

Joint Legislative Budget Committee

Monthly Fiscal Highlights

March 2023

Summary

February General Fund revenues totaled \$644.9 million, which is a (11.1)% decline below February 2022. This revenue decline was close to the performance expected in the Baseline revenue forecast and the state generated only a modest forecast gain of \$21 million during the month.

The state's overall revenue decline was due to the combination of 2 factors in the Individual Income Tax (IIT) category:

- Lower income tax withholding rates that were established at the start of Calendar Year 2023 as part of implementing the state's phased in income tax reductions
- A significant increase in income tax refunds, as returns are now being filed under the first step of the income tax reductions (Tax Year 2022 rates of 2.55%/2.98%). The amount of refunds issued during February were 52% above the amount issued in February 2022.

While some growth in tax refunds was expected, the significant increase in refunds issued resulted in IIT collections being \$(44.1) million below forecast during February.

February Sales Tax collections (which reflect January sales activity) posted robust growth, increasing by 11.9% above the prior year and generating a forecast gain of \$43.5 million. This growth was driven by tourism-related factors, including restaurant/bars, personal property rentals (which includes car rentals), hotel/motel lodging, and amusements (which includes event tickets).

In terms of Corporate Income Tax (CIT), February is generally a smaller collection month for the category – during the month, CIT generated a forecast gain of \$11.3 million.

Year-to-Date Revenues/Forecast Gain

Year-to-date through February, excluding Urban Revenue Sharing and fund transfers, FY 2023 General Fund revenues are 7.6% above the prior year.

With the February results, after 2 months of tracking against the Baseline forecast, the state has generated a cumulative forecast gain of \$168 million.

As noted in the prior *Monthly Fiscal Highlights*, the state is going through the first tax season with filers paying under the state's recent income tax reductions – returns are now being filed under the Tax Year 2022 rates of 2.55%/2.98%. Given this, the state's year-to-date forecast gain continues to be difficult to interpret.

Preliminary revenue data through the first few weeks of March suggest that income tax refunds paid by the state will continue to be at very elevated levels. In addition to this refund data, we will be monitoring other upcoming data which will include: 1) More final income tax payment information (as the tax filing deadline get closer); and 2) Additional data on Corporate Income Tax collections, as April and June are major revenue months for the category.

Table of Contents

February Revenues.....	2
Monthly Indicators	5
JLBC/JCCR Meeting Follow Up	8
Summary of Recent Agency Reports	
AHCCCS/DES/DCS – Capitation Rate Report	8
Attorney General – Legal Settlements Report	8
DCS/ECDHB – Joint Coordination Report	9
DCS – Semi-Annual Benchmark Report.....	10

ADC – Annual Bed Capacity Report.....	10
ADC – Correctional Officer Staffing Report.....	10
ADC – Inmate Health Care Performance Measures	10
County Attorneys – Deferred Prosecution Report.....	11
ACJC – Anti-Racketeering Revolving Fund	11
DEMA – Border Security Fund Report.....	11
Judiciary (Supreme Court) – Annual Report.....	12
Treasurer – Smart and Safe Arizona Fund Report.....	13
Universities (ABOR) – Teachers Academy Fund	13



February Revenues

Table 1 General Fund Revenues (\$ in Millions)			
	<u>FY 2023 Collections</u>	<u>Difference From Baseline Forecast</u>	<u>Difference From FY 2022</u>
February	\$ 644.9	\$ 20.6	\$ (80.5)
Year-to-Date	\$ 10,325.0	\$ 168.2	\$ 595.9

Sales Tax collections of \$629.2 million were 11.9% above February of last year and \$43.5 million above the Baseline forecast. Year to date, sales tax revenue is up by 8.9% and is \$73.0 million above forecast.

February's year-over-year growth rate of 11.9% is the highest since September of last year. The stronger-than-expected performance was likely attributable to tourism-related factors, as several sales tax categories showed significant year-over-year gains in February, including Restaurants & Bars (+16.5%), Personal Property Rentals, which mostly include car rentals (23.4%), Hotel/Motel Lodging (+31.1%), and Amusements (+27.8%).

Table 2 shows the February 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>February</u>	<u>YTD</u>
Retail/Remote Seller	7.1%	6.3%
Contracting	28.4%	21.1%
Use Tax	19.6%	11.3%
Restaurant & Bar	16.5%	12.9%
Utilities	2.5%	(7.7)%

Among the major sales tax categories, the contracting classification remains the "stand-out performer" with a year-over-year growth rate of 28.4% in February. Contracting revenue has grown at double-digit rates in 11 of the last 12 months. As we noted in the February *Monthly Fiscal Highlights*, most of the rapid growth in this category is attributable to industrial and commercial construction activities.

Individual Income Tax (IIT) net revenue was \$(63.6) million in February, compared to the forecasted loss of \$(19.5) million for the category. The reason for February's negative amount is that refunds associated with income tax returns filed that month exceeded withholding and other tax payments by \$63.6 million. In February 2022, net revenue was \$170.6 million. Year to date (YTD), net collections are down by (7.3)% and are \$(63.5) million below forecast.

Withholding collections in February were \$410.7 million, a (12.6)% decline from last year but \$29.0 million greater than the January Baseline forecast. According to the Bureau of Economic Analysis, wage and salary disbursements have increased year-over-year both nationally and in Arizona. However, despite positive wage growth, withholding collections decreased due to the lower state withholding rates that took effect in January 2023. Year to date through February, withholding is up by 1.3% compared to the same period last year.

Total payments in February were \$95.4 million, an increase of 28.2% from the previous February and \$22.7 million above forecast. This is the highest level of payments ever collected in the month of February. Historically, February payments only comprise about 2% of the yearly total. Most of February's forecast gain was attributable to estimated payments, which increased by 53.6% over the prior year. YTD, total payments, including both estimated and final payments, have decreased (1.0)% from last year.

February refunds were \$569.8 million, the most ever issued in February and the second highest level recorded in any month. This amount is 52.4% greater than February 2022. Given the Baseline refund forecast of \$474.0 million, February's actual refund level of \$569.8 million results in a forecast loss of \$(95.8) million. YTD, refunds are 56.6% above the same period in the prior year.



In part, the 52.4% increase in February refunds results from the TY 2022 IIT rate reduction without a commensurate reduction of the 2022 withholding rates. We anticipated that the TY 2022 IIT rate reduction would cause overall IIT collections to decline by approximately (19)% during FY 2023. As a result, we need to continue to monitor whether this unexpectedly higher refund level continues in future months.

For example, March month-to-date processing data shows that the level of refunds is more than 40% higher than the same period in March 2022. This suggests that the state could incur another large forecast loss in the current month.

Table 3

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

	<u>February</u>	<u>YTD</u>
Withholding	(12.6)%	1.3%
Estimated/Final Payments	28.2%	(1.0)%
Refunds	52.4%	56.6%

Corporate Income Tax (CIT) net collections in February were \$24.7 million, a decrease of (1.0)% from the previous year but \$11.3 million more than under the Baseline forecast. On average, February net collections make up about 1%-2% of yearly CIT collections. YTD, corporate income tax collections are 63.4% higher than for the same period in the prior year and \$105.7 million above forecast.

Insurance Premium Tax (IPT) collections were \$20.8 million in February, an increase of 98.0% over the prior year and \$10.7 million above the Baseline forecast. Historically, IPT collections in February make up approximately 1% of the yearly total. Fiscal year to date, IPT revenue is up 9.4% and is \$8.9 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in February was \$1.5 million, which is 2.3% above February 2022 collections and \$(0.4) million below the Baseline forecast. Fiscal year to date through February, General Fund tobacco tax revenue totals \$12.5 million, which is (9.0)% below the prior year and \$(0.6) million below forecast.

Liquor Tax revenue deposited into the General Fund in February was \$2.7 million. This is (15.3)% below the amount deposited in February 2022 and \$(0.5) million lower than the Baseline forecast. Fiscal year to date, General Fund liquor tax revenue totals \$29.2 million, which is 4.7% above last year and \$0.7 million higher than projected.

The **Lottery Commission** reported that total ticket sales in February were \$123.8 million. This amount is \$9.1 million, or 7.9%, above February 2022. Year to date, ticket sales are \$1.0 billion, which is 16.5% above the prior year.

Highway User Revenue Fund (HURF) collections of \$138.8 million in February were 8.0% above the amount collected in February 2022 and \$4.2 million above forecast. Year to date, HURF collections have increased by 0.8% compared to the same period in the prior year and are \$(44.6) million below forecast.

As shown in *Table 4*, the state collected \$13.8 million in **Marijuana Excise Taxes** in February, which is 24.0% greater than February 2022 collections. Fiscal year to date through February, \$107.7 million in excise taxes have been collected, which is 30.7% above the level during the comparable period in FY 2022. Monies from this excise tax are deposited into dedicated non-General Fund accounts.

Table 4

**Marijuana State Tax Collections and Distributions
(\$ in Millions)**

	<u>February</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$13.8	\$107.7
Medical Marijuana TPT*	\$1.5	\$14.0
<u>Distribution:</u>		
General Fund	\$1.1	\$10.3
Counties	\$0.2	\$2.3
Cities	\$0.1	\$1.4
Recreational Marijuana TPT	\$4.1	\$30.9
<u>Distribution:</u>		
General Fund	\$3.0	\$22.8
Counties	\$0.7	\$5.0
Cities	\$0.4	\$3.1
Total State Marijuana Tax*	\$19.4	\$152.5
Collections		

* Amounts may not add to total due to rounding



Table 5

General Fund Revenue: **Change from Previous Year and Baseline Forecast** **February 2023**

	Current Month					FY 2023 YTD (Eight Months)				
	Actual February 2023	Change From		Baseline Forecast		Actual February 2023	Change from		Baseline Forecast	
		February 2022 Amount	Percent	Amount	Percent		February 2022 Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$629,212,099	\$67,084,997	11.9 %	\$43,549,621	7.4 %	\$5,086,957,204	\$414,769,070	8.9 %	\$73,030,455	1.5 %
Income - Individual	(63,625,533)	(234,226,430)	--	(44,117,769)	226.2	3,962,701,445	(310,516,268)	(7.3)	(63,478,193)	(1.6)
- Corporate	24,697,798	(260,624)	(1.0)	11,324,333	84.7	1,028,170,108	398,986,771	63.4	105,659,515	11.5
Property	867,087	281,533	48.1	(1,025,549)	(54.2)	15,728,680	(3,442,819)	(18.0)	(1,095,131)	(6.5)
Luxury - Tobacco	1,476,650	33,773	2.3	(365,970)	(19.9)	12,534,640	(1,243,760)	(9.0)	(567,470)	(4.3)
- Liquor	2,660,903	(481,183)	(15.3)	(510,060)	(16.1)	29,218,357	1,319,156	4.7	736,311	2.6
Insurance Premium	20,789,055	10,291,789	98.0	10,746,003	107.0	317,604,603	27,254,098	9.4	8,905,819	2.9
Other Taxes	1,526,960	(924,327)	(37.7)	(970,943)	(38.9)	7,428,282	(895,032)	(10.8)	(1,334,640)	(15.2)
Sub-Total Taxes	\$617,605,020	(\$158,200,472)	(20.4) %	\$18,629,666	3.1 %	\$10,460,343,319	\$526,231,217	5.3 %	\$121,856,667	1.2 %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	160,321,973	3,508,939	2.2	6,935,823	4.5
Gaming	2,506,129	2,506,129	--	2,067,725	471.6	34,766,332	30,958,088	812.9	4,472,876	14.8
License, Fees and Permits	2,705,401	336,687	14.2	(258,438)	(8.7)	29,749,313	2,823,431	10.5	214,954	0.7
Interest	37,236,963	37,236,193	--	2,223,691	6.4	180,908,833	163,980,795	968.7	21,923,815	13.8
Sales and Services	3,334,325	697,204	26.4	509,764	18.0	20,793,400	2,743,464	15.2	653,070	3.2
Other Miscellaneous	(1,369,641)	1,162,188	--	(3,856,796)	--	12,331,992	(5,588,906)	(31.2)	(2,755,689)	(18.3)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,692,012	(5,522,081)	(54.1)	1,252,059	36.4	93,333,227	54,497,664	140.3	14,909,816	19.0
Sub-Total Other Revenue	\$49,105,189	\$36,416,320	287.0 %	\$1,938,006	4.1 %	\$532,205,070	\$252,923,475	90.6 %	\$46,354,666	9.5 %
TOTAL BASE REVENUE	\$666,710,210	(\$121,784,152)	(15.4) %	\$20,567,672	3.2 %	\$10,992,548,389	\$779,154,692	7.6 %	\$168,211,333	1.6 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(92,246,556)	(29,214,199)	46.3	0	(0.0)	(737,972,451)	(233,713,590)	46.3	0	(0.0)
One-Time Transfers	70,462,096	70,462,096	--	0	0.0	70,462,096	50,462,096	252.3	0	0.0
Sub-Total Other Adjustments	(21,784,460)	41,247,897	(65.4) %	0	(0.0) %	(667,510,355)	(183,251,494)	37.8 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$644,925,749	(\$80,536,255)	(11.1) %	\$20,567,672	3.3 %	\$10,325,038,034	\$595,903,198	6.1 %	\$168,211,333	1.7 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	138,802,673	10,336,695	8.0 %	4,201,661	3.1 %	1,129,173,795	9,137,477	0.8 %	(44,608,117)	(3.8) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) second estimate for the U.S. **Real Gross Domestic Product** (GDP) in the 4th quarter of 2022 is an annual growth rate of 2.7%. This estimate was revised from their preliminary estimate of 2.9%.

The Conference Board's **Consumer Confidence Index**, declined to 102.9 in February, a decrease of (2.9)% from the previous month. Consumers' perspective of the present situation improved for the 3rd straight month because of a favorable view of labor market conditions. However, this was offset by declining future expectations due to escalating recession concerns. The consumer confidence index is (2.6)% below what it was in February 2022.

The **U.S. Leading Economic Index** (LEI), published by the Conference Board, decreased by (0.3)% to 110.3 points in January, marking the 11th consecutive month of decline. Strong labor markets and stock market growth were offset by reduced manufacturing orders, consumer expectations, and rising interest rates. Over the past 6 months, the LEI has decreased (3.6)%. The Conference Board's February press release states that it "expects high inflation, rising interest rates, and contracting consumer spending to tip the U.S. economy into recession in 2023".

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased 0.4% month-over-month (after seasonal adjustment) in February. Increased shelter and food prices offset a decline in energy prices during the month. Compared to last February, the overall CPI has increased 6.0%; food prices increased 9.5%; energy prices rose 5.2% (including a (2.0)% decrease for gasoline and 9.2% increase for oil); and shelter costs increased 8.1%. Excluding food and energy, the year-over-year "core" CPI increased by 5.5% in February.

ARIZONA

Housing

In January, Arizona's 12-month total of **single-family building permits** was 34,948. This was a reduction of (6.6)% from December and (25.0)% below January 2022's 12-month total. January was the 20th consecutive month with a year-over-year decline.

In January, Arizona's 12-month total of 22,083 **multi-family building permits** was 16.4% greater than the same 12-month period ending in January 2022. January 2023 is the 17th consecutive month with an annual growth rate greater than 10%.

The **median home price** in Maricopa County fell to \$445,000 in January, representing a (1.1)% decrease from December's median sale price and a (3.1)% decrease below January 2022's figure. This is the first month since at least 2014 to have a lower median home sale price than the same month in the prior year.

Tourism

In January, **revenue per available room** increased to \$104.16, representing a 19.2% gain over December's figure and a 23.9% increase over last January's revenue per room.

Hotel occupancy was 63.7% in January, which is 3.0% greater than December's occupancy rate and 4.7% above that of January 2022.

Phoenix Sky Harbor Airport Ridership was about 3.9 million in January, which is a (0.6)% decrease from December's figure and 0.3% above January 2020 ridership. This is the fourth month since September 2022 with higher ridership than for the same month in 2019 (i.e., before start of the pandemic).

Employment

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 2021 and 2022. The revised 2021 annual average employment level was 2,970,700 jobs, an upward revision of 13,100 jobs. The revised 2022 annual average employment level was 3,095,400, an upward revision of 28,100 jobs. As a result of this benchmark revision, the 2022 average annual net employment gain was increased from 109,700 jobs to 124,700 jobs, or from an annual growth rate of 3.7% to 4.2%, which is the largest percentage gain since 2006.

According to the latest employment report released by OEO, the state lost (32,600) **nonfarm jobs** in January compared to the prior month. Prior to the pandemic, nonfarm employment recorded an average loss of (51,000) jobs in January (2010-2019).



Compared to the same month in the prior year, the state gained 98,400 jobs, an increase of 3.2%. Job gains were reported in all 11 employment categories, with the largest gains recorded in Private Education & Health Services (+26,100 jobs) and Professional & Business Services (+18,700 jobs).

The state's seasonally adjusted **unemployment rate** decreased to 3.8% in January from 4.0% in December. The U.S. seasonally adjusted unemployment rate declined from 3.5% in December to 3.4% in January.

OEO reported that a total of 3,121 **initial claims for unemployment insurance** were filed in Arizona in the week ending on March 4th. For the same week in the prior year, 2,508 initial claims were filed, which is an increase of 24.4%. Compared to the same week in 2022, the number of initial claims has been trending up since the start of the current calendar year.

According to OEO, for the week ending on February 25th, there were a total of 19,712 **continued claims for unemployment insurance** in Arizona. At this time last year, the number of continued claims was 13,199, which represents an increase of 49.3%. Compared to the same week in the prior year, the number of continued claims has been trending up since November of 2022.

State Agency Data

As of March 1, 2023, the total **AHCCCS caseload** was 2.47 million members. Total monthly enrollment increased 0.5% in March over February and increased 6.8% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.1% in March or 4.2% higher than a year ago.

Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,125,807 – an increase of 0.9% over February and 10.0% above last year. For March 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.2%. At 67,452, this population is 3.1% higher than a year ago.

There were 11,341 **TANF Cash Assistances** cases in February 2023, representing a 0.1% increase from January 2023. The year-over-year number of cash benefit recipients has decreased by (11.8)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In February 2023, 892,197 people received food stamp assistance. This was a (1.1)% decrease from January 2023 and a 7.9% increase from February 2022.

The Arizona Department of Correction's **inmate population** was 33,745 as of February 28, 2023. This was a (0.2)% decrease from January 31, 2023 and a 0.6% increase since February 2022.

Based on information the Department of Child Safety provided for January 2023, **reports of child maltreatment** totaled 46,712 over the last 12 months, a decrease of (5.6)% from the prior year.

There were 11,633 **children in out-of-home care** as of January 2023, or (12.5)% less than in January 2022. Compared to the prior month, the number of out-of-home children decreased by (0.8)%.



Table 6

MONTHLY INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	January	3.8%	(0.2)%	0.2%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2022	6.6%	(0.2)%	(2.4)%
- Initial Unemployment Insurance Claims	Week Ending Mar 4	3,121	11.9%	24.4%
- Continued Unemployment Insurance Claims	Week Ending Feb. 25	19,712	1.2%	49.3%
- Non-Farm Employment - Total	January	3,141,000	(0.1)%	3.2%
Manufacturing	January	194,800	(0.8)%	4.3%
Construction	January	191,300	(0.6)%	3.6%
- Average Hourly Earnings, Private Sector	January	\$31.54	2.3%	5.4%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	January	34,948	(6.6)%	(25.0)%
Multi-family	January	22,083	(5.3)%	16.4%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	January	4,431	60.4%	(31.4)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	January	\$445,000	(1.1)%	(3.1)%
- Maricopa Pending Foreclosures	January	1,153	8.3%	56.9%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	January	3,851,648	(0.6)%	28.1%
- State Park Visitors	December	166,673	(36.9)%	(8.2)%
- Revenue Per Available Hotel Room	January	\$104.16	19.2%	23.9%
- Arizona Hotel Occupancy Rate	January	63.7%	3.0%	4.7%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	3 rd Q 2022	\$419.4 billion	6.5%	5.9%
- 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	March 1st	2,467,100	0.5%	6.8%
Traditional Acute Care		1,273,900	0.1%	4.2%
Other Acute Care		1,125,800	0.9%	10.0%
Long-Term Care – Elderly & DD		67,500	0.2%	3.1%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	January	46,712	0.2%	(5.6)%
DCS Out-of-Home Children	January	11,633	(0.8)%	(12.5)%
Filled Caseworkers (1406 Budgeted)	January	1,275	27	106
- ADC Inmate Growth	February	33,745	(0.2)%	0.6%
- Department of Economic Security				
- TANF Cash Assistance Recipients	February	11,341	0.1%	(11.8)%
- SNAP (Food Stamps) Recipients	February	892,197	(1.1)%	7.9%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	4 th Q, 2022 (2 nd Estimate)	\$20.2 trillion	2.7%	0.9%
- Consumer Confidence Index (1985 = 100)	February	102.9	(2.9)%	(2.6)%
- Leading Economic Index (2016 = 100)	January	110.3	(0.3)%	(7.1)%
- Consumer Price Index, (1982-84 = 100)	February	300.8	0.4%	6.0%

JLBC/JCCR Meeting Follow Up

AHCCCS – Report on Targeted Investment Program Expenditures – Pursuant to a provision from the June 2017 JLBC meeting, the Arizona Health Care Cost Containment System (AHCCCS) submitted its annual report on actual Targeted Investment Program (TIP) expenditures. TIP provides incentive payments to Medicaid providers who develop processes for integrated care. The program is funded through Federal Funds and Political Subdivision Funds.

In FY 2021, Arizona spent \$48.6 million total on TIP expenditures. The Adult and Child Ambulatory program, which funds primary care providers, behavioral health providers, and integrated clinics, accounted for 87% of expenses at \$42.5 million. The remaining \$6.1 million was spent across 3 other program categories: Justice, Hospitals, and Administration. Justice pertains to the integration of acute and behavioral health services for adults with behavioral health needs transitioning from incarceration. (Maggie Rocker)

Arizona Exposition and State Fair Board – Report on Coliseum Kitchen Hoods – Pursuant to a provision from the July 2021 JCCR meeting, the Arizona Exposition and State Fair (AESF) Board is required to report on any emergency allocations FY 2022 capital projects expenditure plan. The FY 2022 Capital budget appropriated \$1.0 million to the AESF Board for Fire and Life Safety projects including replacement of kitchen hoods in the Coliseum. This project has become more expensive due to new building code requirements. The board will spend a total of \$700,000 on the project, which includes \$236,000 from funds already set aside for this project, \$190,000 reallocated project savings from AESF's FY 2022 Fire and Life Safety appropriation, and \$274,000 reallocated project savings from AESF's FY 2022 Capital Improvement appropriation. (Nate Belcher)

Summary of Recent Agency Reports

AHCCCS, DES, & DCS – Report on Preliminary Actuarial Estimates for CYE 2024 Capitation Rate Changes – Pursuant to an FY 2023 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) 2024. 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 2.3% to 4.3% in CYE 2024. The 4.3% figure represents the projected national growth rate in FY 2023 Medicaid spending from the Centers for Medicare and Medicaid Services Office of the Actuary, adjusted for AHCCCS cost trends. The midpoint of the range is similar to the JLBC Staff's FY 2024 estimate of 3.1%. Potential factors that may influence capitation rate growth in CYE 2024 include:

- Changes in cost per enrollee, as a result of provider rate increases, inflation, and a shift in utilization toward more costly services.

- Changes in utilization as a result of pandemic enrollment. While total membership will decline as AHCCCS begins to perform eligibility redeterminations for the first time since the pandemic, members remaining in the program are expected to represent a higher cost due to higher utilization of services.
- 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 \$13.85 to \$14.25 in January 2024 while Flagstaff's minimum wage annually increases based on the consumer price index.
- Increases in pharmacy costs due to pharmaceutical pricing and utilization. (Maggie Rocker)

Attorney General – Quarterly Reports on Legal Settlements – The Attorney General (AG) submitted its statutorily-required quarterly reports on the receipts to and disbursements from the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund, the Antitrust Enforcement Revolving Fund, and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.



In the second quarter of FY 2023, the AG deposited a total of \$16.4 million into various consumer accounts. Of that amount, \$13.6 million was deposited into the Consumer

Remediation Subaccount, \$2.0 million was deposited into the Consumer Restitution Subaccount, and \$809,400 was deposited into the CPCF Revolving Fund. The AG made no deposits into the Antitrust Enforcement Revolving Fund nor into the General Fund.

Deposits to the CPCF Revolving Fund

The AG deposited \$809,400 into the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. This amount resulted from a \$750,000 settlement with an individual regarding deceptive acts related to the advertisement/sale of fentanyl-containing prescription drugs, small legal settlements and transfers. As of December 31, 2022, the fund had an unencumbered balance of \$25.5 million.

Deposits to Antitrust Enforcement Revolving Fund

The AG made no deposits into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. As of December 31, 2022, the fund had an unencumbered balance of \$1.1 million.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$2.0 million into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from a settlement with CASHCALL, Inc. and WS Funding LLC regarding marketing schemes and issuing of high-interest loans for which the settlement claims administrator returned \$1.7 million in residual restitution funds to the AG, small legal settlements and interest income. As of December 31, 2022, the fund had an unencumbered balance of \$8.0 million. These funds are specifically earmarked for restitution payments.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$13.6 million into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. This amount resulted from a deposit of \$10.5 million from a settlement with McKesson Corporation, Cardinal Health, Inc., and AmerisourceBergen Corporation resolving allegations regarding deceptive acts related to the advertisement or sale of opioid-containing prescription drugs; the second of 5 yearly deposits of \$2.9 million from a settlement with JUUL Labs, Inc. regarding deceptive acts

in connection with advertising or selling its nicotine products; small legal settlements; and interest income. As of December 31, 2022, the fund had an unencumbered balance of \$30.6 million.

Deposits to the General Fund

The AG made no deposits into the General Fund. (Ryan Fleischman)

Department of Child Safety – DCS/ECDHB Joint Report –

Pursuant to A.R.S. § 8-530.02, the Department of Child Safety (DCS) and the Early Childhood Development and Health Board (ECDHB) reported on their collaborative efforts to address child welfare issues during the prior year, including the level of coordination among DCS, ECDHB, and community groups to promote the well-being of children and families that are identified in reports of abuse or neglect. The systemic collaborative efforts include:

- **Home Visitation Programs:** Three evidence-based models of home visitation programs are widely funded and utilized by DCS and ECDHB: the Nurse Family Partnership, Healthy Families Arizona, and Parents as Teachers. These programs are funded in collaboration with AHCCCS and implemented with help from several community partners. In FY 2022, 4,280 families participated in state-funded home visitation programs, and almost 400 families graduated from these programs.
- **Quality First:** In FY 2022, Quality First provided scholarships for 6,687 children to attend certified child care or preschool programs that have achieved quality standards. DCS and ECDHB report that they continue to work to ensure children have access to these services.
- **Early Childhood Mental Health Consultations (ECMHC):** ECDHB operates the ECMHC program, which helps early childhood education professionals more effectively interact with children with different social-emotional needs. The program uses consultation with trained early childhood mental health and trauma professionals to improve teacher skills, reduce challenging classroom behaviors, and lower preschool expulsion rates. In FY 2020, 350 child care and preschool providers received a consultation from the program and 45 children were referred to services to address their mental health needs.

DCS and ECDHB also collaborate to allocate Federal Funds appropriated by the American Rescue Plan Act (ARPA) to support the child care system. The funding, administered by the Department of Economic Security, includes support to expand access to the Quality First program to 800 providers over 2 years. (Ryan Fleischman)



Table 7

End of FY 2022 ADC Systemwide Bed Surplus (+) / Shortfall (-)					
	Permanent Beds	Total Beds (incl. Temp.)	Inmate Population 6/30/22	Permanent Surplus (+) Shortfall (-)	Total Surplus (+) Shortfall (-)
ADC System					
Minimum	12,713	13,150	9,171	3,542	3,979
Medium	16,333	20,256	16,145	188	4,111
Close	8,057	8,501	6,174	1,883	2,327
Maximum	1,734	2,086	1,457	277	629
Reception	351	480	424	(73)	56
Total – ADC System	39,188	44,473	33,371	5,817	11,102

Department of Child Safety - Semi-Annual Benchmark Progress Report – Pursuant to an FY 2023 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 2022 to December 2022.

As of December 31, 2022, DCS had 1,579 inactive cases and 10,153 open reports. Both the number of inactive cases and open reports have decreased since March 2022 and are currently above their respective legislative benchmarks of 1,000 inactive cases and 8,000 open reports. According to DCS, sustained staffing levels helped contribute to the reduced number of inactive cases and open reports.

In December of 2022, DCS was responsible for 11,722 children in out-of-home care. The FY 2023 General Appropriation Act removed a legislative benchmark requirement for children in out-of-home care of 13,964, but retains the reporting on caseloads; this figure has decreased by (18.9)% over the past 12 months. This figure includes 879 youth ages 18-20 who are in extended foster care.

The FY 2023 General Appropriation Act added a legislative benchmark for long-term cases to match those reported for December of 2022. Long-term cases are those in which a child has been in an out-of-home placement for at least 18 days. As of December 31, 2022, DCS had 3,323 long-term cases. (Ryan Fleischman)

Arizona Department of Corrections – Annual Bed Capacity Report – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) submitted its report detailing bed capacity changes in FY 2022 and planned changes in FY 2023.

At the end of FY 2022, ADC reported a total operating capacity of 44,473 beds and an inmate population of 33,371 for an operating bed surplus of 11,102 (See Table 7).

In FY 2023, ADC plans to reduce net operating bed capacity by (734) beds. This includes the elimination of (3,440) state-operated beds (primarily due to the closure of the Florence Prison) and the addition of 2,706 new private prison beds. (Geoffrey Paulsen)

Department of Corrections – Report on Correctional Officer Staffing – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) submitted its semi-annual report on correctional officer (CO) staffing. As of November 30, 2022, ADC reported that of the 6,340 total CO positions, 4,409.25 were filled and 1,930.75 were vacant, a vacancy rate of 30.5%. This was a slight decrease since June 2022 when the vacancy rate was 30.9%. This change consists of 490.5 new hires, 102 COs promoted to a new position, and 381.25 COs leaving ADC, a net change of 7.25 COs.

ADC utilizes overtime to maintain inmate supervision levels despite CO vacancies. Through November 25, 2022 ADC reported a total of 532,618 overtime hours worked. ADC reports the average CO has earned about \$8,220 in overtime wages on an annualized basis in FY 2022 and projects that amount to grow to \$11,000 in FY 2023. (Geoffrey Paulsen)

Department of Corrections – Report on Inmate Health Care Performance Measures – Pursuant to an FY 2023 General Appropriation Act footnote, ADC submitted its latest report detailing the status of performance measures tracked for the purpose of contract monitoring. ADC currently tracks 752 monthly performance measures. ADC reports that as of July 2022 it was in substantial



compliance with 89.5% of the active measures, up from 86.7% in September 2021. There are currently 116 performance measures not in substantial compliance. (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 2022, all 15 counties submitted reports; all counties except Mohave and Yuma Counties currently administer a deferred prosecution program. A total of 0,035 individuals were enrolled in a deferred prosecution program in FY 2022, an (8.3)% decrease from FY 2021. Of these individuals, 6,186 successfully completed the program during FY 2022, with another 683 individuals still enrolled.

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 2023, the ARRF received revenues totaling \$2.4 million and had expenditures totaling \$5.2 million. Revenues for investigating and prosecuting agencies were highest in Maricopa County at \$1.5 million.

Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with \$1.5 million in ARRF monies spent.

In the second quarter of FY 2023, participating agencies received \$2.0 million in net collections from seized assets originally valued at \$3.6 million. Net collections increased by \$754,300, or 61.4%, from the previous quarter. Net collections were highest in Maricopa County at \$885,000, which derived from forfeitures valued at \$1.2 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 Emergency and Military Affairs – Report on Border Security Fund Expenditures – Pursuant to a footnote in the FY 2023 General Appropriation Act, DEMA, in consultation with the Department of Public Safety (DPS) and the Arizona Department of Homeland Security, is required to submit a quarterly report on the status of project allocations and monies expended from the Border Security Fund. *Table 8* delineates the various allocations from the \$544.2 million FY 2023 Border Security Fund appropriation as well as the current FY 2023 expenditures and/or encumbrances through December 31, 2022.

DEMA reports that they have allocated the \$2.0 million share of the Anti-Human Trafficking Grant Fund to DPS for their Arizona Counter Terrorism Information Center (ACTIC). The remaining \$8.0 million will be granted out to agencies combatting human trafficking, of which \$3.9 million in grants have been reviewed or awarded through December. In addition, DEMA states they've expended or encumbered the full \$20.0 million allocation for the Arizona National Guard's Southern Arizona Law Enforcement (SALE) mission.



Table 8

Border Security Fund Allocations and Expenditures/Encumbrances

	FY 2023 Allocations	FY 2023 Spending/Encumbrance Through December
Cochise County Jail	\$20,000,000	\$ 0
Local ICE Reimbursement	15,000,000	0
Antihuman Trafficking Grant Fund	10,000,000	5,868,700
Local Prosecution Costs ^{1/}	20,000,000	0
Arizona National Guard ^{1/}	20,000,000	20,000,000
Emergency Testing and Care	10,000,000	0
Asylum Transportation	15,000,000	5,372,700
Deputy Sheriff Compensation	53,405,000	53,405,000
State Guard – Chain of Command	800,000	0
Emergency Operations Center	30,000,000	2,000,000
Coordinated Response Center	15,000,000	15,000,000
Border Fence and Border Security Technologies	335,000,000	200,574,100
Total	\$544,205,000	\$302,220,500

^{1/} At the December 2022 JLBC meeting, the Committee approved a transfer of \$10,000,000 from the local prosecution cost allocation to the Arizona National Guard allocation.

DEMA is continuing the asylum seeker transportation program. In FY 2023, from October 1, 2022 through December 31, 2022, DEMA has expended \$2.4 million, bringing their FY 2023 year-to-date total to \$5.4 million. Also, DEMA is working with ADOA on the allocation of monies for deputy sheriff compensation. All of the monies for this allocation have been encumbered as the department is finalizing agreements with the 15 counties.

At the December 2022 JCCR meeting, DEMA received Committee approval to expend \$2.0 million for an architectural design for their new State Emergency Operations Center. The remaining \$28.0 million will be reviewed by JCCR at a later date. At the same December 2022 JCCR meeting, DPS received Committee approval to expend their \$15.0 million allocation on the Southern Border Coordinated Response Center.

Furthermore, DEMA reports that they've expended funds to both place and remove a physical barrier along the southern border. Through December 2022, the department expended \$67.8 million to erect cargo containers along the border in Yuma and Cochise Counties. The department further expended \$66.6 million to remove the barrier, as was required under federal mandate. The department also expended \$20.5 million to stage shipping containers in Nogales and Sierra Vista and \$9.8 million to move shipping containers to the Arizona State Prison Complex in Tucson.

In addition to the physical barrier expenses, DEMA has opened grant applications for any programs that develop

and deploy border security technologies which include cameras, sensors, software, and other types of equipment. Through December 2022, the department has awarded 5 border security grant applications to Cochise County totaling \$36.0 million.

Aside from the previously mentioned projects, DEMA reports that the remaining projects are all in the planning phase and the department intends to distribute monies for these projects as plans are finalized and revenues become available. (Jordan Johnston)

Judiciary – Supreme Court – Report on Criminal Case Proceedings, Enforcement of Court Orders, and State Aid to Courts Fund Expenditures – Pursuant to A.R.S. § 12-102.01D, the Supreme Court reported to the JLBC on the progress of criminal case processing projects and the enforcement of court orders including the collection of court ordered fees, fines, penalties, sanctions and forfeitures. Additionally, pursuant to A.R.S. § 12-102.02D, the Supreme Court reported to the JLBC on the expenditure of monies from the State Aid to the Courts Fund for the prior fiscal year and the progress made in improving criminal case processing.

Since 2003, the Supreme Court has contracted with an outside vendor to increase compliance with court orders, resulting in total collections of \$42.1 million from backlogged cases in FY 2022, or (18.9)% below FY 2021. Additionally, the Supreme Court utilizes a debt setoff program to match outstanding criminal fines or fees to outstanding tax and governmental liabilities. Tax and lottery interceptions in the debt setoff program were \$18.2 million in FY 2022, or (7.6)% below FY 2021.



Expenditures from the State Aid to the Courts Fund were \$1.7 million in FY 2022. These monies were disbursed to Superior and Justice Courts for the processing of criminal cases.

The Supreme Court reports that the funds help address specific issues with public safety, protection of victims' rights, restitution collection, and systemic overcrowding. (Ryan Fleischman)

State Treasurer – Report on Smart and Safe Arizona Fund Expenditures – Pursuant to A.R.S. § 36-148, the State Treasurer submitted a report detailing actual distributions made in FY 2022 and estimated distributions for FY 2023 from the Smart and Safe Arizona Fund (SSAF) to the Department of Health Services (DHS), the Department of Revenue (DOR), the Supreme Court, the Department of Public Safety (DPS) and the State Treasurer for the actual reasonable costs incurred by these entities to implement and enforce the provisions of the Smart and Safe Arizona Act (Proposition 207).

In FY 2022, the Treasurer distributed a total of \$7.5 million to these entities from SSAF. Of this amount, \$7.0 million was distributed to DHS, \$556,600 was distributed to the Supreme Court, and \$20,100 was retained by the Treasurer for administrative purposes. In FY 2023, the Treasurer expects to distribute \$6.0 million in SSAF monies to DHS, \$150,000 to DOR, \$300,000 to the Supreme Court, and expects to retain \$5,000 to administer the fund. (Nate Belcher)

Arizona Board of Regents – Report on Arizona Teachers Academy Fund – Pursuant to 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, 2023, ABOR reports total academy enrollment for the 2022-2023 academic year is 4,014 of which 1,779 are undergraduate students, 601 are graduate students, 314 are community college students, 170 are teachers seeking a national board certification, and 1,150 are academy graduates receiving induction services in their first year of teaching. In addition, ABOR reports 146 students are on the Arizona Teachers Academy waitlist.

ABOR estimates a total of \$32.8 million in FY 2023 expenditures for the academy, of which \$15.0 million is from the General Fund and the remaining is from one-time Federal Fund distributions made by the Governor's Office. (Cameron Mortensen)

