,058)	(6.4)
- Liquor	4,714,650	689,630	17.1	370,517	8.5	40,253,981	215,278	0.5	(2,871,463)	(6.7)
Insurance Premium	55,571,305	8,980,467	19.3	3,928,902	7.6	606,277,210	50,006,185	9.0	(212,598)	(0.0)
Other Taxes	2,020,397	1,130,218	127.0	1,354,560	203.4	17,437,109	1,884,642	12.1	2,094,192	13.6
<b>Sub-Total Taxes</b>	<b>\$1,077,276,795</b>	<b>(\$831,259,753)</b>	<b>(43.6) %</b>	<b>(\$189,857,946)</b>	<b>(15.0) %</b>	<b>\$14,068,390,237</b>	<b>(\$893,886,901)</b>	<b>(6.0) %</b>	<b>(\$186,539,701)</b>	<b>(1.3) %</b>
<b>Other Revenue</b>										
Lottery	0	0	--	0	--	175,811,973	(7,868,261)	(4.3)	(127)	(0.0)
Gaming	1,745,360	(1,858,970)	(51.6)	(1,185,400)	(40.4)	39,668,220	32,255,645	435.1	(2,687,447)	(6.3)
License, Fees and Permits	3,111,443	843,006	37.2	597,958	23.8	39,013,955	2,159,983	5.9	(366,548)	(0.9)
Interest	34,366,942	34,366,460	--	6,685,210	24.2	283,803,087	266,857,931	--	12,370,777	4.6
Sales and Services	3,844,707	2,116,061	122.4	1,191,015	44.9	31,171,420	4,780,321	18.1	1,015,463	3.4
Other Miscellaneous	233,242	72,017	44.7	(3,722,613)	(94.1)	14,067,690	(7,976,557)	(36.2)	(3,153,373)	(18.3)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	3,960,987	3,645,149	--	3,719,217	--	106,215,279	66,068,891	164.6	4,412,229	4.3
<b>Sub-Total Other Revenue</b>	<b>\$47,262,681</b>	<b>\$39,183,722</b>	<b>485.0 %</b>	<b>\$7,285,386</b>	<b>18.2 %</b>	<b>\$689,751,625</b>	<b>\$356,277,953</b>	<b>106.8 %</b>	<b>\$11,590,974</b>	<b>1.7 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$1,124,539,475</b>	<b>(\$792,076,030)</b>	<b>(41.3) %</b>	<b>(\$182,572,560)</b>	<b>(14.0) %</b>	<b>\$14,758,141,862</b>	<b>(\$537,608,948)</b>	<b>(3.5) %</b>	<b>(\$174,948,727)</b>	<b>(1.2) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(92,246,556)	(29,214,199)	46.3	0	(0.0)	(1,014,712,119)	(321,356,186)	46.3	0	(0.0)
One-Time Transfers	0	0	--	0	--	75,462,096	55,462,096	277.3	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(92,246,556)</b>	<b>(29,214,199)</b>	<b>46.3 %</b>	<b>0</b>	<b>(0.0) %</b>	<b>(939,250,023)</b>	<b>(265,894,090)</b>	<b>39.5 %</b>	<b>0</b>	<b>(0.0) %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$1,032,292,919</b>	<b>(\$821,290,229)</b>	<b>(44.3) %</b>	<b>(\$182,572,560)</b>	<b>(15.0) %</b>	<b>\$13,818,891,838</b>	<b>(\$803,503,038)</b>	<b>(5.5) %</b>	<b>(\$174,948,727)</b>	<b>(1.3) %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	134,771,995	3,369,069	2.6 %	(2,284,873)	(1.7) %	1,574,511,208	14,462,904	0.9 %	(59,372,395)	(3.6) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) second estimate of the U.S. **Real Gross Domestic Product (GDP)** in the 1<sup>st</sup> quarter of 2023 is an annualized growth rate of 1.3%. This estimate was revised upward from their advance estimate of 1.1%

The **Consumer Confidence Index**, published by the Conference Board, was 102.3 in May, (1.4) points below the revised April level. Though the index has remained steady for the most part, consumers' perspectives on the present situation and the future grew more pessimistic in May. Concerns about the stability of the banking system and the debt-ceiling gridlock offset an expected slowdown in inflation. Confidence in the labor market also declined as fewer respondents believed jobs were "plentiful". The index has declined (0.9) points, or (0.9)%, since May 2022.

The Conference Board's **U.S. Leading Economic Index (LEI)** decreased by (0.6)% in April to 107.5 points. Of the ten components comprising the index, only stock prices and new manufacturing orders for capital and consumer goods improved. This marks the 13<sup>th</sup> consecutive month of decline for the LEI, which has fallen (4.4)% over the past 6 months. In their May press release, the Conference Board "continues to warn of an economic downturn this year" and that there will be "a contraction of economic activity in Q2 leading to a mild recession by mid-2023."

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** rose 0.1% month-over-month (after seasonal adjustment) in May. Increasing shelter prices were the largest contributor to the overall rise, while energy prices fell during the month. The overall CPI has increased 4.0% year-over-year since last May; food prices increased 6.7%; energy prices fell (11.7)% (including a (19.7)% decrease for gasoline and (37.0)% decline for oil); and shelter costs increased 8.0%. Excluding food and energy, the year-over-year "core" CPI increased by 5.3% in May.

ARIZONA

Housing

In April, Arizona's 12-month total of **single-family building permits** was 29,231. This was a reduction of (4.3)% from last month's total and (36.9)% below April 2022's 12-month total. April was the 23<sup>rd</sup> consecutive month with a decline in the year-over-year growth rate.

In April, Arizona's 12-month total of 25,182 **multi-family building permits** was 24.8% greater than the same 12-month period ending in April 2022. April 2023 is the 20<sup>th</sup> consecutive month with an annual growth rate greater than 10%, and it is the 15<sup>th</sup> month during this time span with over 20% annual growth.

The **median home price** in Maricopa County rose to \$465,000 in May, representing a 2.1% increase from last month's median sale price and an (8.8)% decrease compared to the same month in 2022. This was the 6<sup>th</sup> consecutive month with a year-over-year decline in the median sales price. Previously, the median sales price had not declined on a year-over-year basis since November 2011.

Tourism

In April, **revenue per available room** decreased to \$121.85, representing a (26.8)% reduction from March's average and a (5.5)% decrease below last April's figure.

**Hotel occupancy** was 70.8% in April, which is (8.5)% below last month's occupancy rate and (3.5)% lower than that of April 2022.

**Phoenix Sky Harbor Airport Ridership** was about 4.3 million in April, which represents a (7.7)% decrease from March's figure and an 8.7% increase over April 2022 ridership.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state lost (19,600) **nonfarm jobs** in May compared to April. This was significantly higher than the average pre-pandemic job loss for the month of May of (6,700).

Compared to the same month in the prior year, the state gained 48,600 jobs in May, an increase of 1.6%, which is the smallest gain since the state's labor market started its recovery from the pandemic in April 2021.

The state's seasonally adjusted **unemployment rate** remained unchanged at 3.4% in May, which is the lowest jobless rate since January 1976. This is 0.3% lower than the U.S. unemployment rate, which rose from 3.4% in April to 3.7% in May.



The Office of Economic Opportunity (OEO) reported that a total of 4,002 **initial claims for unemployment insurance** were filed in Arizona in the week ending on June 3<sup>rd</sup>. For the same week in the prior year, 3,396 initial claims were filed, which is an increase of 17.8%.

According to OEO, for the week ending on May 27<sup>th</sup>, there were a total of 27,186 **continued claims for unemployment insurance** in Arizona. This is 39.0% greater than last year's total of 19,562 on the comparable date. The number of continued claims has been trending up since November 2022.

### State Agency Data

As of June 1, 2023, the total **AHCCCS caseload** was 2.29 million members. Total monthly enrollment decreased (4.8)% from May and decreased (2.4)% compared to a year ago. Pursuant to a provision in the federal 2023 Consolidated Appropriations Act, AHCCCS began removing members who do not meet the financial eligibility requirements of the program on April 1. AHCCCS had previously been prohibited from disenrolling members who would have otherwise lost eligibility based on income, pursuant to federal legislation from March 2020. As a result, the (4.8)% decline is likely attributable to that policy change and we anticipate further caseload declines in the coming months.

Parent and child enrollment in the Traditional population decreased by (5.7)% in June, or (5.9)% lower than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,059,720 – a decrease of (4.1)% from May and 1.2% above last year. For June 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.4%. At 68,232, this population is 3.1% higher than a year ago.

There were 11,226 **TANF Cash Assistances** cases in May 2023, representing a 0.3% increase from April 2023. The year-over-year number of cash benefit recipients has decreased by (11.3)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In May 2023, 922,818 people received food stamp assistance. This was a 1.3% increase from April 2023 and a 7.0% increase from May 2022.

The Arizona Department of Correction's **inmate population** was 34,148 as of May 31, 2023. This was a 0.2% increase from April 30, 2023 and a 1.6% increase since May 2022.

Based on information the Department of Child Safety provided for April 2023, **reports of child maltreatment** totaled 46,734 over the last 12 months, a decrease of (7.7)% from the prior year.

There were 11,230 **children in out-of-home care** as of April 2023, or (12.6)% less than in April 2022. Compared to the prior month, the number of out-of-home children decreased by (1.4)%.



<b>Table 6</b>				
<b>MONTHLY INDICATORS</b>				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	May	3.4%	0.0%	(0.3)%
- Total Unemployment Rate (discouraged/underemployed)	1 <sup>st</sup> Q 2023	6.5%	(0.1)%	(1.6)%
- Initial Unemployment Insurance Claims	Week Ending June 3	4,002	(1.8)%	17.8%
- Continued Unemployment Insurance Claims	Week Ending May 27	27,186	1.7%	39.0%
- Non-Farm Employment - Total	May	3,139,100	(0.6)%	1.6%
Manufacturing	May	195,400	0.4%	2.2%
Construction	May	195,800	(0.7)%	1.0%
- Average Hourly Earnings, Private Sector	May	\$31.61	(1.5)%	5.6%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	April	29,231	(4.3)%	(36.9)%
Multi-family	April	25,182	1.3%	24.8%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	May	6,486	22.1%	(6.8)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	May	\$465,000	2.1%	(8.8)%
- Maricopa Pending Foreclosures	April	1,260	(1.6)%	15.8%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	April	4,259,818	(7.7)%	8.7%
- State Park Visitors	March	394,996	62.9%	14.7%
- Revenue Per Available Hotel Room	April	\$121.85	(26.8)%	(5.5)%
- Arizona Hotel Occupancy Rate	April	70.8%	(8.5)%	(3.5)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	4 <sup>th</sup> Q 2022	\$428.5 billion	7.9%	6.0%
- Arizona Population	July 2022	7,359,197	N/A	1.3%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	May 2015/Nov 2019	Stable/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	June 1st	2,294,200	(4.8)%	(2.4)%
Traditional Acute Care		1,166,200	(5.7)%	(5.9)%
Other Acute Care		1,059,700	(4.1)%	1.2%
Long-Term Care – Elderly & DD		68,200	0.4%	3.1%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	April	46,734	(0.1)%	(7.7)%
DCS Out-of-Home Children	April	11,230	(1.4)%	(12.6)%
Filled Caseworkers (1406 Budgeted)	April	1,293	(3)	180
- ADC Inmate Growth	May	34,148	0.2%	1.6%
- Department of Economic Security				
- TANF Cash Assistance Recipients	May	11,226	0.3%	(11.3)%
- SNAP (Food Stamps) Recipients	May	922,818	1.3%	7.0%
<b>United States</b>				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	1 <sup>st</sup> Q, 2023 (2 <sup>nd</sup> Estimate)	\$20.2 trillion	1.3%	1.6%
- Consumer Confidence Index (1985 = 100)	May	102.3	(1.4)%	(0.9)%
- Leading Economic Index (2016 = 100)	April	107.5	(0.6)%	(9.5)%
- Consumer Price Index, (1982-84 = 100)	May	304.1	0.1%	4.0%



## JLBC Meeting Summary

At its **June 1, 2023** meeting, the Joint Legislative Budget Committee considered the following issue:

### Executive Session

**Arizona Department of Administration/Automation Projects Fund – Review of Department of Revenue Integrated Tax System Modernization under A.R.S. § 38-431.03 (A)(2) and (A)(9)** – A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). In addition, an FY 2023 budget footnote includes several project requirements for the Integrated Tax System Modernization project and requires the Department of Revenue (DOR) to receive Committee review on how the planned project will meet the requirements prior to awarding any procurement contract for the tax system.

The Committee gave a favorable review of DOR's project system requirements with several provisions.

At its **June 13, 2023** meeting, the Joint Legislative Budget Committee considered the following issues:

### Executive Session (Consent Agenda)

**Arizona Department of Administration – Review for Committee the Planned Contribution Strategy for State Employee and Retiree Medical and Dental Plans as Required Under A.R.S. § 38-658A** – A.R.S. § 38-658A requires the director of the Arizona Department of Administration (ADOA) to meet with and review for the Joint Legislative Budget Committee, in Executive Session, the planned contribution strategy for medical and dental insurance coverage at least 10 days before ADOA enters into, or renews, contracts for each health plan. The Committee gave a favorable review of the coverage plan for Plan Year 2024.

### Regular Agenda

**Arizona Department of Corrections – Review of FY 2023 Line Item Transfer** – Pursuant to an FY 2023 General Appropriations Act footnote, the Arizona Department of Corrections (ADC) requested review of its plan to utilize \$44.8 million in FY 2023 General Fund vacancy savings appropriated for Personal Services and Employee Related Expenditures (ERE) to cover funding shortfalls in 3 areas: inmate health care injunction costs, operational needs and shortfalls, and a private prison per diem line item shortfall. The Committee gave a favorable review to \$38.5 million of transfers as follows: \$10.8 million for inmate health care injunction costs, \$11.0 million for operational needs and shortfalls, and

\$16.7 million for a private prison per diem line item shortfall. As part of its review, the Committee included a provision requiring ADC to work with the health care vendor to amend the existing contract to restore federal Medicaid funding for inmate inpatient services.

**Secretary of State – Review of FY 2023 Election Services Line Item Transfer** – The FY 2023 General Appropriation Act allocated \$8.0 million from the General Fund to the Election Services line item and included a footnote requiring the Secretary of State (SOS) to submit a report for Committee review before transferring monies in or out of the line item. The SOS requested total transfers of \$1.1 million for 3 initiatives. The Committee gave a favorable review of transferring \$596,000 from the Election Services line item to the agency's operating budget in FY 2023 as follows: \$500,000 to implement upgrades to the Access Voter Information Database to comply with recent election legislation and \$96,000 for additional Access Voter Information Database operating costs.

### Consent Agenda

**Arizona Department of Administration/Automation Projects Fund – Review of AHCCCS Prepaid Medicaid Management Information System** – A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). The Committee gave a favorable review of ADOA's request on behalf of AHCCCS to use \$2.0 million from the Health and Human Services Information Systems APF Subaccount to begin the development of the Prepaid Medicaid Management Information System. As part of its review, the Committee included a provision that its favorable review is contingent on approval from the Information Technology Authorization Committee (ITAC).

**Arizona Department of Administration/Automation Projects Fund – Review of Business One Stop Web Portal** – A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). The Committee gave favorable review to ADOA's request to spend \$6.5 million from the ADOA APF Subaccount for FY 2024 operating costs and development of the Business One Stop Portal.

**Attorney General – Review of Uncollectible Debts** – A.R.S. § 35-150(E) requires the Attorney General's office to submit for Committee review a list of uncollectible debts to be removed from the state's accounting system. The Committee gave a favorable review of removing \$31.0 million in uncollectible debts from the state's accounting system.





## JCCR Meeting Summary

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At its June 13, 2023 meeting, the Joint Committee on Capital Review considered the following issues:

### Regular Agenda

**Arizona Department of Corrections – Review of FY 2024 Litigation-Related Building Renewal Projects** - A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal and capital projects. The Committee gave a favorable review to the Arizona Department of Corrections for the expenditure of \$6.1 million to complete projects related to the *Jensen v. Thornell* inmate health care litigation.

### Consent Agenda

**Arizona Department of Administration – Review of FY 2024 Building Renewal Allocation Plan** - A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal and capital projects. The Committee gave a favorable review to the Arizona Department of Administration (ADOA) for building renewal expenditures totaling \$39.1 million. As part of its review, the Committee included a provision that would require ADOA to report to JLBC Staff prior to spending any of the emergency contingency allocation.

**Arizona Game and Fish Department – Review of FY 2024 Capital Projects** - A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal and capital projects. The Committee gave a favorable review to the Arizona Game and Fish Department to spend a total of \$3.1 million, of which \$1.8 million is for building renewal projects and \$1.3 million is for capital projects.

**Arizona State Parks Board – Review of FY 2024 Capital Improvement Projects – State Parks Revenue Fund** - A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal and capital projects. The Committee gave a favorable review to the Arizona State Parks Board to use \$3.0 million from the State Parks Revenue Fund for capital projects and statewide building renewal.

**Arizona Department of Transportation – Review of Capital Projects** - A.R.S. § 41-1252 requires Committee review of expenditure plans for monies appropriated for capital projects. The Committee gave a favorable review to the Arizona Department of Transportation to spend \$12.6 million for 4 different capital projects.

**Arizona State University – Review of Interdisciplinary Science and Technology Building 12 Project** - A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. An FY 2023 General Appropriations Act footnote also requires Committee review of any capital projects funded by a one-time General Fund appropriation. The Committee gave a favorable review to Arizona State University to spend \$187.0 million to construct a new Interdisciplinary Science and Technology Building (ISTB) 12 on the Polytechnic (East) Campus. Of this amount, \$156.0 million will be funded by system revenue bonds and \$31.0 million will be funded with cash from the university's FY 2023 one-time General Fund appropriation. The Committee's review included the standard university financing provisions.

**Arizona State University – Review of Student Housing, Dining, and Academic Building Project** - A.R.S. § 15-1682.02 and A.R.S. § 15-1683 require Committee review of any university projects using indirect debt financing and any projects financed with system revenue bonds. The Committee gave a favorable review to Arizona State University for the ground lease for an approximately \$140.0 million student housing, dining, and academic development building on its Tempe campus and \$27.0 million in system revenue bonds issuances. The Committee's review included the standard university financing provisions.

## JLBC/JCCR Meeting Follow Up

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**Department of Administration – Report on Risk Management Administrative Expenses** – Pursuant to a provision from the December 2022 meeting of the Joint Legislative Budget Committee, the Arizona Department of Administration (ADOA) submitted a report on the updated projection of its contracted Risk Management legal expenses.

ADOA reports spending \$11.2 million on contracted legal services in FY 2023. This amount is \$2.0 million less than ADOA's total FY 2023 appropriation for the Risk Management line item (including the \$4.6 million transferred to the line item in December 2022). (Rebecca Perrera)



## Summary of Recent Agency Reports

**AHCCCS – Report on Community Health Center Graduate Medical Education Residency Positions** – Pursuant to A.R.S. § 36-2907.06, the Arizona Health Care Cost Containment System (AHCCCS) is required to submit an annual report documenting the number of new residency positions created by community health centers and rural health clinics with approved primary care graduate medical education programs as well as the amount of monies contributed.

According to AHCCCS, the Centers for Medicare and Medicaid Services has denied their requests for federal authorization of Medicaid funding. Given that A.R.S. § 36-2907.06 requires the program to receive CMS approval prior to implementation, AHCCCS will not be establishing a community health center GME program.

Laws 2021, Chapter 81 required AHCCCS to create a separate graduate medical education program for qualifying community health centers and rural health clinics, with an intended start date of March 1, 2022. (Maggie Rocker)

**AHCCCS – Report on Graduate Medical Education Distribution Notification** – An FY 2023 General Appropriation Act footnote allows the Arizona Health Care Cost Containment System (AHCCCS) to make graduate medical education payments above its \$393.2 million appropriation so long as AHCCCS reports the increased payment total prior to expenditure. In May 2023, AHCCCS reported it expects to distribute \$438.2 million in graduate medical education payments in FY 2023.

The \$45.0 million increase reflects additional federal expenditure authority as a result of the federal match rate increase associated with the federally-declared COVID-19 public health emergency.

AHCCCS's GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. (Maggie Rocker)

**AHCCCS – Report on Nursing Facility Assessment Distribution Notification** – An FY 2023 General Appropriation Act footnote allows the Arizona Health Care Cost Containment System (AHCCCS) to make nursing facility supplemental payments above its \$107.4 million

appropriation so long as AHCCCS reports the increased payment total prior to expenditure. In May 2023, AHCCCS reported it expects to make \$121.3 million in supplemental payments in FY 2023. The \$13.9 million increase is due to the 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 \$3.5 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)

**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 2023, the ARRF received revenues totaling \$4.7 million and had expenditures totaling \$4.6 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru account of the Attorney General at \$1.3 million. Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with \$2.4 million in ARRF monies spent.

In the third quarter of FY 2023, participating agencies received \$7.7 million in net collections from seized assets originally valued at \$8.4 million. Net collections increased by \$5.7 million, or 288.7% from the previous quarter. Net collections were highest in the Attorney General's Office at \$5.7 million, which derived from forfeitures valued at \$5.5 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 Education – Report on Estimated Cost of Empowerment Scholarship Accounts for FY 2024** – Pursuant to A.R.S. § 15-2403G the Arizona Department of Education (ADE) recently reported that it will cost an estimated \$900 million to fund Empowerment Scholarship Accounts (ESAs) for FY 2024. This assumes that 100,000 students will receive ESA funding for FY 2024. The JLBC Staff published a preliminary analysis of the report [here](#). (Patrick Moran)

**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 second report covering the period from May 1, 2022 to April 30, 2023. The department reports the focus of the project so far has been split between the continued pursuit of land use permits, beginning construction on 6 communication towers, and the integration of the digital microwave radio vendor (MNI). The department states they've acquired 10 lease approvals so far and are in continued discussions with tribal entities on the remaining land use applications. DPS reports the main risks for the project are currently complex right-of-way agreements, environmental impact assessments, budget sustainability, and manufacturing lead time.

The FY 2022 budget appropriated \$48.2 million from the Arizona Highway Patrol Fund for the Microwave Backbone Statewide Communication System line item. Through the end of April 2023, the department has expended \$4.6 million and has \$11.0 million in outstanding encumbrances. The department anticipates expending \$15.0 million in the next reporting period and the full remaining amount of \$43.6 million to complete the project in FY 2026. The completion of the project is dependent primarily on environmental assessments and permit approvals from landowners. (Jordan Johnston)

