

Summary

February 2025 General Fund collections were \$749.6 million, which is a decrease of (10.3)% below February 2024. This bottom line year-over-year revenue decline is the result of a technical timing issue related to Urban Revenue Sharing distributions in the prior fiscal year.

Excluding Urban Revenue Sharing and one-time revenue adjustments, the state's base revenue growth rate in February 2025 was 2.4% above February 2024. This growth resulted in a minimal gain of \$8 million above the January Baseline revenue forecast.

Sales Tax

Overall Sales Tax collections in February (which represent January sales activity) grew by 3.4% compared to February 2024. The Sales tax category had a \$2 million forecast gain for the month.

In terms of the subcategory performance within Sales Tax, the retail/remote seller classification continued its trend of moderate growth from the previous few months, posting an increase of 4.1% above the prior year.

In contrast, the state saw a slight decline in contracting tax revenue during February, which is not surprising given recent performance during this year. Following rapid growth during FY 2020 – FY 2024, contracting tax performance so far during FY 2025 has been inconsistent, with varying months of modest declines mixed in with modest increases.

Individual Income Tax

February is the first full month of the state's tax filing season, and is typically one of the smaller overall IIT collection months given the minimal amount of tax payments being processed and the significant amount of refunds being issued.

Given the smaller collection base in February, the state can see significant percentage changes in IIT revenue that do not entirely reflect broader economic or tax filing trends – total February 2025 Individual Income Tax (IIT) collections grew by 25.5% above February 2024. This large growth rate, however, only resulted in a forecast gain of \$9 million for the month.

In terms of the February IIT performance:

- Withholding collections grew by 5.0% compared to the prior year, which is consistent with recent wage and salary growth data
- Tax payments increased by 10.3% during the month, however, February payments are typically minimal (only 2-3% of total payments in a given fiscal year).
- The total dollar amount of refunds issued to taxpayers was relatively flat, increasing by 1.1% above the prior year. While February is a prominent month for refunds (usually 20% of annual refund activity), it is still too early to draw any conclusions for the rest of the filing season as March and April are also equally substantial refund months.

Corporate Income Tax

February Corporate Income Tax (CIT) revenues declined by (6.6)% below February 2024. Because February is a smaller collection month for the category, this result only generated a minimal forecast loss of \$(0.2) million.

Year-to-Date Results

Year-to-date through February, excluding Urban Revenue Sharing and one-time revenue adjustments, FY 2025 General Fund revenues are 5.3% above the prior year. In comparison to the January Baseline forecast, year-to-date General Fund revenues are \$61 million above forecast.

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February Revenues

	<u>FY 2025 Collections</u>	<u>Difference From Baseline Forecast</u>	<u>Difference From FY 2024</u>
February	\$ 749.6	\$ 8.2	\$ (85.7)
Year-to-Date	\$ 10,116.4	\$ 60.6	\$ 1,027.9

Sales Tax collections of \$657.0 million were 3.4% above February of last year and \$1.9 million above the Baseline forecast. Year to date, sales tax revenue is up by 3.4% and is \$5.6 million above forecast. Sales taxes collected in February reflect sales activity that occurred in January.

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.

	<u>February</u>	<u>YTD</u>
Retail/Remote Seller ^{1/}	4.1%	1.6%
Contracting	(0.7)%	2.5%
Use Tax ^{2/}	15.9%	22.8%
Restaurant & Bar	3.0%	1.8%
Utilities	(4.0)%	7.7%

^{1/} If this amount was adjusted for corrections of previously filed tax returns in 2023 and 2024, the YTD Retail/Remote Seller growth would have been 3.1% in February.

^{2/} If this amount was adjusted for corrections of previously filed tax returns in 2023 and 2024, YTD Use Tax growth would have been 1.1% in February.

Tax revenue from the Contracting classification declined by (0.7)% in February and is up by 2.5% through the first 8 months of FY 2025. This is a significant slowdown compared to the same 8-month period in FY 2023 and FY 2024 when collections were up by 21.1% and 15.7%, respectively. More detailed taxable sales data from the Department of Revenue (DOR) indicates that the slower growth in FY 2025 is mainly attributable to two sectors of the construction industry: nonresidential (commercial and industrial) construction and specialty trade (electricians, plumbers, roofing contractors, etc.).

DOR industry data indicates that the (4.0)% year-over-year decline in taxes collected from the Utilities classification in February was almost exclusively due to a decrease in the taxable sales of natural gas. This decline appears to be related to a decrease in the price of natural gas delivered to residential customers in Arizona. According to data provided by the U.S. Energy Information Administration (EIA), the average price of natural gas for residential customers in Arizona was down by (4.0)% during the first half of FY 2025 compared to the same period in FY 2024.

Individual Income Tax (IIT) net revenue in February was \$103.6 million, 25.5% more than the prior year and \$9.1 million greater than the Baseline forecast. Each IIT category outperformed the forecast. Year-to-date (YTD) through February, IIT has grown 11.1% compared to the same period in FY 2024 and has surpassed the forecast by \$43.0 million.

February withholding revenue was \$443.4 million, a 5.0% increase from the previous February and \$4.6 million above the forecast. The growth in withholding collections is in line with wage and salary growth at the national and state level, which is between 4.5%-5.5% according to the latest data from the U.S. Bureau of Economic Analysis. YTD, withholding has grown 6.0% from the same period in FY 2024 and is \$35.3 million more than forecasted.

Tax payments (estimated and final) were \$42.2 million in February, 10.3% higher than last year and \$3.2 million greater than the forecast. Final payments contributed to the increase while there was a slight decline in estimated payments. Payments in February typically comprise between 2%-3% of the fiscal year total. YTD through February, total payments have declined (7.2)% from FY 2024 but are \$5.4 million above the Baseline forecast.



Refunds were \$381.9 million in February, an increase of 1.1% from February 2024. The Baseline forecast assumed a higher refund level of \$383.2 million, so there was a forecast gain of \$1.3 million. February is an important month for refunds as it marks the beginning of the tax filing season. On average, February refunds make up about 20% of the total refunds in a fiscal year. YTD, refunds have decreased (19.3)% relative to the same period in FY 2024, for a \$2.3 million forecast gain.

Table 3

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

	<u>February</u>	<u>YTD</u>
Withholding	5.0%	6.0%
Estimated/Final Payments	10.3%	(7.2)%
Refunds	1.1%	(19.3)%

Corporate Income Tax (CIT) net revenue in February was \$11.8 million, a (6.6)% decrease from last year and \$(0.2) million short of the Baseline forecast. On average, CIT revenue in February makes up between 1%-2% of the fiscal year total. YTD, CIT collections have grown 10.5% compared to the same period in FY 2024, for a forecast gain of \$5.5 million.

Insurance Premium Tax (IPT) revenue was \$41.4 million in February, a decrease of (4.1)% compared to the same month in the prior year and \$0.9 million above the Baseline forecast. YTD, IPT revenue is up by 7.4% and is \$(0.8) million below forecast.

The amount of **Tobacco Tax** deposited into the General Fund in February was \$1.4 million, which is (11.5)% below collections a year prior and \$(0.1) million below the Baseline forecast. Year to date, General Fund tobacco tax revenue totals \$11.2 million, which is (11.4)% below collections through the comparable period in FY 2024 and \$(0.4) million under forecast.

Liquor Tax revenue deposited into the General Fund in February was \$1.8 million. This is (9.4)% less than the amount deposited in February 2024 and \$(0.4) million below the Baseline forecast. Year to date, General Fund deposits from liquor tax collections total \$31.0 million, an 11.5% increase over the same period in FY 2024, and \$1.6 million above forecast.

The **Lottery Commission** reported that total ticket sales in February were \$117.2 million. This amount is \$(7.3) million, or (5.9)% lower than in February 2024.

Highway User Revenue Fund (HURF) collections of \$142.3 million in February were flat compared to February 2024 and \$(2.7) million below forecast. Year to date, collections are \$1.2 billion, 2.3% above the same period in the prior year and \$2.7 million more than forecast.

In February, the state collected \$15.5 million in dedicated **Marijuana Excise Taxes**, which was 9.3% above February 2024 collections. Monies from this excise tax are deposited into dedicated non-General Fund accounts. This month's total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) revenue was \$5.6 million. Of this amount, the General Fund received \$4.2 million. (See *Table 4*)

Table 4

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

	<u>February</u>	<u>YTD</u>
Marijuana Excise Tax	\$15.5	\$115.7
Medical Marijuana TPT	\$0.9	\$8.0
<u>Distribution:</u>		
General Fund	\$0.7	\$5.9
Counties	\$0.1	\$1.3
Cities	\$0.1	\$0.8
Recreational Marijuana TPT	\$4.7	\$35.6
<u>Distribution:</u>		
General Fund	\$3.5	\$26.3
Counties	\$0.8	\$5.8
Cities	\$0.5	\$3.6
Total State Marijuana Tax Collections	\$21.1	\$159.3

* Amounts may not add to total due to rounding



Table 5

General Fund Revenue: Change from Previous Year and Baseline Forecast February 2025

	Current Month					FY 2025 YTD (Eight Months)				
	Actual February 2025	Change From February 2024		Baseline Forecast		Actual February 2025	Change from February 2024		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$657,006,695	\$21,499,623	3.4 %	\$1,867,768	0.3 %	\$5,446,923,015	\$179,368,018	3.4 %	\$5,571,779	0.1 %
Income - Individual	103,644,088	21,055,200	25.5	9,091,029	9.6	3,518,712,120	350,741,080	11.1	43,017,031	1.2
- Corporate	11,848,938	(838,321)	(6.6)	(178,438)	(1.5)	1,043,785,895	98,762,905	10.5	5,510,530	0.5
Property	864,300	81,534	10.4	(1,015,461)	(54.0)	23,759,672	6,044,279	34.1	(1,187,446)	(4.8)
Luxury - Tobacco	1,442,988	(187,648)	(11.5)	(136,373)	(8.6)	11,194,448	(1,439,435)	(11.4)	(430,712)	(3.7)
- Liquor	1,825,113	(190,192)	(9.4)	(350,623)	(16.1)	30,957,332	3,191,990	11.5	1,625,103	5.5
Insurance Premium	41,424,437	(1,781,491)	(4.1)	927,747	2.3	376,684,850	25,968,467	7.4	(780,393)	(0.2)
Other Taxes	1,110,936	(481,899)	(30.3)	(549,254)	(33.1)	10,535,084	2,283,532	27.7	45,747	0.4
Sub-Total Taxes	\$819,167,495	\$39,156,807	5.0 %	\$9,656,394	1.2 %	\$10,462,552,415	\$664,920,836	6.8 %	\$53,371,639	0.5 %
Other Revenue										
Lottery	0	0	--	0	--	178,763,962	(28,031,196)	(13.6)	0	0.0
Gaming	2,327,520	(1,987,841)	(46.1)	(2,715,265)	(53.8)	20,573,984	2,784,110	15.6	530,287	2.6
License, Fees and Permits	4,521,789	1,104,521	32.3	1,000,185	28.4	38,052,377	2,296,744	6.4	1,948,751	5.4
Interest	23,254,130	(7,213,970)	(23.7)	4,631,462	24.9	169,724,320	(58,005,163)	(25.5)	8,583,322	5.3
Sales and Services	2,600,068	(118,660)	(4.4)	(458,141)	(15.0)	17,173,710	(3,100,583)	(15.3)	(360,532)	(2.1)
Other Miscellaneous	1,839,955	(715,253)	(28.0)	(134,998)	(6.8)	28,794,914	10,063,121	53.7	50,207	0.2
Medicaid Hospital Revenue	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,537,453	(10,306,879)	(87.0)	(3,753,353)	(70.9)	39,375,304	(41,065,217)	(51.1)	(3,471,834)	(8.1)
Sub-Total Other Revenue	\$36,080,915	(\$19,238,083)	(34.8) %	(\$1,430,110)	(3.8) %	\$492,458,572	(\$115,058,184)	(18.9) %	\$7,280,201	1.5 %
TOTAL BASE REVENUE	\$855,248,410	\$19,918,724	2.4 %	\$8,226,284	1.0 %	\$10,955,010,987	\$549,862,652	5.3 %	\$60,651,841	0.6 %
Other Adjustments										
Urban Revenue Sharing	(105,688,149)	(105,688,149)	--	(0)	0.0	(845,505,190)	197,708,006	(19.0)	(0)	0.0
One-Time Transfers	0	0	--	0	--	6,945,900	6,945,900	--	0	0.0
Income Tax Rebate	(500)	113,200	(99.6)	(500)	--	(13,000)	273,408,550	(100.0)	(3,250)	33.3
Sub-Total Other Adjustments	(105,688,649)	(105,574,949)	-- %	(500)	0.0 %	(838,572,290)	478,062,456	(36.3) %	(3,250)	0.0 %
TOTAL GENERAL FUND REVENUE	\$749,559,761	(\$85,656,225)	(10.3) %	\$8,225,784	1.1 %	\$10,116,438,697	\$1,027,925,108	11.3 %	\$60,648,590	0.6 %
Non-General Funds										
Highway User Revenue Fund	142,254,472	5,694	0.0 %	(2,726,473)	(1.9) %	1,181,395,814	27,106,406	2.3 %	2,708,607	0.2 %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) second estimate of U.S. **Real Gross Domestic Product** (GDP) in the 4th quarter of 2024 is a seasonally adjusted annualized growth rate of 2.3%. This amount is unchanged from the advance estimate produced by the BEA in January.

The Conference Board's **Consumer Confidence Index** fell (7.0) points to 98.3 in February, its lowest level since June 2024. Respondents' views on the present situation and future expectations both grew worse during the month. Concerns about tariffs and increased food prices contributed to greater concern about inflation, which was the primary driver of the decline in sentiment. Over the last 12 months, the index has decreased by (6.2)%.

The **U.S. Leading Economic Index** (LEI), published by the Conference Board, declined by (0.3)% in January to 101.5, following a 0.1% increase in December 2024 (upwardly revised from an initially estimated decline of (0.1)% in December). Of the 10 components in the LEI, 4 contributed negatively to the index. Consumer expectations and weekly manufacturing hours decreased the most, with stock prices and employment worsening during the month as well. Manufacturing new orders and the interest rate spread improved, with interest rates contributing positively for the first time since November 2022. In the 6 months from July to January, the LEI decreased by (0.9)%, a smaller reduction than the (1.7)% decline over the previous 6-month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased by 0.2% in February over the prior month on a seasonally adjusted basis. The largest contributor to the increase was shelter prices. Energy prices also rose, despite a decline in gasoline prices. Compared to the same month last year, consumer prices are up by 2.8% before seasonal adjustment. The Core CPI, which excludes food and energy, is up by 3.1% from a year ago.

ARIZONA

Housing

In January, Arizona had a 12-month total of 41,290 **single-family building permits** issued. This marks a decrease of (0.5)% below December's rolling total and an increase of 13.6% over the previous January's 12-month total.

Arizona's 12-month total of 15,090 **multi-family building permits** in January is (10.0)% below the prior month and (38.5)% below the 12-month period ending in January 2024.

The **median home price** in Maricopa County fell slightly to \$487,513 in February, a (0.5)% decrease from January's median sale price and 3.7% above February 2024's median home price.

Tourism

Phoenix Sky Harbor Airport Ridership fell to 4.0 million in January, down (14.4)% from the prior month but 1.5% greater than January 2024 ridership. While ridership is typically lower in January than in December, this decrease is larger than usual.

January 2025 **state park visitation** soared 43.6% over December's figure, reaching 291,724. This figure is 28.3% over total January 2024's park visitation.

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 for 2023 and 2024. For 2023, the annual average nonfarm employment level was revised from 3,194,800 to 3,197,900, a net increase of 3,100 jobs. For 2024, there was a significant downward revision from an annual average of 3,261,600 jobs to 3,238,400 jobs, a net employment decrease of (23,200). This means that the number of net new jobs created in 2024 was revised down from 66,800 to 40,500, the smallest net gain since 2011 when Arizona added 25,200 jobs to the payrolls. (The annual employment growth rate in 2024 was revised from 2.1% to 1.3%.)

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state lost (40,700) **nonfarm jobs** in January compared to December. In the 10-year period prior to the pandemic (2010-2019), Arizona experienced an average net loss of (51,000) jobs in January. Compared to the same month in 2024, the state lost (5,400) jobs in January 2025, a decrease of (0.2)%.

The state's seasonally adjusted **unemployment rate** increased from 3.8% in December to 3.9% in January. The U.S. seasonally adjusted unemployment rate declined from 4.1% in December to 4.0% in January. The Arizona unemployment rate has remained below the U.S. jobless rate since April 2024.



OEO reported that a total of 3,594 **initial claims for unemployment insurance** were filed in Arizona in the week ending on March 8th. This represents a 6.1% year-over-year increase in initial claims, with the week ending March 9, 2024 seeing 3,386 initial claims.

The Arizona Department of Correction's **Inmate Population** was 35,551 as of January 31, 2025. This was a 0.1% increase since December 31, 2024 and a 2.9% increase since January 2024.

According to OEO, there were a total of 22,558 **continued claims for unemployment insurance** in Arizona for the week ending March 1st. This is 2.4% greater than last year's total of 22,019 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, 2025, the total **AHCCCS caseload** was 2.0 million members. Total monthly enrollment decreased (0.4)% from February and decreased (8.9)% compared to a year ago.

Parent and child enrollment in the Traditional population decreased by (0.5)% in March compared to February, or (4.5)% compared to a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 844,102 – a decrease of (0.4)% from February and (14.7)% lower than last year.

For March 2025, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.1%. At 72,587, this population is 4.4% higher than a year ago.

Based on information the **Department of Child Safety** provided for January 2025, reports of child maltreatment totaled 42,961 over the last 12 months, a decrease of (1.9)% from the prior year.

There were 8,744 children in out-of-home care as of January 2025, or (11.3)% less than in January 2024. Compared to the prior month, the out-of-home children population increased by 0.2%.

There were 8,858 individuals receiving **TANF Cash Assistance** in February 2025, representing a (3.1)% decline from January 2025. Year over year, the number of cash benefit recipients has decreased by (19.7)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. There were 917,636 individuals receiving SNAP benefits in February 2025, representing a (0.8)% decline from January 2025. Year over year, the number of SNAP recipients has decreased by (1.7)%.



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	3.9%	0.1%	0.4%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2024	7.0%	(0.2)%	(0.3)%
- Initial Unemployment Insurance Claims	Week Ending Mar 8	3,594	14.6%	6.1%
- Continued Unemployment Insurance Claims	Week Ending Mar 1	22,558	0.5%	2.4%
- Non-Farm Employment - Total	January	3,245,700	(1.2)%	(0.2)%
Manufacturing	January	192,500	(1.3)%	(1.7)%
Construction	January	220,300	(0.3)%	(2.0)%
- Average Hourly Earnings, Private Sector	January	\$34.22	0.9%	5.4%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	January	41,290	(0.5)%	13.6%
Multi-family		15,090	(10.0)%	(38.5)%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	February	4,651	24.5%	1.1%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	February	\$487,513	(0.5)%	3.7%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	January	3,996,917	(14.4)%	1.5%
- State Park Visitors	January	291,724	43.6%	28.3%
- Revenue Per Available Hotel Room	December	\$82.88	(22.6)%	0.5%
- Arizona Hotel Occupancy Rate	December	56.8%	(9.3)%	(1.3)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	3 rd Q 2024	\$490.7 billion	2.8%	5.0%
- Arizona Population (U.S. Census)	July 2024	7,582,384	N/A	1.5%
- 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	July 2024/Nov 2019	Positive/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	March 1st	1,961,295	(0.4)%	(8.9)%
Traditional Acute Care		1,044,606	(0.5)%	(4.5)%
Other Acute Care		844,102	(0.4)%	(14.7)%
Long-Term Care – Elderly & DD		72,587	0.1%	4.4%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	January	42,961	0.4%	(1.9)%
DCS Out-of-Home Children	January	8,744	0.2%	(11.3)%
Filled Caseworkers (1406 Budgeted)	January	1,243	(1)	(56)
- ADC Inmate Growth	January	35,551	0.1%	2.9%
- Department of Economic Security				
- TANF Cash Assistance Recipients	February	8,858	(3.1)%	(19.7)%
- SNAP (Food Stamps) Recipients	February	917,636	(0.8)%	(1.7)%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	4 th Q, 2024 (2 nd Estimate)	\$23.5 trillion	2.3%	2.5%
- Consumer Confidence Index (1985 = 100)	February	98.3	(6.6)%	(6.2)%
- Leading Economic Index (2016 = 100)	January	101.5	(0.3)%	(2.6)%
- Consumer Price Index, (1982-84 = 100)	February	319.1	0.2%	2.8%



JLBC Meeting Summary

At its **March 20, 2025** meeting, the Joint Legislative Budget Committee considered the following issues:

Adoption of Committee Rules and Regulations – The Committee adopted rules and regulations identical to those of the previous Legislature.

Department of Child Safety - Review of Line Item Transfers - Pursuant to an FY 2025 General Appropriations Act footnote, the Committee is responsible for reviewing the transfer of monies between most Department of Child

Safety (DCS) line items. The Committee gave a favorable review of the DCS proposal to transfer: 1) \$6.5 million of General Fund monies into the Congregate Care line item; and 2) \$2.2 million of General Fund monies into the Extended Foster Care line item. In addition, the Committee gave a favorable review to the DCS proposal to transfer another \$10.0 million of General Fund monies into the Congregate Care line item from several DCS line items, should the department confirm the existence of surplus funds in those other line items.

Summary of Recent Agency Reports

Arizona Department of Administration – School Facilities Division – Report on Transfer to Emergency Deficiencies Correction Fund – Pursuant to A.R.S. § 41-5721, the School Facilities Division (SFD) within the Arizona Department of Administration (ADOA) is required to notify the JLBC of any monies transferred from the New School Facilities Fund to the Emergency Deficiencies Correction Fund. SFD may only transfer funds if the agency determines that the transfer will not affect, interfere with, disrupt, or reduce funding for any SFD approved new school construction project. SFD reported transferring \$335,500 on February 12, 2025. This funding will be allocated to Valentine Elementary School District to provide temporary restroom and classroom space to students while the district constructs a new school. (Gordon Robertson)

AHCCCS – Report on the FY 2024 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 \$1.57 billion in SFY 2024, or \$940.9 million above the \$628.2 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 8 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 \$2.13 billion in SFY 2024. This amount is \$1.63 billion above the \$494.4 million in assessments paid by the hospitals. Directed payments exceeded the assessment costs for all hospitals but 1. (Maggie Rucker)

AHCCCS, DES, & DCS – Report on Preliminary Actuarial Estimates for CYE 2026 Capitation Rate Changes – Pursuant to an FY 2025 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) 2026. Its 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 between 3.0% to 5.0% in CYE 2026. The upper end of the range, 5.0%, resembles the projected national growth rate in Medicaid spending in 2026 from the Centers for Medicare and Medicaid Services Office of the Actuary, which is 4.9%. The midpoint of the range, 4.0%, matches the Executive Budget's FY 2026 projection, while the lower end of the range, 3.0%, matches the JLBC Baseline's FY 2026 projection. Potential factors that may influence capitation rate growth in CYE 2026 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 has declined due to AHCCCS resuming eligibility redeterminations for the first time since the start of the pandemic, members remaining in the program are expected to represent a higher cost due to higher utilization of services. The CYE 2026 capitation rates are expected to annualize the adjustment included in the CYE 2025 rates.
- Rate increases for home and community-based services for Proposition 206 and Proposition 414 (Flagstaff) minimum wage requirements. As of January 1, 2025, the statewide minimum wage is \$14.70, Tucson's minimum wage is \$15.00, and Flagstaff's minimum wage is \$17.85. All 3 minimum wage requirements will be receiving annual increases based on the consumer price index as of January 1, 2026.
- Increases in pharmacy costs due to pharmaceutical pricing. (Chandler Coiner)

Department of Education – Reports 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 2025 on the Empowerment Scholarship Account (ESA) program:

- There were 83,819 total enrollees in the program, including 61,688 universal ESA enrollees.
- Of the students grades 1-12 newly entering the universal ESA program, 5,736, or 55.6%, were enrolled in a public school immediately preceding their enrollment in the ESA program. The percentage for FY 2024 was 47.6%.
- 9% of ESA students were kindergartners or preschoolers with disabilities, 69% were in grades 1-8, and 22% were in grades 9-12.
- There were 231 ESA students who were English Language Learners and 15,413 students with disabilities.
- ESA enrollees incurred \$172.4 million of expenses in the first quarter of FY 2025, including \$101.1 million for private school tuition, \$25.3 million for tutoring and teaching services, \$12.3 million for tuition or fees for online learning programs, and \$33.7 million for all other expenses.

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

Department of Public Safety – Report on Local Border Support Expenditures – Pursuant to a FY 2025 General Appropriation Act footnote, DPS submitted an expenditure plan for the Local Border Support line item. The FY 2025 budget included \$17.2 million for the Local Border Support line item (\$12.2 million from the Border Security Fund and \$5.0 million from the General Fund). *Table 7* on the following page delineates the FY 2024 planned allocations, FY 2024 actual allocations, and planned allocation of the FY 2025 appropriation to local law enforcement agencies.

An additional footnote in the FY 2025 General Appropriation Act specifies that the \$17.2 million appropriation shall be used as grants to local governments to fund law enforcement positions for border drug interdiction, prosecution costs of border-related crimes, and capital-related equipment. The allocation of the FY 2025 monies to the respective agencies will be utilized for unspecified border security projects and operating costs. (Jordan Johnston)



Table 7

FY 2025 Local Border Support Expenditure Plan

<u>Agency</u>	<u>FY 2024 Award</u>	<u>FY 2024 Actuals</u>	<u>FY 2025 Award</u>
Operation Safe Streets	\$556,400 <u>1/</u>	\$23,900 <u>1/</u>	\$0
Apache County Sheriff's Office	498,800	498,800	480,800
Cochise County Sheriff's Office	1,400,000 <u>2/</u>	1,400,000 <u>2/</u>	1,924,800
Coconino County Sheriff's Office	1,000,000	1,000,000	1,000,000
Gila County Sheriff's Office	502,300	502,300	624,200
Graham County Sheriff's Office	480,000	480,000	480,000
La Paz County Sheriff's Office	793,600	793,600	580,000
Mohave County Sheriff's Office	1,000,000	1,000,000	0
Navajo County Sheriff's Office	1,000,000	1,000,000	998,400
Pinal County Sheriff's Office	990,000	990,000	1,111,000
Santa Cruz County Sheriff's Office	0 <u>3/</u>	0 <u>3/</u>	540,400
Yavapai County Sheriff's Office	1,000,000	1,000,000	807,200
Yuma County Sheriff's Office	1,500,000	1,500,000	2,751,700
Pima County Attorney's Office	138,300	138,300	0
Nogales Police Department	579,100	579,100	1,776,300
Parker Police Department	0	0	115,600
Payson Police Department	0	0	125,600
Pima Police Department	0	0	175,800
Prescott Valley Police Department	0	0	417,500
Sahuarita Police Department	0	0	819,800
San Luis Police Department	0	0	956,500
Sierra Vista Police Department	0	0	115,500
Snowflake-Taylor Police Department	0	0	75,200
Somerton Police Department	63,600	63,600	0
Tucson Police Department	100,000 <u>4/</u>	0 <u>4/</u>	810,000 <u>5/</u>
Wellton Police Department	380,600	380,600	546,600
Contingency	<u>250,200</u>	<u>0</u>	<u>0</u>
Total	\$12,232,900	\$11,350,200	\$17,232,900

1/ Multi-agency operation in Cochise County.

2/ DEMA awarded an additional \$100,000 from the Border Security Fund.

3/ DEMA awarded \$900,000 from the Border Security Fund and is considering an additional \$3,000,000 award.

4/ DEMA awarded an additional \$200,000 from the Border Security Fund.

5/ Includes a \$310,000 allocation to the Counter Narcotics Alliance.

