Joint Legislative Budget Committee

# Monthly Fiscal Highlights

March 2022

## Summary


February General Fund collections were $725 million, which is a (12.5)% decrease below February 2021. Compared to the JLBC Baseline forecast, however, February revenues were $198 million above forecast.

Both the year-over-year revenue decline and the forecast gain are substantially overstated due to technical timing issues associated with Individual Income Tax refunds. In the middle of tax filing season, monthly results are difficult to interpret due to the rate at which Income Tax returns are processed.

Sales Tax

Sales Tax collections are more immune to timing problems. Reflecting January purchases, February Sales Tax collections remained strong with 17.7% growth. Year-to-date, Sales Tax collections are up 16.2%.

Individual Income Tax Withholding

February withholding was up 3.1% over a year ago. As with refunds, the withholding results were subject to timing issues. Withholding had an artificially high gain of 29.8% in January. Across the 2 months, withholding is up 16.2%.

Corporate Income Tax

February Corporate Income Tax (CIT) revenues were $25.0 million, which resulted in a 44.2% increase from the prior year.

**Year-to-Date Results/Operating Balance**

Year-to-date through February, excluding Urban Revenue Sharing and fund transfers, FY 2022 General Fund revenues are 9.1% 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 15.9% above the prior year.

The year-to-date gain above the January Baseline forecast is $311 million. As with the monthly results, the year-to-date gain is substantially overstated due to Income Tax processing.

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-March 2022 is $8.03 billion.


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## February Revenues

Table 1

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

| | FY 2022 Collections | Difference From Baseline Forecast | Difference From FY 2021 |
|---|---|---|---|
| February | $ 725.4 | $ 197.9 | $ (103.5) |
| Year-to-Date | $ 9,729.1 | $ 311.0 | $ 903.7 |

**Sales Tax** collections of $562.1 million were 17.7% above February of last year and $18.5 million above the January Baseline forecast. Sales Tax collections have grown by double-digits every month for the last year. Year to date, sales tax revenue is up by 16.2% and is $45.6 million above forecast.

*Table 2* provides more details on the 5 major sales tax categories as well as the smaller Transient (Hotel/Motel) Lodging and Amusements classification. Lodging, Amusements, and Restaurant & Bar collections continue to post high growth rates and have fully recovered since the Covid-19 pandemic.

Retail/Remote Seller collections continue to grow. This is the 20th consecutive month that collections grew by double-digits. While both categories continue to consistently perform well, Remote Seller collections are growing at a faster rate than Retail collections, posting an average growth rate of 42.1% in the past year compared to 18.8% for retail.

*Table 2* shows that Utilities posted a 16.1% increase over the year. According to the Department of Revenue, this large increase is due to an overpayment that will be adjusted in March.

Table 2

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

| | Feb | YTD |
|---|---|---|
| Retail/Remote Seller | 15.2% | 15.9% |
| Contracting | 9.9% | 1.7% |
| Use | 11.8% | 10.6% |
| Restaurant & Bar | 26.6% | 33.8% |
| Utilities | 16.1% | 0.4% |
| Hotel/Motel Lodging | 87.8% | 78.7% |
| Amusements | 69.3% | 152.6% |

**Individual Income Tax (IIT)** net collections were $170.6 million in February. This is a (52.9)% decrease from February 2021 but $172.4 million above the January Baseline forecast. Year-to-date (YTD), IIT collections are down (2.9)% compared to the same period in FY 2021. After accounting for the impact of the 2020 tax-filing deferral, YTD growth is 11.0%.

Table 3

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

| | February | YTD |
|---|---|---|
| Withholding | 3.1% | 13.0% |
| Estimated/Final Payments | 59.6% | (30.1)% |
| Refunds | 165.7% | 29.2% |

Withholding collections grew, year over year, by 3.1% in February and was $(29.0) million under the January Baseline forecast. YTD, withholding has risen $13.0%. This was the first month since October with withholding growth under 10.0%. The lower-than-projected growth rate was due to processing issues, which artificially increased January withholding revenue and commensurately decreased February revenue. For January and February combined, withholding collections increased by 16.2% over the same two months in 2021.

February payments were $74.4 million, 59.6% more than the previous February and $24.8 million above the January Baseline forecast. Through February, YTD payments are down by (30.1)% compared to the same period in FY 2021. Adjusting for the 2020 tax-filing deferral, YTD payments have increased by 34.5%.

The amount of refunds in February was $373.9 million, compared to $140.7 million a year ago. This higher level of refunds accounts for most of the (12.5)% decline in overall General Fund revenues in February.

Relative to the forecast, however, refunds were $(176.6) million below the January Baseline forecast. As a result, the lower-than-projected level of refunds generated a forecast gain of $176.6 million in February, or almost 90% of February's total General Fund revenue forecast gain of $197.9 million.

We believe that these February results are primarily due to a timing issue. This year's tax filing season began January 24th compared to February 12th last year. Moreover, last year's filing due date was delayed to May 17th compared to April 18th in the current year. As a result of the changes made to the 2021 tax filing season, a significantly smaller amount of refunds ($140.7 million) was deposited in February 2021 than normal. These changes have added significant uncertainty in terms of predicting the timing of refund deposits during the 2022 tax filing season. For this reason, we believe that February's large forecast gain is overstated and likely will be reversed in the coming months.

**Corporate Income Tax** net revenue was $25.0 million in February, 44.2% greater than the over the same month in the previous year and $18.0 million above the January Baseline forecast. YTD, the level of corporate income tax collections through February is $629.2 million, which is 52.3% above the same period in FY 2021 and $16.5 million above forecast.

**Insurance Premium Tax (IPT)** revenue was $10.5 million in February, which was $4.9 million above the January Baseline forecast. Year to date, IPT revenue is up by 15.1% and $8.9 million above forecast. As noted in previous months, the strong IPT growth is likely related to the premium taxes levied on the state's Medicaid program.

The amount of **Tobacco Tax** deposited into the General Fund in February was $1.4 million, which is (33.3)% below February 2021 and $(0.7) million below the January Baseline forecast. FY 2022 General Fund tobacco tax revenues now total $13.8 million, (6.2)% below the amount collected in the same period in FY 2021 and $(0.6) million below forecast.

**Liquor Tax** revenue deposited into the General Fund in February was $3.1 million. This is a 48.0% increase over February 2021 and $(0.1) million below January Baseline forecast. The spirituous liquor category drove most of February's growth, with a 76% year-over-year increase in collections. Year to date, General Fund liquor tax revenue is $27.9 million, which is $(1.0) million below forecast.

The **Lottery Commission** reported that total ticket sales in February were $114.8 million. This amount is $800,000, or 0.7%, above February 2021. Year to date, ticket sales are $887.4 million, which is (6.0)% below the prior year.

**Highway User Revenue Fund (HURF)** collections of $128.5 million in February were 5.1% above the amount collected in February 2021 and $2.1 million above forecast. Year to date, HURF collections have increased by 6.4% compared to the same period in the prior year and are $26.5 million above forecast.

Due to delays in reporting final January revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For January, DOR has increased the amount of prior General Fund revenue collections by $0.1 million, and the adjustment has been included in the reported year-to-date results.

Table 4

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

| | Current Month | | | | | FY 2022 YTD (Eight Months) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Change From | | | | | Change from | | | |
| | Actual | February 2021 | | Baseline Forecast | | Actual | February 2021 | | Baseline Forecast | |
| | February 2022 | Amount | Percent | Amount | Percent | February 2022 | Amount | Percent | Amount | Percent |
| **Taxes** | | | | | | | | | | |
| Sales and Use | $562,110,851 | $84,489,319 | 17.7 % | $18,540,952 | 3.4 % | $4,672,171,882 | $650,538,389 | 16.2 % | $45,643,141 | 1.0 % |
| Income - Individual | 170,600,898 | (191,360,118) | (52.9) | 172,403,016 | -- | 4,273,217,712 | (128,083,069) | (2.9) | 264,401,589 | 6.6 |
| - Corporate | 24,958,422 | 7,646,035 | 44.2 | 17,959,931 | 256.6 | 629,183,337 | 215,943,233 | 52.3 | 16,466,000 | 2.7 |
| Property | 585,554 | (2,418,519) | (80.5) | (760,861) | (56.5) | 19,171,499 | 2,701,580 | 16.4 | (94,617) | (0.5) |
| Luxury - Tobacco | 1,442,877 | (720,020) | (33.3) | (678,274) | (32.0) | 13,778,400 | (917,509) | (6.2) | (566,909) | (4.0) |
| - Liquor | 3,142,085 | 1,019,486 | 48.0 | (66,270) | (2.1) | 27,899,201 | 1,414,374 | 5.3 | (991,322) | (3.4) |
| Insurance Premium | 10,497,267 | 4,846,462 | 85.8 | 4,901,511 | 87.6 | 290,350,505 | 38,166,637 | 15.1 | 8,915,177 | 3.2 |
| Other Taxes | 2,451,287 | 347,103 | 16.5 | 125,867 | 5.4 | 8,323,314 | (194,163) | (2.3) | 104,017 | 1.3 |
| **Sub-Total Taxes** | $775,789,241 | ($96,150,252) | (11.0) % | $212,425,872 | 37.7 % | $9,934,095,850 | $779,569,472 | 8.5 % | $333,877,078 | 3.5 % |
| **Other Revenue** | | | | | | | | | | |
| Lottery | 0 | 0 | -- | 0 | -- | 156,813,034 | 69,817,585 | 80.3 | (9,574,905) | (5.8) |
| Gaming | 0 | 0 | -- | (4,902,826) | (100.0) | 3,808,244 | 3,808,244 | -- | (5,102,826) | (57.3) |
| License, Fees and Permits | 2,368,715 | (2,165) | (0.1) | (59,523) | (2.5) | 26,925,882 | 907,642 | 3.5 | 672,168 | 2.6 |
| Interest | 770 | (1,027) | (57.2) | (255) | (24.9) | 16,928,038 | 16,912,119 | -- | 734 | 0.0 |
| Sales and Services | 2,637,121 | 644,713 | 32.4 | 562,078 | 27.1 | 18,049,935 | 2,105,774 | 13.2 | 1,078,406 | 6.4 |
| Other Miscellaneous | (2,531,829) | (4,937,579) | -- | (4,920,109) | -- | 17,920,898 | (1,606,241) | (8.2) | (5,672,166) | (24.0) |
| Disproportionate Share | 0 | 0 | -- | 0 | -- | 0 | 0 | -- | 0 | -- |
| Transfers and Reimbursements | 10,214,094 | (6,986,486) | (40.6) | (5,181,488) | (33.7) | 38,835,563 | (21,018,026) | (35.1) | (4,294,254) | (10.0) |
| **Sub-Total Other Revenue** | $12,688,869 | ($11,282,544) | (47.1) % | ($14,502,123) | (53.3) % | $279,281,594 | $70,927,097 | 34.0 % | ($22,892,843) | (7.6) % |
| **TOTAL BASE REVENUE** | **$788,478,110** | **($107,432,796)** | **(12.0) %** | **$197,923,750** | **33.5 %** | **$10,213,377,445** | **$850,496,569** | **9.1 %** | **$310,984,234** | **3.1 %** |
| **Other Adjustments** | | | | | | | | | | |
| Urban Revenue Sharing | (63,032,358) | 6,008,714 | (8.7) | (0) | 0.0 | (504,258,860) | 48,069,712 | (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 | (14,854,764) | -- | 0 | -- |
| **Sub-Total Other Adjustments** | (63,032,358) | 3,886,605 | (5.8) % | (0) | 0.0 % | (484,258,860) | 53,214,948 | (9.9) % | (0) | 0.0 % |
| **TOTAL GENERAL FUND REVENUE** | **$725,445,753** | **($103,546,191)** | **(12.5) %** | **$197,923,750** | **37.5 %** | **$9,729,118,584** | **$903,711,517** | **10.2 %** | **$310,984,234** | **3.3 %** |
| **Non-General Funds** | | | | | | | | | | |
| Highway User Revenue Fund | 128,465,978 | 6,188,969 | 5.1 % | 2,120,085 | 1.7 % | 1,120,036,318 | 67,769,468 | 6.4 % | 26,523,567 | 2.4 % |

## Monthly Indicators

**NATIONAL**

The U.S. Bureau of Economic Analysis' (BEA) second estimate for 4th quarter **U.S. Real Gross Domestic Product** (GDP) is 7.0%. This is revised upward from their preliminary estimate of 6.9%.

The Conference Board's **Consumer Confidence Index** was 110.5 in February, a decrease of (0.5)% over the prior month. Compared to last February, consumer confidence has risen 16.1% but is down (14.3)% from the June peak. The overall decline in confidence stems primarily from lowered future expectations while views of the present situation remain positive. The cut-off date for February's consumer confidence survey was prior to the escalation of the conflict in Ukraine.

The **U.S. Leading Economic Index** (LEI), published by the Conference Board, declined by (0.3)% in January. This was the first month-over-month decrease in LEI since February 2021. Eight of the index's ten components improved in January, but rising unemployment insurance claims and lowered consumer expectations offset the improvements in other areas. The Conference Board cites the "Omicron wave, rising prices, and supply chain disruptions" as the principal reasons for the decline in their press release.

The U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)** rose by 0.8% in February. Before seasonal adjustment, prices were 7.9% higher than in February 2021. The 12-month increase is the largest since 1982. The year-over-year CPI gain encompassed increases of 25.6% in energy (including 38.0% in gasoline) prices and 7.9% for the food index. Excluding food and energy prices, the CPI increased by 6.4% this year.

**ARIZONA**

<u>Housing</u>
The **median home price** in Maricopa County rose to $470,000 in February 2022, representing a 2.4% increase over the prior month and a 26.3% increase over January 2021.

<u>Tourism and Restaurants</u>
In January, **revenue per available room** increased to $83.65, representing a 1.1% increase from December's figure and an 80.8% year-over-year increase.

**Hotel occupancy** was 59.0% in January, which is (4.4)% lower than last month's occupancy rate and 23.7% higher than that of January 2021.

**Phoenix Sky Harbor Airport Ridership** was slightly over 3.0 million in January, representing a (20.9)% decrease from December's figure and a 78.6% increase over January 2021's figure. This is the first month since April 2021 where year-over-year growth has been under 100%.

According to data reported by OpenTable, on March 12, **daily restaurant reservations** were 19.2% above 2019 reservations on the comparable date.

<u>Employment</u>
As a result of the annual benchmarking revision of establishment survey data, the Office of Economic Opportunity (OEO) reported in March that Arizona's nonfarm employment was revised upward for 2020 and 2021. The revised 2020 annual average employment level was 2,853,500 jobs, an upward revision of 3,200 jobs (0.1%). In comparison, the revised 2021 annual average employment level was 2,957,600, an upward revision of 12,500 jobs (0.4%).

According to the latest employment report released by OEO, the state lost (44,800) **nonfarm jobs** in January compared to the prior month. Historically, nonfarm employment has recorded a loss of (49,800) jobs in January (2012-2021). The private sector recorded a loss of (38,400) jobs over the month. Historically, the private sector has averaged a loss of (40,800 jobs in January).

Compared to the same month in the prior year, the state gained 127,400 jobs, an increase of 4.4%. Gains were reported in all eleven categories, with the largest gains recorded in Leisure and Hospitality and Trade, Transportation & Utilities.

The state's seasonally adjusted unemployment rate decreased to 3.7% in January from 3.9% in December. The U.S. seasonally adjusted unemployment rate increased from 3.9% in December to 4.0% in January.

OEO reported that a total of 2,568 **initial claims for unemployment insurance** were filed in Arizona in the week ending on March 12th. For the same week in the prior year, 5,220 initial claims were filed.

According to OEO, for the week ending on March 5th, there were a total of 13,001 **continued claims for unemployment insurance** in Arizona. At this time a year ago, the continued claims were 46,404.

State Agency Data

As of March 1, 2022, the total **AHCCCS caseload** was 2.31 million members. Total monthly enrollment increased 0.6% in March over February and increased 8.6% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.4% in March or 7.5% higher than a year ago.

Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,023,332 in March – an increase of 0.9% over February and 10.5% above last year. For March 2022, Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population enrollment remained flat. At 65,427, this population is 1.0% higher than a year ago.

There were 12,865 **TANF** Cash Assistances cases in February 2022, representing a 1.5% increase from January. The year-over year number of cash benefit recipients has decreased by (13.8)%. Starting with this report, this figure will reflect all cases, including Tribal recipients.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In February 2022, 826,837 people received food stamp assistance. This was a (1.9)% decrease from January, and a (17.7)% decrease since February 2021.

The Arizona Department of Correction's **inmate population** was 33,546 as of February 28, 2022. This was a decrease of (0.3)% since January 31, 2021 and a (9.3)% decrease since February 2021.

Based on information the Department of Child Safety provided for January 2022, **reports of child maltreatment** totaled 46,451 over the last 12 months, an increase of 7.5% over the prior year. There were 14,337 **children in out-of-home care** as of January 2022, or (0.1)% less than in January 2021. Compared to the prior month, the number of out-of-home children increased by 0.2%.

**Table 4**

**MONTHLY INDICATORS**

| Indicator | Time Period | Current Value | Change From Prior Period | Change From Prior Year |
|---|---|---|---|---|
| **Arizona** | | | | |
| *Employment* | | | | |
| - Seasonally Adjusted Unemployment Rate | January | 3.7% | (0.2)% | (2.4)% |
| - Total Unemployment Rate (discouraged/underemployed) | 4th Q 2021 | 9.0% | (1.1)% | (4.0)% |
| - Initial Unemployment Insurance Claims | Week Ending Mar. 12 | 2,568 | 2.4% | (50.8)% |
| - Continued Unemployment Insurance Claims | Week Ending Mar. 5 | 13,001 | (1.5)% | (72.0)% |
| - Non-Farm Employment - Total | January | 3,015,000 | (1.5)% | 4.4% |
| Manufacturing | January | 184,300 | (0.2)% | 3.2% |
| Construction | January | 178,200 | (1.0)% | 2.8% |
| - Average Hourly Earnings, Private Sector | January | $29.80 | 2.2% | 5.5% |
| *Building* | | | | |
| - Building Permits (12 month rolling sum) | | | | |
| Single-family | December | 46,129 | (1.8)% | 11.2% |
| Multi-family | December | 18,795 | 1.8% | 18.8% |
| - Maricopa County/Other, Single-Family Home Sales (ARMLS) | February | 7,240 | 12.1% | 11.0% |
| - Maricopa County/Other, Single-Family Median Home Price (ARMLS) | February | $470,000 | 2.4% | 26.3% |
| - Maricopa Pending Foreclosures | February | 889 | 21.0% | (17.0)% |
| *Tourism and Restaurants* | | | | |
| - Phoenix Sky Harbor Air Passengers | January | 3,007,883 | (20.9)% | 78.6% |
| - State Park Visitors | December | 181,634 | (32.8)% | 2.8% |
| - Revenue Per Available Hotel Room | January | $83.65 | 1.1% | 80.8% |
| - Arizona Hotel Occupancy Rate | January | 59.0% | (4.4)% | 23.7% |
| - Az OpenTable Reservations – % Change from 2019 | March 12 | N/A | N/A | 19.2% |
| *General Measures* | | | | |
| - Arizona Personal Income, SAAR | 3rd Q 2021 | $385.8 billion | 3.9% | 2.9% |
| - 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 |
| *Agency Measures* | | | | |
| - AHCCCS Recipients | March 1st | 2,310,900 | 0.6% | 8.6% |
| Traditional Acute Care | | 1,222,200 | 0.4% | 7.5% |
| Other Acute Care | | 1,023,300 | 0.9% | 10.5% |
| Long-Term Care – Elderly & DD | | 65,400 | 0.0% | 1.0% |
| - Department of Child Safety (DCS) | | | | |
| Annual Reports of Child Maltreatment (12-month total) | January | 46,451 | 2.1% | 7.5% |
| DCS Out-of-Home Children | January | 14,337 | 0.2% | (0.1%) |
| Filled Caseworkers (1406 Budgeted) | January | 1,169 | (8) | (93) |
| - ADC Inmate Growth | February | 33,546 | (0.3)% | (9.3)% |
| - Department of Economic Security | | | | |
| - TANF Cash Assistance Recipients | February | 12,865 | 7.6% | (8.1)% |
| - SNAP (Food Stamps) Recipients | February | 805,131 | (1.9)% | (17.7)% |
| **United States** | | | | |
| - Gross Domestic Product (Chained 2012 dollars, SAAR) | 4th Q, 2021 (2nd Estimate) | $19.8 trillion | 7.0% | 5.6% |
| - Consumer Confidence Index (1985 = 100) | February | 110.5 | (0.5)% | 16.1% |
| - Leading Economic Index (2016 = 100) | January | 119.6 | (0.3)% | 8.6% |
| - Consumer Price Index, SA (1982-84 = 100) | February | 284.2 | 0.8% | 7.9% |

## Summary of Recent Agency Reports

**AHCCCS** – Report on the FY 2020 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 $1.53 billion in SFY 2021, or $1.03 billion above the $507.5 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 3 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 $956.6 million in the last 9 months of SFY 2021 (since the HCIF did not become effective until October 2020). This amount is $717.6 million above the $239.1 million in assessments paid by the hospitals. Directed payments exceeded the assessment costs for all hospitals but 2. (Maggie Rocker)

**AHCCCS, DES, & DCS** – Report on Preliminary Actuarial Estimates for CYE 2023 Capitation Rate Changes – Pursuant to an FY 2022 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) submitted a report on preliminary Medicaid capitation rate increases for contract year (CYE) 2023. Their submission includes information for AHCCCS, the Department of Economic Security (DES), and the Department of Child Safety (DCS).

Overall, AHCCCS anticipates a weighted average capitation rate increase of 3.1% to 5.1% in CYE 2023. The 5.1% figure represents the projected national growth rate in FY 2023 Medicaid spending from the Centers for Medicare and Medicaid Services Office of the Actuary. The 3.1% figure is consistent with the JLBC Staff's FY 2023 estimate. Potential factors that may influence capitation rate growth in CYE 2023 include:

- Changes in utilization patterns as a result of the pandemic, including increased utilization of behavioral health and higher acuity services as well as increased enrollment. AHCCCS predicts the risk profile of the average member will stabilize with the eventual expiration of the public health emergency.
- Rate increases for home and community-based services for Proposition 206 and Proposition 414 (Flagstaff) minimum wage requirements. Tucson's minimum wage is scheduled to increase from $12.80 to $13.50 in January 2023 while Flagstaff's minimum wage will now annually increase based on the consumer price index.
- Increases in pharmacy costs due to pharmaceutical pricing and utilization.
- Implementation of workforce development initiatives associated with AHCCCS's expenditure plan for American Rescue Plan Act home and community-based services monies. (Maggie Rocker)

**Auditor General** – A Special Report of the Arizona Department of Child Safety – Pursuant to an FY 2021 Human Services Budget Reconciliation Bill provision, the Arizona Auditor General reported on the Department of Child Safety's (DCS) practices for classifying and locating runaway and missing children. The report was based on DCS data from calendar year 2020, during which time the number of runaway children ranged from 216 to 245 children per month, and the number of missing children ranged from 34 to 51 children per month.

The Auditor General offered 2 key findings:

1. DCS practices for classifying and locating children missing from care are generally consistent with those recommended by the Child Welfare League of America (CWLA), but caseworkers did not always comply with documentation requirements.

2. DCS and law enforcement have not formalized expectations for collaboration, and DCS lacks some detailed guidance for the types and frequency of

caseworkers' ongoing efforts to locate children missing from care.

DCS agreed to implement the recommendations provided by the Auditor General to address its findings. (Alexis Sammon)

**Department of Child Safety** - Semi-Annual Benchmark Progress Report – Pursuant to an FY 2022 General Appropriation Act footnote, the Department of Child Safety (DCS) reported on progress made to meet the caseload standard and reduce the number of backlog cases and out-of-home children for the period of July 2021 to December 2021.

As of December 31, 2021, DCS had 3,089 inactive cases and 12,115 open reports. Both the number of inactive cases and open reports have increased since March 2021 and are currently above their respective legislative benchmarks of 1,000 inactive cases and 8,000 open reports. DCS attributes much of this increase to the migration from the previous child welfare information system (CHILDS) to the new system (Guardian). DCS states that a lack of qualified applicants has resulted in an increase in the average caseload, as exiting staff are outpacing new applicants and new hires.

In December of 2021, DCS was responsible for 14,450 children in out-of-home care. This number is greater than the legislative benchmark of 13,964 but has remained relatively flat over the past 12 months. This figure includes 1,247 youth ages 18-20 who are in extended foster care; DCS has worked intentionally to increase the amount of youth in extended foster care and help them transition successfully into adulthood. (Alexis Sammon)

**Department of Corrections** – Report on Inmate Health Care Performance Measures – Pursuant to an FY 2022 General Appropriation Act footnote, ADC submitted its latest report detailing the status of performance measures required under the *Parsons v. Ryan* Stipulation. The Stipulation requires ADC to track 112 individual health care performance measures across the 10 ADC-operated prisons. Not all performance measures are tracked at every prison, and the Stipulation allows for ADC to stop tracking a measure after meeting certain requirements. ADC currently tracks 845 monthly performance measures across the 10 state prisons. ADC reports that as of September 2021 it was in substantial compliance with 86.7% of the active measures, down from 91.6% in April 2021. ADC attributed the lower compliance to a February 2021 court order that required ADC to change the method of auditing mental health visits.

After rescinding the Stipulation in July 2021, the Federal court overseeing the case commenced a bench trial to settle the case on November 1, 2021. The trial concluded on December 8, 2021. The court has not yet issued its ruling. ADC reports that they will continue to require the vendor to comply with the performance measures agreed to in the Stipulation at least until the court rules on the case. (Geoffrey Paulsen)

**Department of Corrections** – Lewis and Yuma Capital Project Quarterly Report – Pursuant to a provision from the June 2019 meeting of the Joint Committee on Capital Review, the Arizona Department of Corrections (ADC) submitted a report detailing its progress on the Lewis and Yuma Lock, Heating/Ventilation/Air Conditioning (HVAC) and Fire Systems project. ADC reports that all work in the Lewis prison was completed in November 2021, including all doors and locking systems, air conditioning units, cell and day room lights, and all new stainless-steel toilet/sink combination units and water control systems.

ADC reports that work has begun on the Dakota Unit at the Yuma prison. ADC expects the remaining work to be completed on schedule in June 2022.

ADC also provided an updated project budget that reduces overall expenditures from $46.3 million to $42.3 million. The $(4.0) million in savings came from lower-than-expected costs for the stainless-steel toilet/sink combination units and HVAC units. (Geoffrey Paulsen)

**County Attorneys** – Report on Deferred Prosecution – Pursuant to A.R.S. § 11-362, each county attorney that oversees an established Deferred Prosecution Program shall submit an annual evaluation of their respective program that includes the following metrics:

- The number of persons who were enrolled in deferred prosecution programs during the previous fiscal year.
- The number of persons who successfully completed deferred prosecution programs during the previous fiscal year.
- If available, the number of persons who were enrolled in deferred prosecution programs during the previous fiscal year and who were subsequently convicted of a new felony offense.

For FY 2021, all 15 counties submitted reports; all counties except Mohave and Yuma Counties currently administer a deferred prosecution program. A total of at least 10,948 individuals were enrolled in a deferred prosecution program in FY 2021, a (27.4)% decrease from FY 2020. Of these individuals, 7,787 successfully completed the program during FY 2021, with another 723 individuals still enrolled. Pinal County reported that 1% of participants in FY 2021 were subsequently charged with a new offense.

Deferred prosecution allows individuals who commit non-dangerous, non-serious crimes to avoid prosecution through the completion of a program that may involve restitution, community service, substance abuse treatment, counseling, or other means by which the individual can make amends for their crime. After the completion of the program, the charges are dismissed. (Ryan Fleischman)

**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 second quarter of FY 2022, the ARRF received revenues totaling $7.5 million and had expenditures totaling $3.7 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru account of the Attorney General at $3.3 million. Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with $1.0 million in ARRF monies spent.

In the second quarter of FY 2022, participating agencies received $6.1 million in net collections from seized assets originally valued at $10.7 million. Net collections increased by $1.5 million, or about 33.2%, from the previous quarter. Net collections were highest in Maricopa County at $2.7 million, which derived from forfeitures valued at $3.3 million and represents an increase of $1.1 million in net collections from the previous quarter. 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 –** Reports on Federal COVID Child Care Monies and Return to Work Grants **–** Pursuant to an FY 2022 General Appropriation Act footnote, the Department of Economic Security (DES) reported on the status of federal Child Care and Development Block Grant (CCBDG) monies provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Consolidated Appropriations Act (CAA); and the American Rescue Plan Act of 2021 (ARPA).

Of the $88.0 million in planned CARES Act spending, DES reports year-to-date expenditures of $86.1 million. Of the $620.8 million in planned CAA and ARPA spending, DES reports year-to-date expenditures of $ 53.6 million. The largest component of this spending has been $33.4 million to increase maximum child care reimbursement rates and continue to suspend the waitlist.

The ARPA also provided an additional $596.4 million in stabilization funding. Of that amount, DES reports year-to-date expenditures of $72.5 million for provider grants.

The following programs and initiatives were implemented by DES as a result of the COVID pandemic, supported by federal CCDBG funding from COVID related legislation:

- The Arizona Enrichment Centers Scholarships Program (ended August 2020) served an average of 3,989 children each month at an average monthly reimbursement rate of $856.91. DES spent $17.1 million on the program.
- The Essential Workers Child Care Relief Scholarship Program has served an average of 5,805 children each month at an average monthly reimbursement rate of $676.32. DES has spent $35.1 million on the program.
- Child Care for Returning Workers has served an average of 420 children each month at an average monthly reimbursement rate of $562.76. DES has spent $1.4 million on the program.
- Continued child care waitlist suspension supported by COVID funding has served an average of 14,955 children each month at an average monthly reimbursement rate of $561.07.

DES reports that as of March 1, 2022 there are 715 providers enrolled in the Quality First Program.

DES currently anticipates an unspent balance of about $200 million in discretionary funds that will need to be used before the expiration of the grant. DES says it is considering new initiatives in order to fully expend the grant but provides no details about potential programs. (Micaela Larkin)

Pursuant to another FY 2022 General Appropriation Act footnote, DES also reported on the number of individuals who have received child care support through return to work grants and the number of those individuals who did not return to receiving unemployment insurance within 6 months. DES reported 764 beneficiaries; a total of 659 of these beneficiaries did not return to receiving unemployment benefits as of March 1, 2022. (Micaela Larkin)

**State Mine Inspector** – Report on Abandoned Mines Safety Fund Expenditures and Contributions – The State Mine Inspector is required by A.R.S. § 27-131 to establish a program to address public safety hazards at abandoned mines. A.R.S. § 27-131 created the Abandoned Mines Safety Fund (AMSF) to fund the program. The Mine Inspector submitted its annual report detailing the contributions to the AMSF and the expenditures by the fund during FY 2021.

The State Mine Inspector reports that the AMSF received no new revenues and had no new expenditures in FY 2021, retaining its previous carry-forward balance of $134,800 at the end of FY 2021. In addition to the AMSF, the State Mine Inspector also receives a General Fund appropriation ($194,700 in FY 2022) for the same purpose.

The State Mine Inspector closed 21 mine sites during FY 2021, up from 3 mines in FY 2020. Of the mine sites closed in FY 2021, none were located on state trust land. The State Mine Inspector has conducted preliminary planning for 19 mine sites to be secured during FY 2022 at an estimated cost of $38,000. (Nate Belcher)

**Department of Revenue** – Repeal of Unused Tax Credits – Pursuant to A.R.S. § 43-224, the Department of Revenue (DOR) submitted its annual report on unused income tax credits. If an income tax credit goes unused in 3 consecutive state fiscal years, statute requires DOR to terminate the recognition and service of that credit for subsequent tax years and to include the repeal of the statute authorizing that credit in technical tax correction legislation. This legislation must be enacted for the repeal to become effective. For taxable years 2022 and beyond, DOR has discontinued parts of the tax credits below.

These individual tax credits will be discontinued:

- Healthy forest enterprise employment credit (A.R.S. § 43-1076)
- Pollution control equipment credit (A.R.S. § 43-1081)

This corporate income tax credit will be discontinued:

- Environmental technology facility credit (A.R.S. § 43-1169)

Laws 2020, Chapter 43 repealed the healthy forest employment credit for corporate taxpayers and the environmental technology credit for individual taxpayers. The pollution control equipment tax credit will still be available for corporate taxpayers. (Micaela Larkin)

**Arizona Board of Regents** – Report on Arizona Teachers Academy Fund – Pursuant A.R.S. § 15-1655, the Arizona Board of Regents (ABOR) submitted its report on the total number of students currently enrolled in the Arizona Teachers Academy and the amount of monies committed from the Arizona Teachers Academy Fund in the current fiscal year. As of March 1, 2022, ABOR reports total academy enrollment for the 2021-2022 academic year is 3,257, of which 1,581 are undergraduate students, 527 are graduate students, 279 are community college post-baccalaureate students, 103 are teachers seeking a national board certification, and 767 are academy graduates receiving induction services in their first year of teaching. In addition, ABOR reports a total of $25.4 million in funds are committed for the costs of the academy in FY 2022, of which $15.0 million is from the General Fund and $10.4 million is from a one-time Medical Marijuana Fund transfer authorized by Proposition 207. (Morgan Dorcheus)

# Arizona Economic Trends

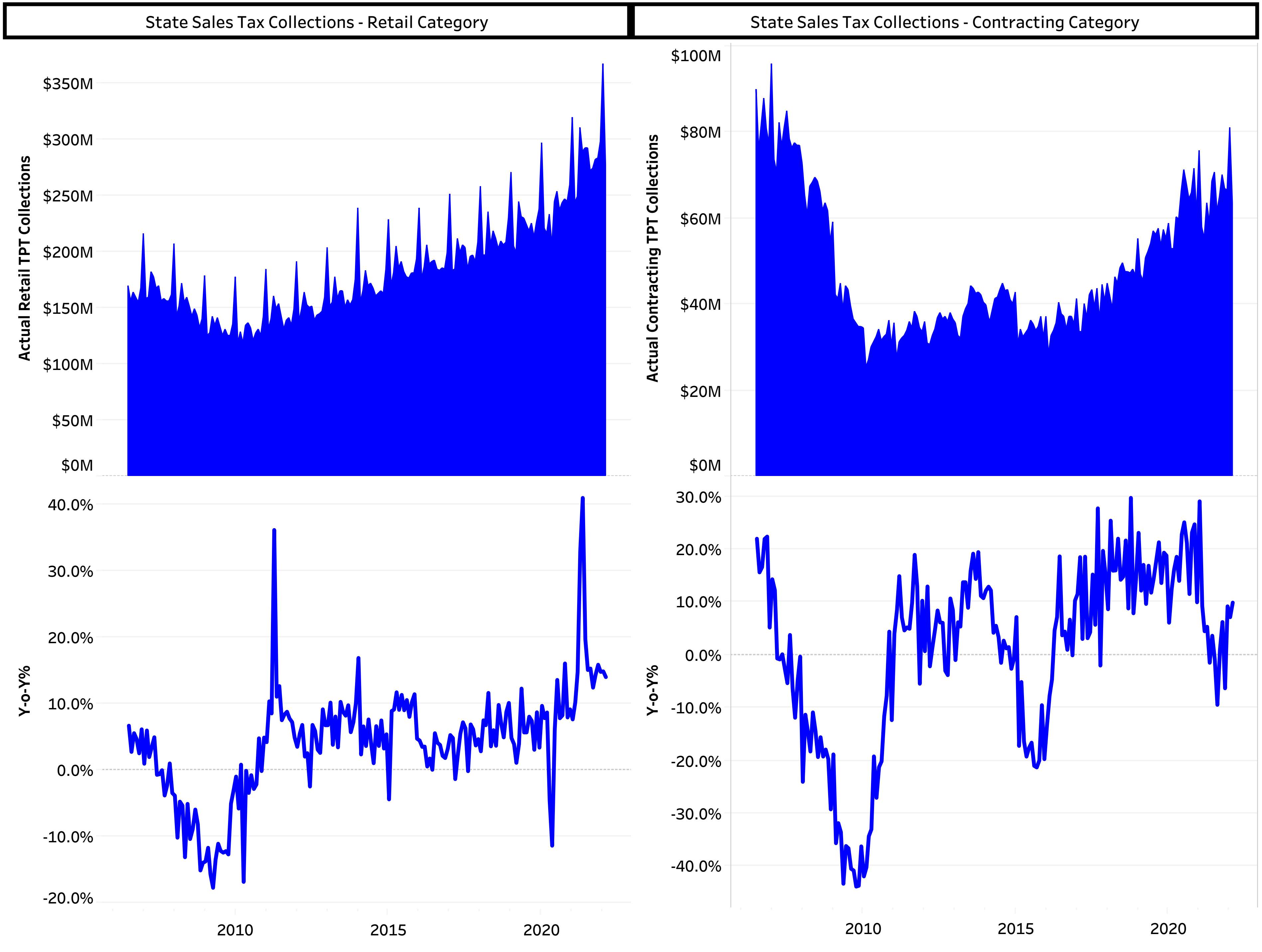
## March 2022

**Page:**

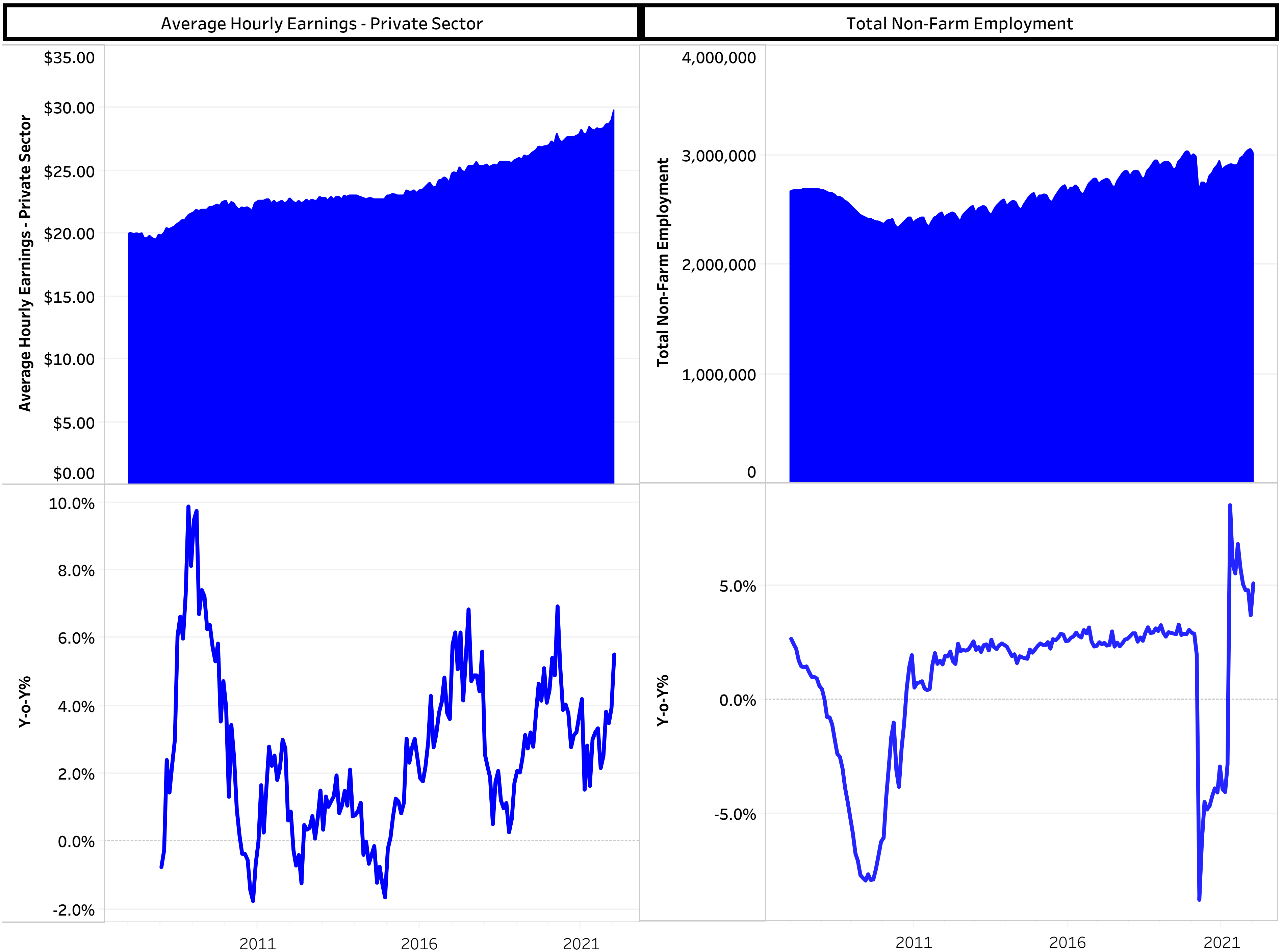
## Appendix A



*Link to Most Recent Arizona Economic Trends Tableau Dashboard*

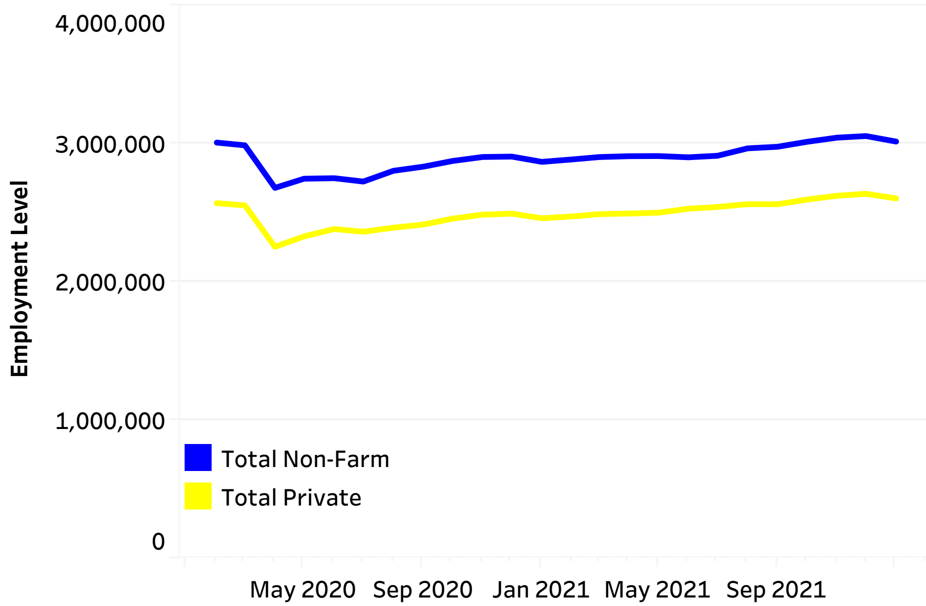


State Sales Tax Collections - Retail Category
State Sales Tax Collections - Contracting Category
Actual Retail TPT Collections
$350M
$300M
$250M
$200M
$150M
$100M
$50M
$0M
Actual Contracting TPT Collections
$100M
$80M
$60M
$40M
$20M
$0M
Y-o-Y%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
Y-o-Y%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
-40.0%
2010
2015
2020
2010
2015
2020

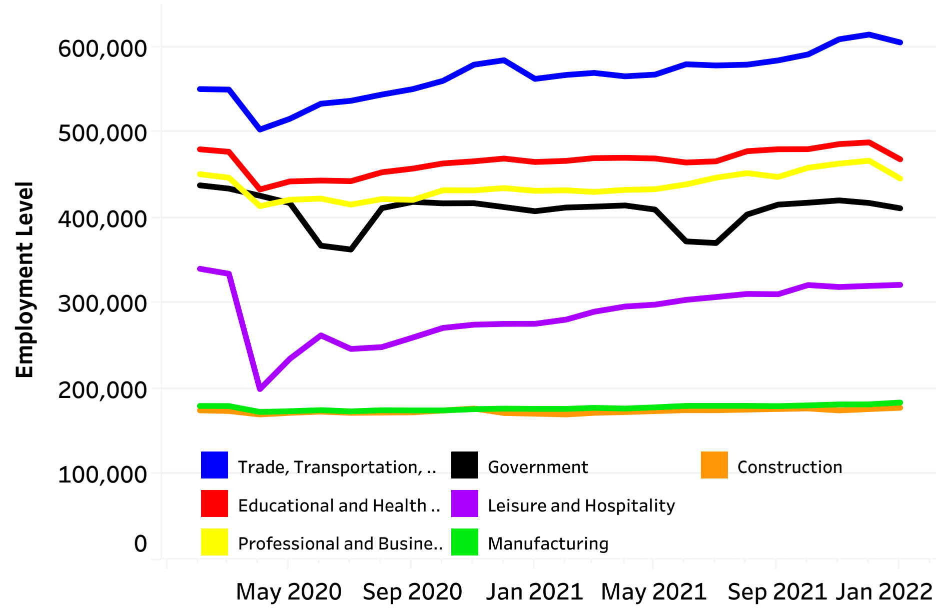


Average Hourly Earnings - Private Sector
Total Non-Farm Employment
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
Average Hourly Earnings - Private Sector
4,000,000
3,000,000
2,000,000
1,000,000
0
Total Non-Farm Employment
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
Y-o-Y%
5.0%
0.0%
-5.0%
Y-o-Y%
2011
2016
2021
2011
2016
2021

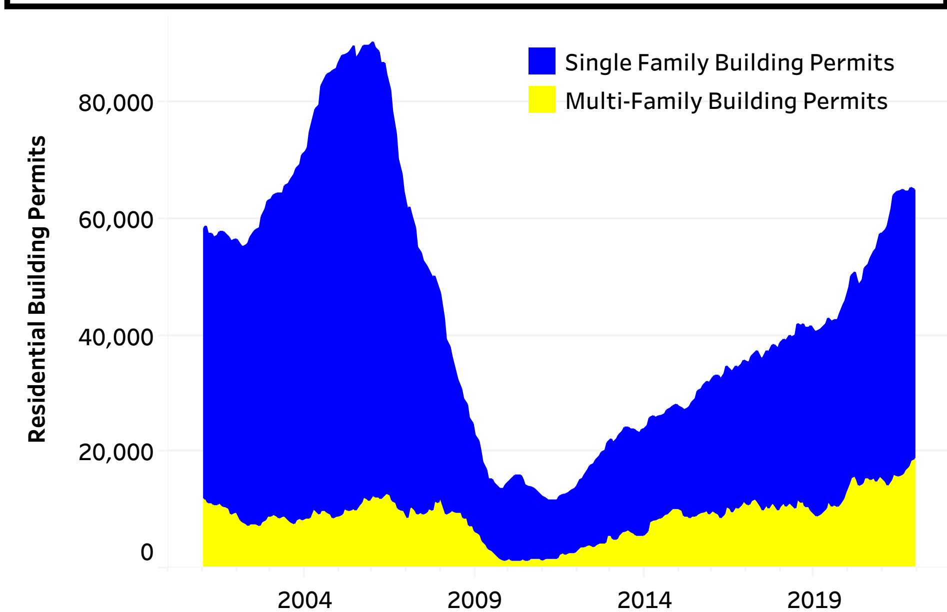
## Arizona Total Non-Farm vs Total Private Employment



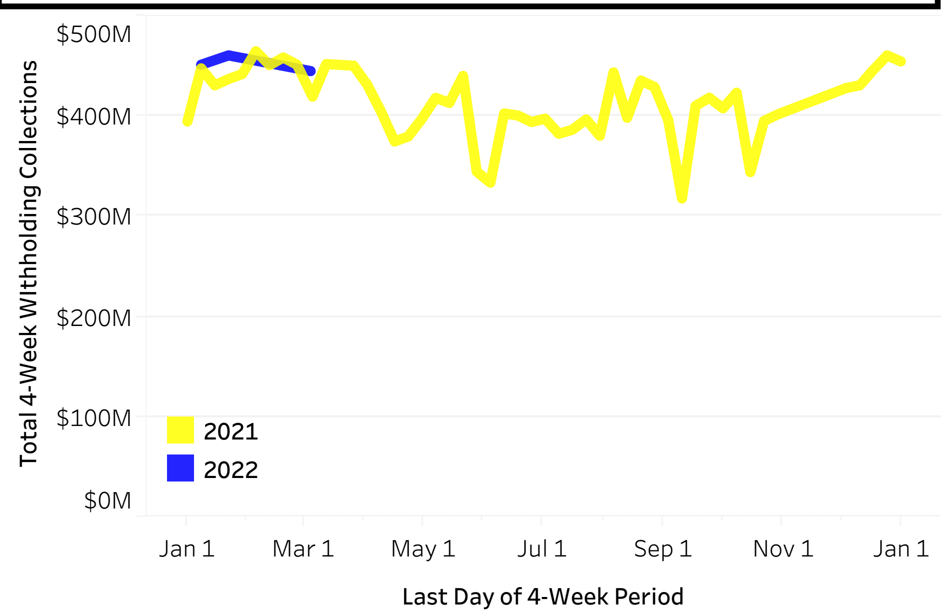

## Arizona Employment by Category



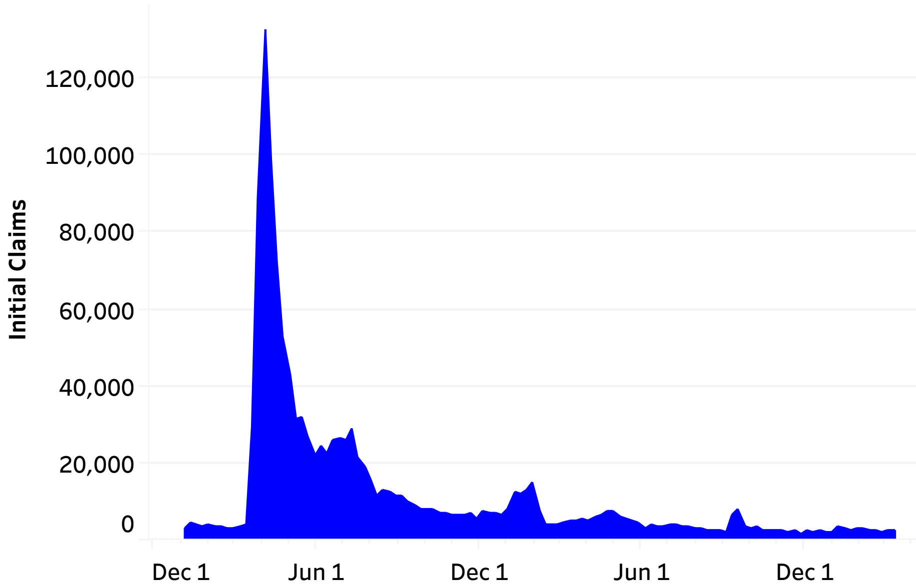

## Residential Building Permits




## Rolling 4-Week Withholding Total

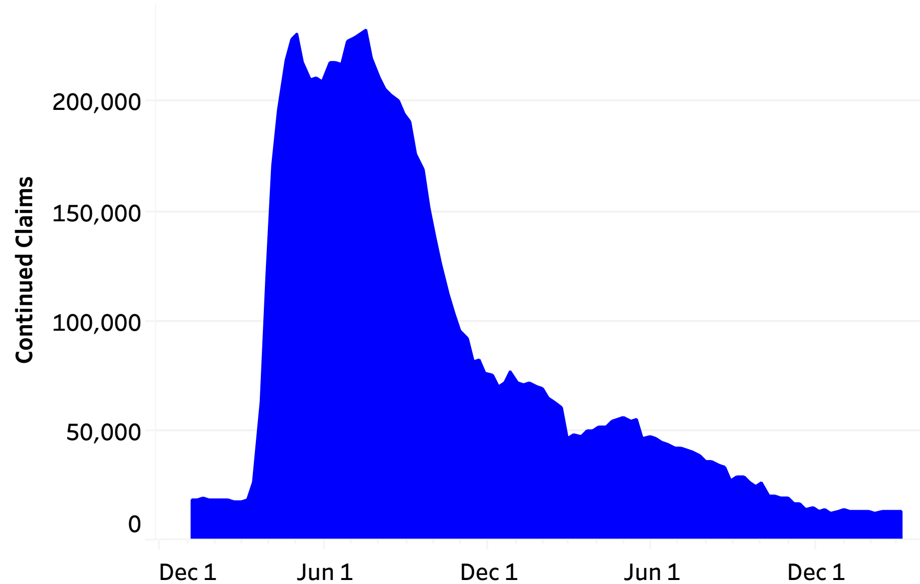


## Initial Unemployment Insurance Weekly Claims



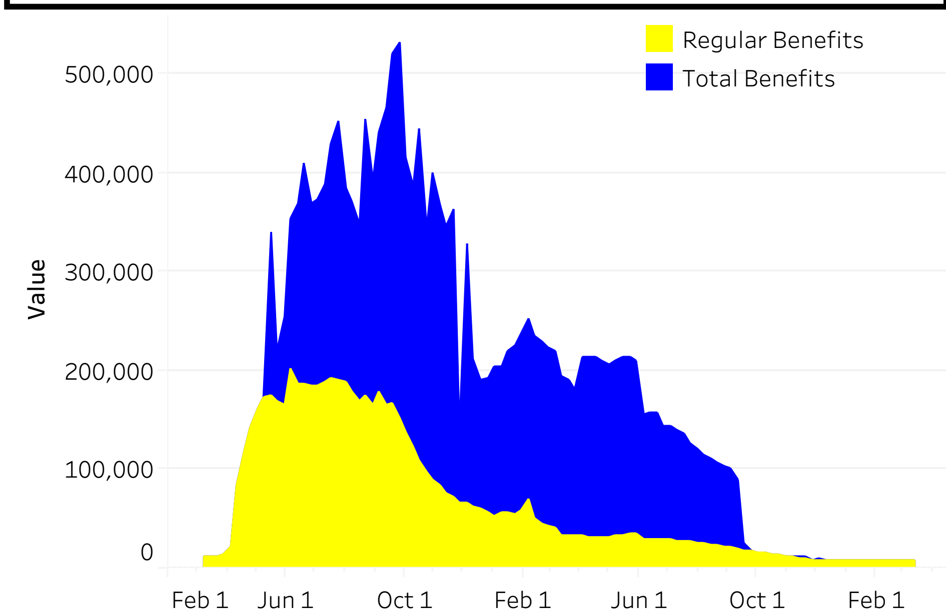

Reported Unemployment Insurance Initial Claims and Continued Claims do not include claims associated with the federally funded Pandemic Unemployment Assistance (PUA) program.

## Continued Unemployment Insurance Weekly Claims

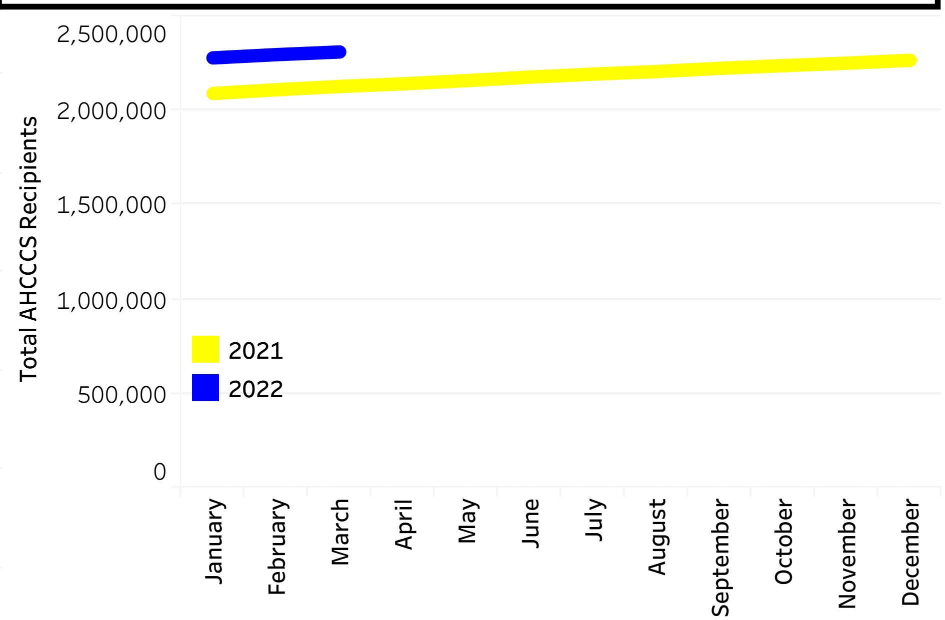


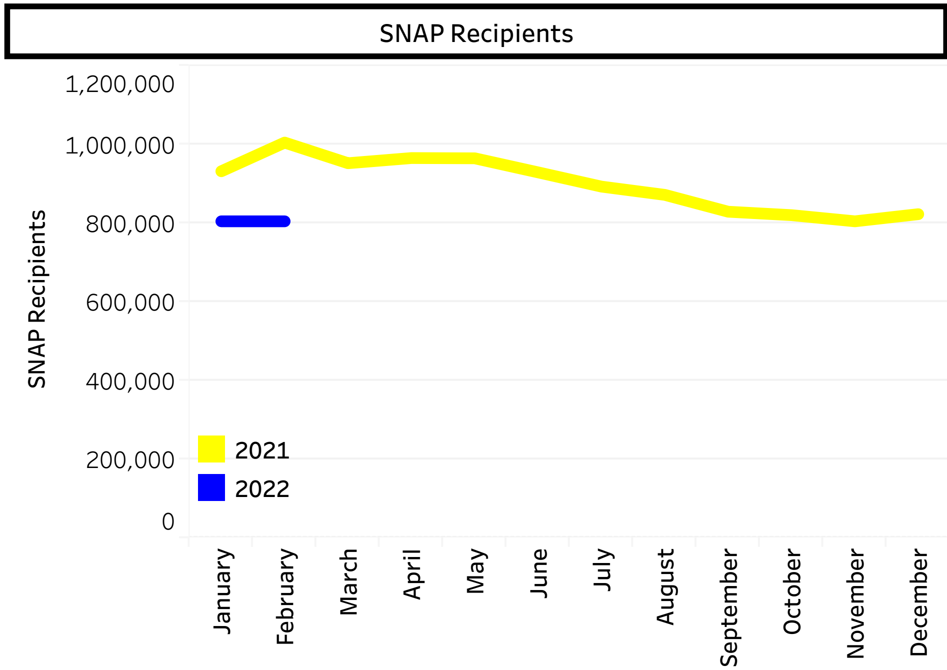

Reported Unemployment Insurance Initial Claims and Continued Claims do not include claims associated with the federally funded Pandemic Unemployment Assistance (PUA) program.

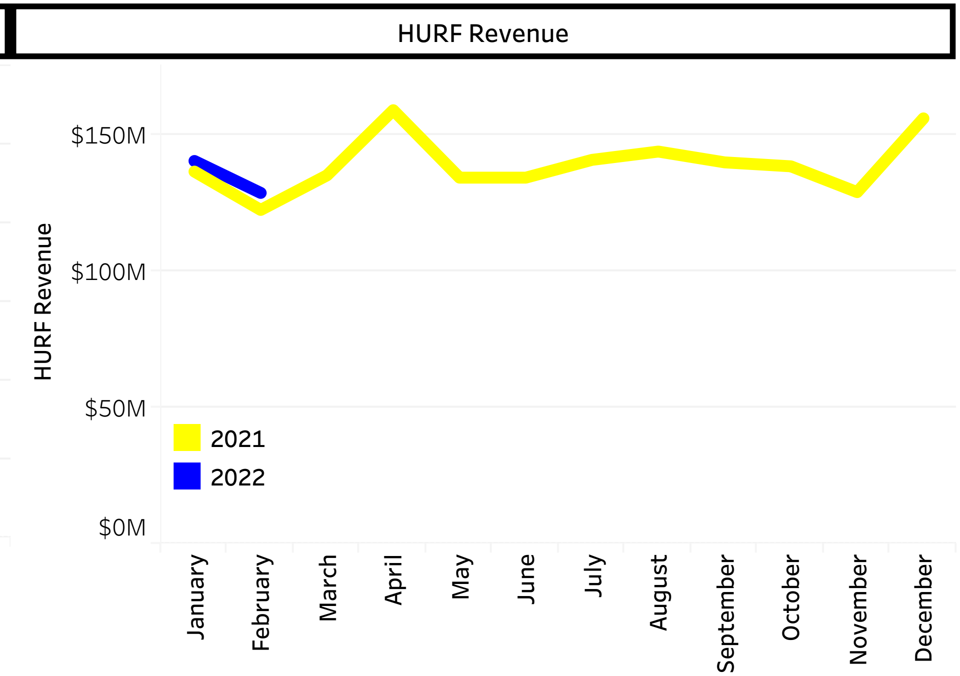
## Unduplicated Unemployment Insurance Claimants

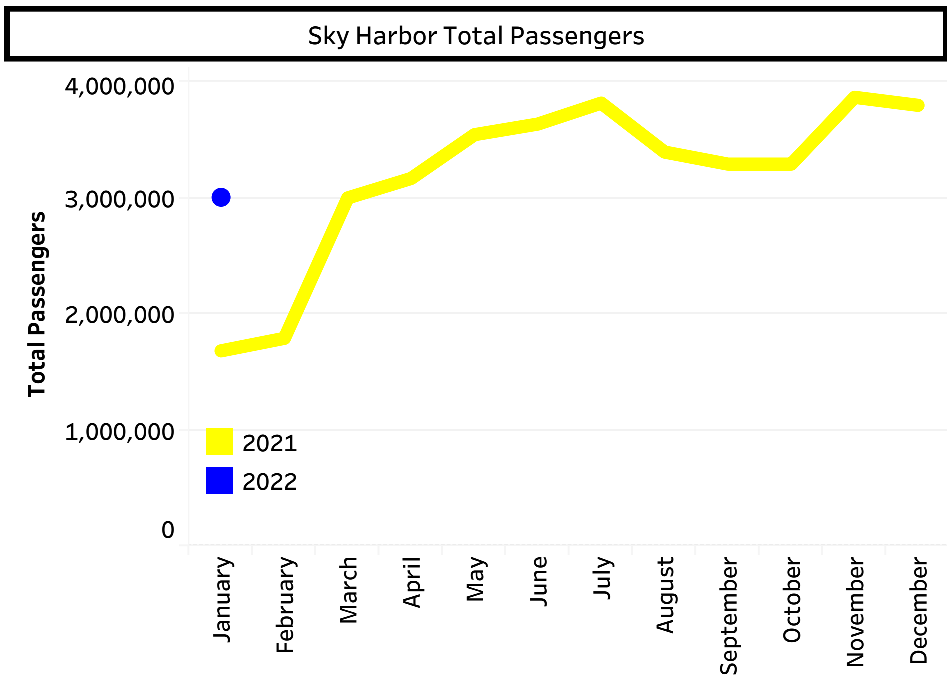


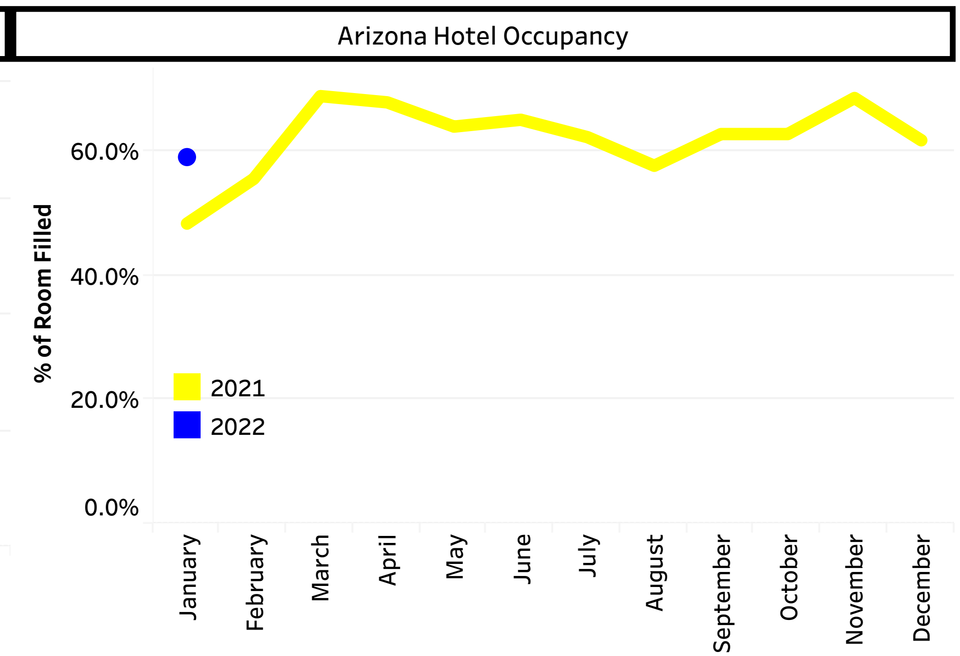

## AHCCCS Recipients

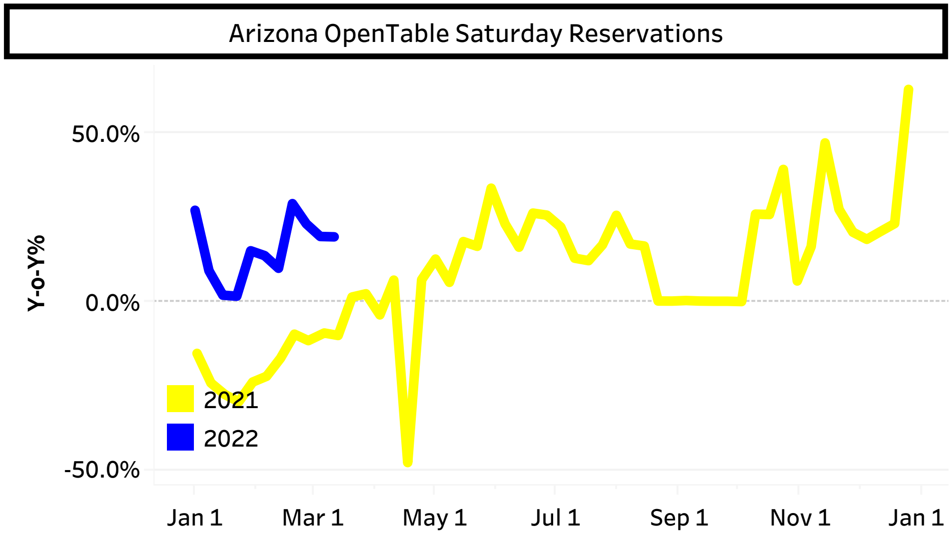



SNAP Recipients
SNAP Recipients
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
2021
2022
January
February
March
April
May
June
July
August
September
October
November
December


HURF Revenue
HURF Revenue
$150M
$100M
$50M
$0M
2021
2022
January
February
March
April
May
June
July
August
September
October
November
December


Sky Harbor Total Passengers
Total Passengers
4,000,000
3,000,000
2,000,000
1,000,000
0
2021
2022
January
February
March
April
May
June
July
August
September
October
November
December


Arizona Hotel Occupancy
% of Room Filled
60.0%
40.0%
20.0%
0.0%
2021
2022
January
February
March
April
May
June
July
August
September
October
November
December




The 2021 and 2022 OpenTable data displays the change in seated diners from 2019, rather than the year-over-year change from 2020.