Joint Legislative Budget Committee

Monthly Fiscal Highlights

March 2024

Summary

February 2024 General Fund revenue collections were $835.2 million, which represents an increase of 29.5% above February 2023. This level of revenue was $19 million above the JLBC Baseline revenue forecast.

Individual Income Tax

A significant portion of the state's high 29.5% February growth rate is due to Individual Income Tax (IIT), specifically the refunds component of the tax category.

During February 2024, the amount of IIT refunds issued by the state declined by almost (34)% - this February the state issued $378 million worth of refunds compared to $570 million of refunds issued in February 2023. The dollar magnitude of this lower level of refunds was the lead contributor to the state's overall growth rate during the month.

While the decline in refunds helped boost the state's revenue growth rate, it did not result in a large forecast gain for the category – overall IIT collections were only $5 million above forecast during February.

This is because a decline in refunds was generally expected under the JLBC Baseline revenue forecast. During FY 2023, the state issued a record level of IIT refunds – returns were being filed under the Tax Year 2022 IIT rate reductions, however the state had not adjusted employer withholding forms, meaning most employee's state taxes were likely over withheld during Tax Year 2022.

In contrast, during FY 2024 taxpayers are filing under the following policies: 1) The 2.5% single income tax rate that began in Tax Year 2023; and 2) New employer withholding forms issued in January 2023, with an updated default selection of 2.0%. Given that taxpayer withholding is now more aligned with the state's current tax policy, refunds were expected to decline in the tax filing season during February 2024 through April 2024.

In terms of other IIT components after one month of the tax filing season, February payments (both estimated and final) declined by almost (60)% during the month. While some decline in payments was expected due to the new 2.5% single tax rate, this February decline was greater than expected. We would caution that drawing conclusions from payment data this early in the tax filing season is speculative as the bulk of activity occurs in April as final payments are made near the mid-April filing deadline.

Sales Tax

February Sales Tax revenue (which represent January sales activity) posted minimal growth of 1.0% above February 2023. This collection amount for the category resulted in a forecast gain of $3 million during the month.

Collections from the retail sales and restaurant/bar subcategories had slow growth during February, with increases of 1.5% and 1.3% for the month, respectively. Stronger growth was seen in contracting tax revenue, which increased by 8.4% during February.

Corporate Income Tax

February Corporate Income Tax (CIT) collections declined by (48.6)% compared to February 2023. However, because February is not a significant month for CIT collections, this large percentage decline only generated a relatively modest forecast loss of $(10) million during the month.

Year-to-Date Results

Year-to-date through February, excluding Urban Revenue Sharing and the one-time tax rebate, FY 2024 General Fund revenues are (5.3)% below the prior year.

With the February results, after 2 months of tracking against the JLBC January Baseline forecast, the state has generated a cumulative forecast gain of $25 million.

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February Revenues

Table 1

General Fund Revenues ($ in Millions)

	FY 2024 Collections	Difference From Baseline Forecast	Difference From FY 2023
February	$ 835.2	$ 18.8	$ 190.3
Year-to-Date	$ 9,088.5	$ 24.8	$ (1,236.5)

Sales Tax collections of $635.5 million were 1.0% above February of last year and $3.1 million above the Baseline forecast. Year to date, sales tax revenue is up by 3.6% and is $12.0 million above forecast.

Table 2 shows the February growth rate for the 5 major sales tax categories, which together make up approximately 90% of total sales tax collections.

Table 2

February Sales Tax Growth Rates Compared to Prior Year

	February	YTD
Retail/Remote Seller 1/	1.5%	3.9%
Contracting	8.4%	15.7%
Use Tax 2/	(28.2)%	(33.3)%
Restaurant & Bar	1.3%	3.0%
Utilities 3/	12.2%	28.8%

1/ Absent DOR's technical corrections in August and October of 2023, Retail/Remote Seller YTD growth would have been 2.3%.

2/ Absent DOR's technical corrections in August and October of 2023, Use Tax YTD growth would have been (13.6)%.

3/ Absent a large taxpayer refund of $40 million issued in October 2022 (which artificially lowered the FY 2023 revenue base), Utilities YTD growth would have been 14.3%.

The combined Retail/Remote Seller category increased year-over-year by 1.5% in February. After adjusting for some technical corrections made by DOR in the fall of 2023, the year-to-date growth for this category is only 2.3%, which is the weakest growth in retail sales for the comparable period since FY 2011.

The Utilities classification, which includes the sales of electricity, natural gas, and water by utilities operating in the state showed continued strength in February with a year-over-year gain of 12.2%. This category is currently on track to have a record year in terms of the amount of tax collections deposited into the General Fund. Detailed industry data from DOR indicates that 90% of the year-to-date increase for this category is attributable to the sale of electricity.

Net **Individual Income Tax (IIT)** revenue was $82.6 million in February, $4.9 million greater than the Baseline forecast. Last year, February IIT revenue was a negative amount of $(63.6) million owing to the higher level of refunds in that month relative to payments and withholding collections. Year to date (YTD) through February, IIT collections have declined by (20.1)% compared to the same period in FY 2023.

February withholding revenue was $422.1 million, an increase of 2.8% from the previous year but $(9.0) million below the Baseline forecast. YTD, withholding is down by (10.8)% compared to the same period in FY 2023. February 2023 was the first full month under the new, lower withholding rates implemented by DOR last year. For this reason, February 2024 marks the first month when the year-over-year comparison in terms of the level of collections is based on the same withholding rates.

Payment revenue in February was $38.3 million, a decrease of (59.9)% from the previous year and $(43.6) million under the Baseline forecast. This marked the 12th consecutive month of decline for payments. February collections typically comprise only 2%-3% of the total collections in a fiscal year. YTD, total payments are $635.0 million, (36.6)% under last year's level for the comparable period.

Refunds in February were $377.8 million, a (33.7)% decline from the February 2023 level and $(57.5) million less than under the Baseline forecast, thereby resulting in a forecast gain of $57.5 million for the month. YTD, refunds are 0.3% above the same period last year. February is an important month for refunds as it is the first full month of the tax filing season each year. On average, February refunds make up about 20% of the yearly total.

According to weekly processing data of tax returns filed through March 8th, the average refund is currently (32.1)% lower than for the comparable period in 2023. Historically, by this time of the year, a little more than 40% of all refunds issued between the start of the tax filing season and the end of the fiscal year have been processed by DOR. So, while most refunds have yet to be filed and processed for the current tax-filing season, year-to-date tax return data suggests that the level of refunds could be lower than for the comparable period in FY 2023. (*Table 3* details February 2024 IIT collections).

Table 3
Individual Income Tax Growth Rates Compared to Prior Year

	February	YTD
Withholding	2.8%	(10.8)%
Estimated/Final Payments	(59.9)%	(36.6)%
Refunds	(33.7)%	0.3%

Corporate Income Tax (CIT) net collections in February were $12.7 million, (48.6)% less than February 2023 and a forecast loss of $(9.6) million. February collections typically make up about 1%-2% of the fiscal year total. Year to date through February, net CIT revenue has declined (8.1)% but exceeds the Baseline forecast by $0.3 million.

Insurance Premium Tax (IPT) revenue was $43.2 million in February, an increase of 107.8% compared to the same month in the prior year and $22.8 million above the Baseline forecast. IPT collections in February historically make up a small portion of the yearly total but have increased in recent years. In addition, the level of monthly collections is also affected by the timing of IPT deposits into the General Fund, which can fluctuate considerably. Fiscal year to date, IPT revenue is up by 10.4% and is $22.6 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in February was $1.6 million, which is 10.4% above February 2023 collections and $0.1 million above the Baseline forecast. Year to date, General Fund tobacco tax revenues total $12.6 million, just 0.8% higher than collections over the comparable period in FY 2023, and $(0.2) million under forecast.

Liquor Tax revenue deposited into the General Fund in February fell to $2.0 million, which marks a (24.3)% decrease from the amount deposited in February 2023 and is $(1.1) million below the Baseline forecast. Year to date, General Fund deposits from liquor tax collections total $27.8 million, a (5.0)% decline from the comparable period in FY 2023, and $(0.7) million below forecast.

The **Lottery Commission** reported that total ticket sales in February were $124.5 million. This amount is $0.7 million, or 0.5% greater than in February 2023.

Highway User Revenue Fund (HURF) collections of $142.2 million in February were 2.5% above the amount collected in February 2023 and $(0.5) million lower than forecast. Year to date, HURF collections are $1.15 billion, 2.2% above the prior year and $(14.5) million below forecast.

The state collected $14.2 million in dedicated **Marijuana Excise Taxes** in February, representing a 2.5% increase over February 2023 revenues. Monies from this excise tax are deposited into dedicated non-General Fund accounts. The total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) was $5.3 million in February. The General Fund received $3.9 million of this amount.

(*Table 4* details February 2024 Marijuana tax collections).

Table 4
Marijuana State Tax Collections and Distributions ($ in Millions)

	February	YTD
Marijuana Excise Tax	**$14.2**	**$116.6**
Medical Marijuana TPT*	**$1.2**	**$11.4**
Distribution:		
General Fund	$0.9	$8.4
Counties	$0.2	$1.9
Cities	$0.1	$1.1
Recreational Marijuana TPT*	**$4.1**	**$34.4**
Distribution:		
General Fund	$3.0	$25.4
Counties	$0.7	$5.6
Cities	$0.4	$3.4
Total State Marijuana Tax Collections	**$19.5**	**$162.4**

* Amounts may not add to total due to rounding

Table 5

General Fund Revenue:
Change from Previous Year and Baseline Forecast
February 2024

	Current Month					FY 2024 YTD (Eight Months)				
		Change From					Change from			
	Actual	February 2023		Baseline Forecast		Actual	February 2023		Baseline Forecast	
	February 2024	Amount	Percent	Amount	Percent	February 2024	Amount	Percent	Amount	Percent
Taxes										
Sales and Use	$635,507,072	$6,294,973	1.0 %	$3,149,671	0.5 %	$5,267,554,997	$180,597,793	3.6 %	$11,966,921	0.2 %
Income - Individual	82,592,800	146,218,332	--	4,878,384	6.3	3,167,974,952	(794,726,493)	(20.1)	6,479,861	0.2
- Corporate	12,687,259	(12,010,539)	(48.6)	(9,611,227)	(43.1)	945,022,990	(83,147,118)	(8.1)	293,496	0.0
Property	782,766	(84,322)	(9.7)	70,681	9.9	17,715,393	1,986,713	12.6	128,966	0.7
Luxury - Tobacco	1,630,637	153,987	10.4	112,349	7.4	12,633,883	99,243	0.8	(196,123)	(1.5)
- Liquor	2,015,305	(645,598)	(24.3)	(1,144,916)	(36.2)	27,765,342	(1,453,015)	(5.0)	(714,988)	(2.5)
Insurance Premium	43,205,928	22,416,873	107.8	22,768,438	111.4	350,716,383	33,111,780	10.4	22,578,417	6.9
Other Taxes	1,592,834	65,874	4.3	(1,100,992)	(40.9)	8,251,552	823,271	11.1	(1,503,859)	(15.4)
Sub-Total Taxes	$780,014,601	$162,409,580	26.3 %	$19,122,388	2.5 %	$9,797,635,491	($662,707,827)	(6.3) %	$39,032,690	0.4 %
Other Revenue										
Lottery	0	0	--	0	--	206,795,158	46,473,185	29.0	0	0.0
Gaming	4,315,361	1,809,232	72.2	922,580	27.2	17,789,874	(16,976,458)	(48.8)	(1,435,096)	(7.5)
License, Fees and Permits	3,417,268	711,867	26.3	877,414	34.5	35,755,633	6,006,321	20.2	2,091,298	6.2
Interest	30,468,100	(6,768,863)	(18.2)	(6,744,043)	(18.1)	227,729,483	46,820,650	25.9	(14,153,320)	(5.9)
Sales and Services	2,718,728	(615,597)	(18.5)	(439,741)	(13.9)	20,274,293	(519,106)	(2.5)	(1,000,472)	(4.7)
Other Miscellaneous	2,555,208	3,924,850	--	(866,809)	(25.3)	18,731,793	6,399,801	51.9	(4,797,513)	(20.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	11,844,332	7,152,319	152.4	6,002,720	102.8	80,440,521	(12,892,706)	(13.8)	5,506,254	7.3
Sub-Total Other Revenue	$55,318,998	$6,213,808	12.7 %	($247,879)	(0.4) %	$607,516,755	$75,311,686	14.2 %	($13,788,848)	(2.2) %
TOTAL BASE REVENUE	**$835,333,598**	**$168,623,389**	**25.3 %**	**$18,874,509**	**2.3 %**	**$10,405,152,247**	**($587,396,142)**	**(5.3) %**	**$25,243,842**	**0.2 %**
Other Adjustments										
Urban Revenue Sharing	0	92,246,556	--	0	--	(1,043,213,196)	(305,240,745)	41.4	(0)	0.0
One-Time Transfers	0	(70,462,096)	--	0	--	0	(70,462,096)	--	0	--
Income Tax Rebate	(113,700)	(113,700)	--	(113,700)	--	(273,421,550)	(273,421,550)	--	(465,200)	0.2
Sub-Total Other Adjustments	(113,700)	21,670,760	(99.5) %	(113,700)	-- %	(1,316,634,746)	(649,124,391)	97.2 %	(465,200)	0.0 %
TOTAL GENERAL FUND REVENUE	**$835,219,898**	**$190,294,149**	**29.5 %**	**$18,760,809**	**2.3 %**	**$9,088,517,501**	**($1,236,520,533)**	**(12.0) %**	**$24,778,642**	**0.3 %**
Non-General Funds										
Highway User Revenue Fund	142,248,778	3,446,105	2.5 %	(512,618)	(0.4) %	1,154,289,407	25,115,612	2.2 %	(14,468,556)	(1.2) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) second (advance) estimate of U.S. **Real Gross Domestic Product** (GDP) in the 4th quarter of 2023 is a seasonally adjusted annual growth rate of 3.2%. This is a downward revision from the BEA's first (preliminary) estimate of 3.3%.

The **Consumer Confidence Index**, published by the Conference Board, decreased to 106.7 in February, a decline of (4.2) points from the revised January level. The reduction in confidence reflects a less favorable assessment by consumers of both the present situation and future economic conditions. According to the Conference Board, "consumers are not happy, but neither are they scared." Year-over-year, the consumer confidence index has grown 3.2%.

The Conference Board's **U.S. Leading Economic Index** (LEI) declined (0.4)% to 102.7 points in January. The main drivers of the decrease were a reduction in the average weekly hours worked in the manufacturing industry and a further increase of the negative difference between the long-term and short-term interest rates of certain financial instruments (a phenomenon often referred to as an "inverted yield curve"). Over the past six months, 6 of the 10 components of the index have improved. According to the Conference Board's press release, this means the index no longer signals an impending recession. The LEI fell by (3.0)% over the 6-month period between July and January 2023, a smaller decrease than the (4.1)% decline over the prior 6 months.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** in February increased at a seasonally adjusted rate of 0.4% over the previous month. Compared to the same month last year, consumer prices are up by 3.2% before seasonal adjustment. The index for shelter rose during the month while food prices remained level. The Core CPI, which excludes food and energy, is up by 3.8% from a year ago.

ARIZONA

Housing

In January, Arizona reached a 12-month total of 36,356 **single-family building permits** issued. This marks an increase of 5.9% above December's rolling total and an increase of 4.0% over January 2023's 12-month total.

Arizona's 12-month total of 24,551 **multi-family building permits** in January is 6.7% higher than December's total and 11.2% greater than the same 12-month period ending in January 2023.

The **median home price** in Maricopa County rose again to $470,000 in January, representing a 1.5% increase over January's median sale price and a 7.9% increase over the median home price a year prior.

Tourism

Phoenix Sky Harbor Airport Ridership fell to 3.9 million in January, marking a (7.4)% decrease from December's figure and a 2.3% increase over January 2023's ridership.

Hotel occupancy was 62.3% in January, which is 4.2% higher than December's occupancy rate and (1.4)% lower than that of January 2023.

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 2022 and 2023. The revised 2022 annual average employment level was 3,112,800, an upward revision of 17,400 jobs. The revised 2023 annual average employment level was 3,194,800, an upward revision of 34,700 jobs. As a result of this benchmark revision, the 2023 net employment gain increased from 64,800 jobs to 82,000 jobs, or from an annual growth rate of 2.1% to 2.6%.

According to the latest employment report released by OEO, the state lost (38,300) **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). Month-over-month job losses typically occur in January due to the end of certain seasonal holiday jobs. Compared to January 2023, the state gained 81,800 jobs, an increase of 2.6%.

The state's seasonally adjusted **unemployment rate** remained unchanged at 4.2% in January. The U.S. seasonally adjusted unemployment rate also remained the same at 3.7% in January.

OEO reported that a total of 3,259 **initial claims for unemployment insurance** were filed in Arizona in the week ending on March 2nd. This represents a 4.4% year-over-year increase in initial claims, with the week ending March 4, 2023 seeing 3,121 initial claims.

According to OEO, there were a total of 22,347 **continued claims for unemployment insurance** in Arizona for the week ending on February 24th. This is 13.4% greater than last year's total of 19,712 on the comparable date. Prior to the start of the pandemic, the average number of weekly continued claims was 22,613.

State Agency Data

As of March 1, 2024, the total **AHCCCS caseload** was 2.15 million members. Total monthly enrollment increased 0.4% from February and decreased (12.7)% compared to a year ago.

Parent and child enrollment in the Traditional population increased by 0.4% in March, or (14.1)% lower than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 989,201 – an increase of 0.4% from February, or (12.1)% lower than last year.

For March 2024, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.3%. At 69,506, this population is 3.0% higher than a year ago.

Based on information the **Department of Child Safety** provided for January 2024, reports of child maltreatment totaled 43,784 over the last 12 months, an increase of 1.7% from the prior year.

There were 9,958 children in out-of-home care as of January 2024, or (13.7)% less than in January 2023. Compared to the prior month, the number of out-of-home children decreased by (0.7)%.

There were 11,026 individuals receiving **TANF** Cash Assistance in February 2024, representing a (0.8)% decrease from January 2024. Year over year, the number of cash benefit recipients has decreased by (2.8)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. There were 933,090 individuals receiving SNAP benefits in February 2024, representing a (1.0)% decrease from January 2024. Year over year, the number of SNAP recipients has increased by 4.6%.

The Arizona Department of Correction's **Inmate Population** was 34,651 as of February 29, 2024. This was a 0.3% increase since January 31, 2024 and a 2.7% increase since February 2023.

Table 6

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
Employment				
- Seasonally Adjusted Unemployment Rate	January	4.2%	0.0%	0.5%
- Total Unemployment Rate (discouraged/underemployed)	4th Q 2023	7.3%	0.5%	0.7%
- Initial Unemployment Insurance Claims	Week Ending March 2	3,259	6.1%	4.4%
- Continued Unemployment Insurance Claims	Week Ending Feb. 24	22,347	0.2%	13.4%
- Non-Farm Employment - Total	January	3,235,000	(1.2)%	2.6%
Manufacturing	January	193,200	(0.8)%	(0.8)%
Construction	January	215,600	(1.1)%	6.3%
- Average Hourly Earnings, Private Sector	January	$32.59	2.0%	3.3%
Building				
- Building Permits (12 month rolling sum)				
Single-family	January	36,356	5.9%	4.0%
Multi-family		24,551	6.7%	11.2%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	February	4,602	29.7%	1.0%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	February	$470,000	1.5%	7.9%
Tourism				
- Phoenix Sky Harbor Air Passengers	January	3,939,032	(7.4)%	2.3%
- State Park Visitors	December	193,251	(13.5)%	15.9%
- Revenue Per Available Hotel Room	January	$102.36	24.1%	(1.7)%
- Arizona Hotel Occupancy Rate	January	62.3%	4.2%	(1.4)%
General Measures				
- Arizona Personal Income, SAAR	3rd Q 2023	$461.4 billion	3.3%	6.2%
- Arizona Population, U.S. Census	July 2023	7,431,344	N/A	0.9%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	May 2015/Nov 2019	Stable/Stable	N/A	N/A
Agency Measures				
- AHCCCS Recipients	March 1st	2,152,800	0.4%	(12.7)%
Traditional Acute Care		1,094,100	0.4%	(14.1)%
Other Acute Care		989,200	0.4%	(12.1)%
Long-Term Care – Elderly & DD		69,500	0.3%	3.0%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	January	43,784	(0.4)%	1.7%
DCS Out-of-Home Children	January	9,958	(0.7)%	(13.7)%
Filled Caseworkers (1,406 Budgeted)	January	1,298	(5)	23
- ADC Inmate Growth	February	34,651	0.3%	2.7%
- Department of Economic Security				
- TANF Cash Assistance Recipients	February	11,026	(0.8)%	(2.8)%
- SNAP (Food Stamps) Recipients	February	933,090	(1.0)%	4.6%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	4th Q, 2023 2nd Estimate)	$22.7 trillion	3.2%	3.1%
- Consumer Confidence Index (1985 = 100)	February	106.7	(3.8)%	3.2%
- Leading Economic Index (2016 = 100)	January	102.7	(0.4)%	(7.0)%
- Consumer Price Index, (1982-84 = 100)	February	310.3	0.4%	3.2%

Summary of Recent Agency Reports

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2024 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its second quarterly update of FY 2024 on all current projects funded through the Automation Projects Fund (APF). ADOA evaluates the health of each project on a quarterly basis and labels each as on track, at risk, or off track. Of the 16 active APF projects, ADOA has labeled 10 as on track, 3 as completed, 1 not yet started, 1 as at risk, and 1 as off track. The 1 off-track project continues to be:

ADOA Human Resources Information System (HRIS) Replacement
The Arizona Strategic Enterprise Technology (ASET) Office continues to list the ADOA HRIS Replacement as off track. ASET has identified risks related to the project timeline, data conversion, and resource management, which is mirrored in the Independent Verification and Validation report. The project is currently behind schedule, which has led ASET to increase reporting requirements and project oversight.

Status of ITAC Projects
In its report, ADOA continues to note that 1 non-APF project which was approved by the Information Technology Authorization Committee (ITAC) is on hold. ADOA's Enterprise Email project remains on hold due to schedule delays with the Department of Child Safety (DCS).

ADOA reported that 5 other non-APF projects are off track due to technical difficulties, poor project planning, and a general lack of coordination between state agencies and private vendors. These projects include the State Parks Broadband (ADOA), the AFIS 4.0 Upgrade (ADOA), the DCSS ATLAS Replacement (DES), the DTS Zero Trust Access Model (DES), and the Child Nutrition Program Web Replacement Project (ADE).

ITAC Third-Party Reports
Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than $5.0 million must receive third-party analysis from an independent contracted vendor. The third-party vendor is required to review and provide guidance on the project and submit quarterly reports on project progress. Independent Verification and Validation (IVV) reports were submitted for the following: the STARS Tax System Modernization (DOR), the State Parks Broadband project (ADOA), the DCSS ATLAS Replacement (DES), the DERS Unemployment Insurance Benefits Modernization (DES), the School Finance System Replacement (ADE), the HRIS Replacement (ADOA), the Health and Nutrition Delivery System 2.0 project (Department of Health Services), and the Business One Stop project (ADOA). The reports provided commentary on project progress that generally matched that of the quarterly APF reports from ASET. (Destin Moss)

AHCCCS – Report on the FY 2023 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 $1.58 billion in SFY 2023, or $1.0 billion above the $574.0 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 6 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 $1.75 billion in SFY 2022. This amount is $1.31 billion above the $446.5 million in assessments paid by the hospitals. Directed payments exceeded the assessment costs for all hospitals but 1. (Maggie Rocker)

Department of Child Safety - Semi-Annual Benchmark Progress Report – Pursuant to an FY 2024 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 2023 to December 2023.

As of December 31, 2023, DCS had 578 inactive cases and 6,798 open reports. Both the number of inactive cases and open reports are below their respective legislative benchmarks of 1,000 inactive cases and 8,000 open reports. The report also provides information on staff hiring and retention efforts made during the prior year. DCS states that it made efforts during the reporting period to increase applicant submissions for staff positions and seek out potential candidates. The agency reports that it filled 156 additional DCS Specialist positions between July 2022 and December 2023, bringing the total number of DCS Specialists to 1,293. The 1,293 represents 92% of the 1,406 funded caseworker positions within the department.

In December of 2023, DCS was responsible for 10,023 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 (14.5)% over the past 12 months. This figure includes 900 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, 2023, DCS had 3,126 long-term cases, or (197) below the December 2022 benchmark of 3,323 long-term cases. (Maggie Rocker)

Department of Corrections – Report on Health Care Performance Measures – Pursuant to an FY 2024 General Appropriation Act footnote, ADC submitted its latest report detailing the status of health care performance measures tracked for the purposes of contract monitoring. The report is the first to include measures, or quality indicators, required by the permanent injunction in the *Jensen v. Thornell* litigation issued in April 2023. ADC reports that the injunction requires that each quality indicator not meeting 100% compliance requires a corrective action plan. According to ADC, from July 2023 to November 2023, 45 of the 260 quality indicators audited (17% of indicators), were considered as meeting 100% compliance. (Geoffrey Paulsen)

Department of Corrections – Report on Mental Health Transition Pilot Program – Pursuant to A.R.S. § 31-291, the Arizona Department of Corrections (ADC) submitted its annual report on the Mental Health Transition Pilot Program for FY 2023. The program provides 90 days of mental health services for to up to 500 inmates per year that have been diagnosed with a serious mental illness and are nearing their release from ADC custody. During the 90 days, services are provided through AHCCCS with the intent that the inmate continue AHCCCS coverage upon release. ADC reports that the first inmates in the program began receiving services in March 2023. In FY 2023, ADC reports that 29 total inmates participated in the program.

Of the participants, 3 successfully completed all 90 days before the end of the fiscal year, 17 were still enrolled at the end of FY 2023, and 7 were unsuccessfully discharged from the program. After 4 months of program operations, ADC reports that 24% of participants returned to ADC custody, compared to a 27% return rate for those with a serious mental illness that did not participate in the program. (Geoffrey Paulsen)

Arizona Criminal Justice Commission – Report on Anti-Racketeering Revolving Fund (1st Quarter FY 2024) – 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 first quarter of FY 2024, the ARRF received revenues totaling $4.1 million and had expenditures totaling $7.2 million. Revenues for investigating and prosecuting agencies were highest in Maricopa County at $1.1 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total in the quarter with $3.1 million in ARRF monies spent.

In the first quarter of FY 2024, participating agencies received $2.6 million in net collections from seized assets originally valued at $3.4 million. Net collections decreased by $(5.1) million, or (66.7)% from the previous quarter. Net collections were highest in the Attorney General's Office at $1.8 million, which derived from forfeitures valued at $2.3 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. (James Martinez-Burney)

Arizona Criminal Justice Commission – Report on Anti-Racketeering Revolving Fund (2nd Quarter FY 2024) – 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 2024, the ARRF received revenues totaling $3.9 million and had expenditures totaling $5.8 million. Revenues for investigating and prosecuting agencies were highest in Pima County at $1.3 million. Agencies participating in Pima County cases also accounted for the highest expenditure total in the quarter with $2.1 million in ARRF monies spent.

In the second quarter of FY 2024, participating agencies received $692,800 in net collections from seized assets originally valued at $1.2 million. Net collections decreased by $(1.9) million, or (73.0)% from the previous quarter. Net collections were highest in Mohave County at $203,400, which derived from forfeitures valued at $249,100. 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. (James Martinez-Burney)

Department of Economic Security – Report on Federal COVID Child Care Monies – Pursuant to an FY 2024 General Appropriation Act footnote, the Department of Economic Security (DES) reported on the status of federal Child Care and Development Block Grant (CCDBG) 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). The footnote also requires that DES report on the number of children supported by these federal COVID monies, the average monthly child care reimbursement rates, and the number of child care settings with a quality rating.

DES reports having spent the entirety of the $88.0 million for discretionary CCDBG funding from the CARES Act for programs and initiatives. Of the $621.5 million in discretionary CCDBG funding from the CAA and ARPA, DES reports year-to-date expenditures of $518.2 million. As a result, $103.3 million is available for expenditure for the remainder of FY 2024.

The ARPA also provided an additional $596.4 million in CCDBG stabilization funding. DES reports to have spent the entire CCDBG stabilization funding.

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.
- The Essential Workers Child Care Relief Scholarship Program (ended September 2021) has served an average of 5,805 children each month at an average monthly reimbursement rate of $676.32.
- Child Care for Returning Workers (ended December 2021) has served an average of 420 children each month at an average monthly reimbursement rate of $562.76.
- The Arizona Education Workforce Scholarship Program has served an average of 3,153 children each month at an average monthly reimbursement rate of $1,136.47.
- Continued child care waitlist suspension supported by COVID funding has served an average of 18,947 children each month at an average monthly reimbursement rate of $1,030.74.

DES reports that according to the most recently available data, 903 providers are enrolled in the Quality First Program and therefore have a quality rating. (Mitch Wenzel)

Department of Education – Report on Empowerment Scholarship Accounts – Pursuant to A.R.S. § 15-2406, the Arizona Department of Education (ADE) reported data for the second quarter of FY 2024 on the Empowerment Scholarship Account (ESA) program:

- There were 71,520 total enrollees in the program, including 54,028 universal ESA enrollees.
- Of the students grades 1-12 newly entering the universal ESA program, 7,970, or 47%, were enrolled in a public school immediately preceding their enrollment in the ESA program. The percentage for FY 2023 was 21%.
- 9% of ESA students were kindergartners or preschoolers with disabilities, 70% were in grades 1-8, and 21% were in grades 9-12.
- There were 210 ESA students who were English Language Learners and 12,100 students with disabilities.
- ESA enrollees incurred $102.9 million of expenses, including $64.4 million for private school tuition, $12.8 million for curricula and supplementary materials, $8.6 million for tutoring and teaching services, and $17.1 million for all other expenses.

The report also delineates all ESA awards by formula allocation and by zip code. (Patrick Moran)

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, 2024, ABOR reports total academy enrollment for the 2023-2024 academic year is 3,413, of which 1,617 are undergraduate students, 641 are graduate students, 334 are community college students, 92 are teachers seeking a national board certification, and 729 are academy graduates receiving induction services in their first year of teaching. In addition, ABOR reports 798 students are on the Arizona Teachers Academy waitlist.

ABOR estimates a total of $29.2 million in FY 2024 expenditures for the academy. The academy received an appropriation of $30 million from the General Fund in FY 2024. (Cameron Mortensen)

Arizona Board of Regents – Report on the Spouses and Dependents of Law Enforcement Officers Tuition Scholarship – Pursuant to Laws 2023, Chapter 140, Section 6, the Arizona Board of Regents (ABOR) submitted its report on the Spouses and Dependents of Law Enforcement Officers Tuition Scholarship program. ABOR formally adopted the governing policy for the scholarship in its February 2024 meeting and will begin awarding scholarships in the Fall 2024 semester. (Cameron Mortensen)