

## Summary

February 2026 General Fund revenues totaled \$819 million, which was an increase of 9.2% above February 2025. This level of collections resulted in a monthly loss of \$(26) million below the Baseline forecast. The February percentage growth is misleadingly high due to technical issues related to Individual Income Tax withholding.

### Sales Tax

Overall Sales Tax collections in February (which represent January sales activity) increased by 1.5% compared to the prior year. Within this slow overall growth for the month, the state continues to see unequal performance across the Sales Tax subcategories.

The Restaurant/Bar subcategory was this month's fastest growing component (increasing by 7.0%), followed by Retail sales (growing by 2.5%). While the performance in those 2 parts has generally been positive so far this year, Contracting tax posted yet another month of decline, resulting in that subcategory declining year-over-year in 10 of the last 12 months.

In total, the Sales Tax category posted a modest forecast loss of \$(9) million below the Baseline forecast.

### Individual Income Tax

Given that the state's tax filing season started near the end of January, the February revenue results represent the first full month of data from the state's tax filing season.

February is typically a smaller month for overall net Individual Income Tax (IIT) collections. This is because in addition to standard withholding revenue, the significant amount of refunds issued generally outweighs the minimal amount of tax payments, thereby pulling down the overall net level of IIT revenues.

With this lower collection base, the IIT category can see significant percentage fluctuations – that was the case this February, where IIT grew by 35.7% due to a technical timing issue related to withholding collections. In terms of the timing issue, the state has typically seen large withholding deposits made at the end of January. This year, however, it appears that withholding deposits totaling approximately \$60 million were remitted on January 31st (a Saturday), thereby being artificially shifted to February 2nd (the next business day). Given that the February growth rate was inflated for technical reasons, the IIT category actually still posted a forecast loss of \$(23) million below the Baseline forecast.

The state's current tax forms assume that Arizona will conform with all the tax law changes in last year's federal budget legislation. Since the state has yet to enact the conformity legislation, the Baseline revenue forecast does not account for its impact. The February tax filings, however, are insufficient for us to draw conclusions on the extent to which the revenue collections are being affected by the current tax forms.

### Corporate Income Tax

February Corporate Income Tax (CIT) revenues had a \$10 million gain above the Baseline forecast. February is a minor CIT collection month, which accounts for the 93.9% growth above the prior year.

### Year-to-Date Results

Year-to-date through February, excluding Urban Revenue Sharing and one-time revenue adjustments, FY 2026 General Fund revenues are 3.2% above the prior year.

With the February results, after 2 months of tracking against the JLBC Baseline forecast, the state has generated a cumulative forecast loss of \$(41) million.

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February Revenues

**Table 1**

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

	<b>FY 2026 Collections</b>	<b>Difference From Baseline Forecast</b>	<b>Difference From FY 2025</b>
February	\$ 818.9	\$ (25.8)	\$ 69.3
Year-to-Date	\$ 10,605.0	\$ (41.5)	\$ 417.4

**Sales Tax** collections of \$667.0 million in February were 1.5% above the amount collected in February 2025 and \$(8.5) million below the Baseline forecast. Year to date through February, sales tax revenue is up by 3.1% and is \$10.0 million above the Baseline forecast. Sales tax revenue collected in February reflects sales activity that occurred in January.

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

February's (2.3)% year-over-year decline in sales tax collections from construction activities was the continuation of a trend that has persisted for much of the last 12 months. Year to date through February, tax revenue from the Prime Contracting Classification of TPT is down by (3.5)%. The last time the state collected a smaller amount of sales tax from contracting activities (for the comparable period) was in February 2023. The residential construction sector is the primary reason for the decline in contracting tax revenue. Taxable sales from residential construction activity were down by (14.3)% through the first 8 months of FY 2026.

**Table 2**

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

	<b>February</b>	<b>YTD</b>
Retail/Remote Seller	2.5%	4.2%
Contracting	(2.3)%	(3.5)%
Use Tax	(8.0)%	11.4%
Restaurant/Bar	7.0%	4.7%
Utilities	(2.4)%	0.4%

Sales tax revenue from the Restaurant & Bar Classification of the Transaction Privilege Tax (TPT) increased (year over year) by 7.0% in February and is up by 4.7% through the first 8 months of FY 2026. The resiliency of Arizona's restaurant industry appears to be part of a national trend. According to U.S. Census data, national sales from "food services and drinking places" (a category that is similar to Arizona's Restaurant & Bar TPT Classification) increased by 5.5% over the same 8-month period.

Information from the National Restaurant Association suggests that much of this growth is driven by higher prices for restaurant meals and drinks rather than an increase in the volume of sales. To provide some perspective, data from the Bureau of Labor Statistics indicates that the price for restaurant meals rose by an average of 4.4% during this 8-month period (compared to 2.7% for all consumer items combined).

**Individual Income Tax (IIT)** net revenue in February was \$140.6 million, a year-over-year increase of 35.7% from the previous year but \$(22.8) million less than the Baseline forecast. Withholding, payments, and refunds all contributed to the overall forecast loss. Year-to-date (YTD), IIT has risen 6.6% compared to the same period in FY 2025 but is \$(24.6) million below the forecast.

Withholding collections in February were \$518.7 million, a 17.0% improvement from February 2025 but \$(0.6) million below the Baseline forecast. The sharp increase in withholding revenue in February was largely anticipated, as this was related to the timing of the processing of withholding payments, which we described in last month's *Monthly Fiscal Highlights*.

Total (estimated plus final) tax payments in February were \$38.8 million, (8.2)% below last year and \$(6.2) million short of the Baseline forecast. Final payments, which made up the bulk of total payments, declined year-over-year while estimated payments increased.

February is not a significant month for payments, making up approximately 2.5% of the total in most fiscal years. YTD, total payments are 13.8% more than the same period in FY 2025 and \$1.3 million higher than the Baseline forecast.



February refunds were \$416.8 million, 9.1% greater than last February. The Baseline forecast assumed a lower refund level of \$400.8 million, so for this reason there was a forecast loss of \$(16.0) million. On average, February refunds make up about 20% of the fiscal year total. YTD, refunds are down by (3.9)% compared to the same period in FY 2025 for a \$(10.6) million forecast loss.

	<u>February</u>	<u>YTD</u>
Withholding	17.0%	3.2%
Estimated/Final Payments	(8.2)%	13.8%
Refunds	9.1%	(3.9)%

**Corporate Income Tax (CIT)** net revenue was \$23.0 million in February compared to \$11.8 million in the same month last year. Since the Baseline forecast assumed net collections of \$13.0 million, there was a forecast gain of \$10.0 million in February. The 93.9% year-over-year increase in net collections was almost exclusively due to a significantly lower level of corporate refunds than in February last year. On average, February CIT revenue only makes up between 1%-2% of the fiscal year total.

YTD, net CIT collections are 3.4% greater than the same period in FY 2025 but \$(20.2) million less than under the Baseline forecast.

**Insurance Premium Tax (IPT)** revenue was \$37.1 million in February, a decrease of (10.5)% compared to the same month in the prior year and \$(9.8) million below the Baseline forecast. IPT collections in the month of February tend to be lower than in the remaining months of the fiscal year, as due dates for installment payments, retaliatory tax payments, and AHCCCS contractor payments are more heavily concentrated to the March-June period. Year to date, IPT revenue is up by 9.9% and is \$(9.4) million below forecast.

The amount of **Tobacco Tax** deposited into the General Fund in February was \$1.4 million, which is (4.4)% less than collections a year prior and \$(0.1) million below the Baseline forecast. Year to date, General Fund tobacco tax revenues total \$11.3 million, which is 0.9% above collections through February in FY 2025 and less than \$(5,000) below the Baseline forecast.

**Liquor Tax** revenue deposited into the General Fund in February was \$2.7 million. This is 47.6% greater than the amount deposited in February 2025 and \$0.6 million above the Baseline forecast. Year to date, General Fund deposits from liquor tax collections total \$29.0 million, a (6.2)% decrease from collections through this point in FY 2025 and \$(1.8) million below forecast.

The **Lottery Commission** reported that total ticket sales in February were \$122.4 million. This amount is \$5.2 million, or 4.5% higher than in February 2025.

**Highway User Revenue Fund (HURF)** collections of \$143.1 million in February were (0.1)% below the amount collected in February 2025 and \$(4.5) million below forecast. Year to date, HURF collections are \$1.2 billion, 1.7% above the prior year and \$(20.3) million less than forecast.

In February, the state collected \$16.1 million in dedicated **Marijuana Excise Taxes**, which was 3.6% greater than collections made in February 2025. Monies from this excise tax are deposited into dedicated non-General Fund accounts. February's total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) revenue was \$5.4 million. Of this amount, the General Fund received \$4.0 million. (See *Table 4*).

	<u>February</u>	<u>YTD</u>
<b>Marijuana Excise Tax</b>	<b>\$16.1</b>	<b>\$113.4</b>
<b>Medical Marijuana TPT</b>	<b>\$0.6</b>	<b>\$5.9</b>
<u>Distribution:</u>		
General Fund	\$0.5	\$4.3
Counties	\$0.1	\$1.0
Cities	\$0.1	\$0.6
<b>Recreational Marijuana TPT</b>	<b>\$4.8</b>	<b>\$35.2</b>
<u>Distribution:</u>		
General Fund	\$3.5	\$26.0
Counties	\$0.8	\$5.7
Cities	\$0.5	\$3.5
<b>Total State Marijuana Tax Collections</b>	<b>\$21.5</b>	<b>\$154.5</b>

\* Amounts may not add to total due to rounding



Table 5

**General Fund Revenue:  
Change from Previous Year and Baseline  
February 2026**

	Current Month					FY 2026 YTD (Eight Months)				
	Actual February 2026	Change From February 2025		Baseline		Actual February 2026	Change from February 2025		Baseline	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$666,988,302	\$9,981,606	1.5 %	(\$8,530,435)	(1.3) %	\$5,617,515,351	\$170,592,336	3.1 %	\$10,011,629	0.2 %
Income - Individual	140,621,150	36,977,062	35.7	(22,767,911)	(13.9)	3,749,226,937	230,514,817	6.6	(24,566,513)	(0.7)
- Corporate	22,974,022	11,125,084	93.9	9,992,810	77.0	1,078,890,896	35,105,001	3.4	(20,163,782)	(1.8)
Property	2,129,485	1,265,185	146.4	1,378,261	183.5	27,933,256	4,173,584	17.6	(483,833)	(1.7)
Luxury - Tobacco	1,379,745	(63,243)	(4.4)	(60,729)	(4.2)	11,294,398	99,950	0.9	(4,816)	(0.0)
- Liquor	2,693,908	868,796	47.6	616,256	29.7	29,033,522	(1,923,810)	(6.2)	(1,828,215)	(5.9)
Insurance Premium	37,066,960	(4,357,478)	(10.5)	(9,805,798)	(20.9)	413,987,035	37,302,185	9.9	(9,449,909)	(2.2)
Other Taxes	2,031,100	920,164	82.8	818,001	67.4	13,081,429	2,546,345	24.2	2,215,565	20.4
<b>Sub-Total Taxes</b>	<b>\$875,884,671</b>	<b>\$56,717,175</b>	<b>6.9 %</b>	<b>(\$28,359,544)</b>	<b>(3.1) %</b>	<b>\$10,940,962,823</b>	<b>\$478,410,407</b>	<b>4.6 %</b>	<b>(\$44,269,873)</b>	<b>(0.4) %</b>
<b>Other Revenue</b>										
Lottery	0	0	--	0	--	155,853,255	(22,910,707)	(12.8)	0	0.0
Gaming	5,916,034	3,588,514	154.2	3,258,309	122.6	30,646,123	10,072,139	49.0	4,632,468	17.8
License, Fees and Permits	3,898,059	(623,730)	(13.8)	(715,947)	(15.5)	36,240,498	(1,811,879)	(4.8)	(953,479)	(2.6)
Interest	18,153,304	(5,100,826)	(21.9)	(247,073)	(1.3)	133,465,529	(36,258,791)	(21.4)	1,708,239	1.3
Sales and Services	1,883,124	(716,944)	(27.6)	(960,097)	(33.8)	16,876,739	(296,971)	(1.7)	(2,261,091)	(11.8)
Other Miscellaneous	3,141,995	1,302,040	70.8	1,245,958	65.7	15,349,618	(13,445,295)	(46.7)	435,419	2.9
Medicaid Hospital Revenue	0	0	--	0	--	0	(71,248,984)	--	0	--
Transfers and Reimbursements	8,866,752	7,329,299	476.7	(34,943)	(0.4)	51,951,879	12,576,575	31.9	(786,061)	(1.5)
<b>Sub-Total Other Revenue</b>	<b>\$41,859,269</b>	<b>\$5,778,354</b>	<b>16.0 %</b>	<b>\$2,546,207</b>	<b>6.5 %</b>	<b>\$440,383,642</b>	<b>(\$123,323,914)</b>	<b>(21.9) %</b>	<b>\$2,775,494</b>	<b>0.6 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$917,743,939</b>	<b>\$62,495,529</b>	<b>7.3 %</b>	<b>(\$25,813,337)</b>	<b>(2.7) %</b>	<b>\$11,381,346,465</b>	<b>\$355,086,494</b>	<b>3.2 %</b>	<b>(\$41,494,378)</b>	<b>(0.4) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(98,858,813)	6,829,335	(6.5)	(0)	0.0	(790,870,607)	54,634,583	(6.5)	(0)	0.0
One-Time Transfers	0	0	--	0	--	0	(6,945,900)	--	0	--
Income Tax Rebate	0	500	--	0	--	(1,750)	11,250	(86.5)	(500)	40.0
Other One-Time Revenue Adjustments	0	0	--	0	--	14,574,359	14,574,359	--	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(98,858,813)</b>	<b>6,829,835</b>	<b>(6.5) %</b>	<b>(0)</b>	<b>0.0 %</b>	<b>(776,297,998)</b>	<b>62,274,292</b>	<b>(7.4) %</b>	<b>(500)</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$818,885,126</b>	<b>\$69,325,365</b>	<b>9.2 %</b>	<b>(\$25,813,337)</b>	<b>(3.1) %</b>	<b>\$10,605,048,467</b>	<b>\$417,360,786</b>	<b>4.1 %</b>	<b>(\$41,494,879)</b>	<b>(0.4) %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	143,137,613	(75,559)	(0.1) %	(4,517,318)	(3.1) %	1,204,203,064	19,901,991	1.7 %	(20,291,088)	(1.7) %

Monthly Indicators

NATIONAL

According to the Bureau of Economic Analysis' (BEA) second estimate of U.S. Real **Gross Domestic Product** (GDP), economic output increased at a seasonally adjusted annual rate of 0.7% in the 4<sup>th</sup> quarter of 2025. This is a downward revision from the initial estimate of 1.4%. The revision was due to reduced exports, less consumer and government spending, as well as investment than initially estimated.

The **Consumer Confidence Index**, published by the Conference Board, was 91.2 in February, a 2.2-point increase from its revised January level. Consumers' views on the present situation continued to decline, but future expectations became more optimistic. While concerns about the labor market, inflation, and business conditions persisted, many of these categories improved relative to prior months. Over the last 12 months, the index has decreased by (8.9)%.

The Conference Board's **Leading Economic Index** (LEI) was 97.6 in December, a (0.3)% decrease from the November level. Of the 10 components that make up the composite index, 6 made positive contributions to December's overall level. However, significant declines in 4 of LEI's components: consumer expectations, manufacturing hours, building permits, and stock prices more than offset those gains. In the 6 months from June to December, the index fell by (1.2)%, a slower rate than the (2.8)% contraction in the previous 6-month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased at a seasonally adjusted rate of 0.3% in February. Rising shelter prices were the largest contributor to the overall increase. Food and energy prices also increased during the month. Compared to the same month last year, consumer prices are up by 2.4% before seasonal adjustment. The Core CPI, which excludes food and energy, is up by 2.5%.

ARIZONA

Tourism

**Phoenix Sky Harbor Airport Ridership** fell to 4.1 million passengers in January, which is a (12.4)% drop from the prior month and 2.5% above January 2025's figure.

February 2026 **state park visitation** fell (22.2)% from January's level, totaling 238,545 for the month across all parks. This is (9.2)% below February 2025 visitation.



**Hotel occupancy** was 63.4% in January, which is 4.4% above the prior month's rate.

**Revenue per available room** was \$109.10 in January, which is 25.9% above the average revenue in the month prior.

Employment

OEO reported that a total of 2,386 **initial claims for unemployment insurance** were filed in Arizona in the week ending on February 21<sup>st</sup>, representing a (14.9)% decrease in initial claims compared to a year ago.

According to OEO, there were a total of 17,658 **continued claims for unemployment insurance** in Arizona for the week ending on February 14<sup>th</sup>, which is (21.4)% lower than the comparable week in 2025.

Housing

In December, Arizona had a 12-month total of 34,052 **single-family building permits** issued. This represents an increase of 0.6% from the prior month's rolling total and a decrease of (18.0)% from the previous December's 12-month total.

Arizona's 12-month total of 17,260 **multi-family building permits** in December is 18.3% greater than November's rolling total and 2.9% above the 12-month period ending in December 2024.

State Agency Data

As of March 1, 2026, the total **AHCCCS caseload** was 1.74 million members. Total monthly enrollment decreased (0.8)% from February to March and decreased (11.1)% compared to a year ago.

Parent and child enrollment in the Traditional population decreased (0.7)% in March compared to February and decreased (11.2)% compared to a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 740,184, a decrease of (0.9)% from February and (12.3)% lower than last year.

For March 2026, the Elderly and Physically Disabled Long-Term Care population decreased by (0.2)% over the prior month. At 27,245, this population is (0.4)% lower than a year ago. The Developmental Disabilities (DD) Long-Term Care population increased by 0.3% over the prior month. At 47,899, this population is 5.9% higher than a year ago.

Based on information the **Department of Child Safety** provided for January 2026, reports of child maltreatment totaled 45,051 over the last 12 months, an increase of 4.9% from the comparable period in the prior year.

There were 8,228 children in out-of-home care as of January 2026, or (5.5)% fewer than in January 2025. Compared to the prior month, the number of out-of-home children decreased by (0.2)%.

There were 4,674 individuals receiving **Temporary Assistance for Needy Families (TANF) Cash Assistance** in January 2026, representing a (5.9)% decline from December 2025. Year over year, the number of cash benefit recipients has decreased by (48.9)%.

The **Supplemental Nutrition Assistance Program (SNAP)** provides assistance to low-income households to purchase food. There were 532,868 individuals receiving SNAP benefits in January 2026, representing a (14.7)% decline from December 2025. Year over year, the number of SNAP recipients has decreased by (42.4)%.

The Arizona Department of Correction's **Inmate Population** was 34,742 as of January 31, 2026. This was a (0.4)% decrease since December 31, 2025 and a (2.3)% decrease since January 2025.



Table 6				
MONTHLY INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	December	4.3%	0.0%	0.5%
- Total Unemployment Rate (discouraged/underemployed)	3 <sup>rd</sup> Q 2025	8.0%	0.1%	0.8%
- Initial Unemployment Insurance Claims	Week Ending Feb 21	2,386	(4.6)%	(14.9)%
- Continued Unemployment Insurance Claims	Week Ending Feb 14	17,658	(1.1)%	(21.4)%
- Non-Farm Employment - Total	December	3,311,000	0.2%	0.7%
Manufacturing	December	192,400	(0.7)%	(1.3)%
Construction	December	226,800	0.5%	2.7%
- Average Hourly Earnings, Private Sector	December	\$35.10	(0.7)%	3.5%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	December	34,052	0.6%	(18.0)%
Multi-family		17,260	18.3%	2.9%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	August	4,904	(3.3)%	4.9%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	August	\$472,723	0.6%	(0.5)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	January	4,097,545	(12.4)%	2.5%
- State Park Visitors	February	238,546	(22.2)%	(9.2)%
- Revenue Per Available Hotel Room	January	\$109.10	25.9%	NA
- Arizona Hotel Occupancy Rate	January	63.4%	4.4%	NA
<u>General Measures</u>				
- Arizona Personal Income, SAAR	3 <sup>rd</sup> Q 2025	\$522.5 billion	3.2%	6.7%
- Arizona Population (U.S. Census)	July 2025	7,623,818	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	July 2024/Nov 2019	Positive/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	March 1st	1,743,280	(0.8)%	(11.1)%
Traditional Acute Care		927,952	(0.7)%	(11.2)%
Other Acute Care		740,184	(0.9)%	(12.3)%
Long-Term Care – Elderly & Physically Disabled		27,245	(0.2)%	(0.4)%
Long-Term Care – Developmentally Disabled (DD)		47,899	0.3%	5.9%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	January	45,051	0.1%	4.9%
DCS Out-of-Home Children	January	8,228	(0.2)%	(5.5)%
Filled Caseworkers (1406 Budgeted)	January	1,242	3	-
- ADC Inmate Growth	January	34,742	(0.4)%	(2.3)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	January	4,674	(5.9)%	(48.9)%
- SNAP Recipients	January	532,868	(14.7)%	(42.4)%
<b>United States</b>				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	4 <sup>th</sup> Q, 2025 2 <sup>nd</sup> Estimate)	\$24.1 trillion	2.2%	0.7%
- Consumer Confidence Index (1985 = 100)	February	91.2	2.5%	(8.9)%
- Leading Economic Index (2016 = 100)	December	97.6	(0.3)%	(4.0)%
- Consumer Price Index, (1982-84 = 100)	February	324.1	0.3%	2.4%



## JLBC Meeting Summary

At its **March 5, 2026** meeting, the Joint Legislative Budget Committee considered the following issue:

### Regular Agenda

**Secretary of State – Review of FY 2026 Special Election Expenses Line Item Transfer of \$2,490,000 to the Operating Budget** – Pursuant to an FY 2026 General Appropriations Act footnote, the Secretary of State (SOS) requested review of a transfer of \$2,850,000 from the Special Election Expenses line item to the Operating Budget for 10 specified expenses. The review did not include \$360,000 requested by the SOS for database replacement planning and physical security cost reimbursement. The Committee gave a favorable review of the transfer, also adopting the following provisions:

- A. Starting on April 15<sup>th</sup>, 2026, and the 15<sup>th</sup> of every month thereafter through December 2026, SOS shall submit a report to the JLBC Staff on the previous month's expenditures and year-to-date expenditures of the monies transferred from the Special Election Expenses line item.
- B. Any monies transferred from the Special Election Expenses line item may not be used by the Secretary of State for contracts with individuals or entities for lobbying services.
- C. Any monies transferred from the Special Election Expenses line item may not be used for providing assistance to groups or individuals for conducting voter registration drives or by the Secretary of State to conduct voter registration drives.

## JLBC 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 2025, Arizona spent \$6.0 million total on TIP expenditures. Administration accounted for 50% of expenses at \$3.0 million. The remaining \$3.0 million was spent across 6 other program categories: Adult Behavioral Health, Pediatric Behavioral Health, Adult Primary Care Providers (PCPs), Pediatric PCPs, Hospitals, and Justice. (Brian Belakovsky)

**DES – Reports on Budget Deficiency, DDD Population by Diagnosis, and Minnesota DDD Audits** – Pursuant to the provisions set forth in the January 29, 2026, JLBC meeting, the Arizona Department of Economic Security (DES) submitted three letters of budget deficiency for programs in FY 2026 pursuant to A.R.S. § 35-131(D), a report on the Division of Developmental Disabilities (DDD) population by diagnosis, and a review of two Minnesota DDD audits.

Under the first provision, DES reported expected budget deficiencies in FY 2026 for the administration of a summer food benefits program (also referred to as "SUN Bucks"), the state-only DDD program, and the DDD Arizona Long Term Care System (ALTCS) program. While DES estimated a budget deficiency of \$1.8 million from the General Fund for the SUN Bucks program, it did not report a discrete total for the two DDD programs. Instead, DES broadly referenced the Executive's January budget proposal, which included a \$128.1 million General Fund supplemental for the overall DDD system. DES estimated that if it does not receive this supplemental funding, DDD will be insolvent by June 2026.

Under the second provision, DES submitted data from January through March 2026 on the DDD population by diagnosis type, which is displayed in *Table 7* below.

Under the third provision, DES submitted a review of audits related to Minnesota's Medicaid disabilities programs. DES stated that Arizona's DDD program has "numerous" safeguards to prevent the issues identified in these audits. Primarily, Minnesota's Medicaid programs operate as a fee-for-service model, which can potentially incentivize providers to overbill for more services than medically required. DES noted that, by contrast, Arizona's managed care model provides a flat payment from AHCCCS to contracted Managed Care Organizations (MCOs), such as DES-DDD, based on the number of members in the program per month, as opposed to the number of medical services rendered.



DES also stated that Minnesota's Medicaid disabilities programs were not required to be licensed and relied on provider self-attestation. Unlike Minnesota providers historically, providers who wish to bill DES must be vetted, credentialed, licensed, and reevaluated every four years. These providers receive on-site visits and observation as part of the credentialing process. Additionally, Minnesota did not have a prepayment review process; by contrast, DES and its subcontractors conduct both prepayment and post-payment reviews.

With respect to Applied Behavioral Analysis (ABA) specifically, DES also stated that Behavior Analysts in Minnesota were not required to be licensed, unlike in Arizona. To be licensed in Arizona, a Behavior Analyst must obtain a graduate degree, certification, complete supervised fieldwork, and pass an examination. Additionally, DDD members who wish to qualify for ABA services must complete prior authorization and clinical reviews on a biannual basis. Lastly, DES describes that the

most common type of fraud within one of Minnesota's disabilities programs involved billing for services not provided. DES claims that such fraud is prevented under Arizona's Medicaid system, as Arizona's supported living services are not controlled by providers, and HCBS benefits require an Electronic Visit Verification system, which reduces risk. (Brian Belakovsky)

**Table 7**  
**DES-DDD Population Count, Delineated by Primary Diagnosis**

Diagnosis	January	February	March
	2026	2026	2026
Autism	25,560	25,746	25,869
Intellectual Disability	16,197	16,218	16,224
"At Risk" Individuals	14,503	14,560	14,723
Cerebral Palsy	3,763	3,760	3,757
Epilepsy	2,317	2,311	2,308
Down Syndrome	641	643	651
<b>Total</b>	<b>62,981</b>	<b>63,238</b>	<b>63,532</b>

## Summary of Recent Agency Reports

**Arizona Department of Administration/School Facilities Division – Report on Class B Bonds** – Pursuant to A.R.S. § 41-5702, the School Facilities Division (SFD) within the Arizona Department of Administration is required to submit an annual report on all Class B bond approvals by school districts in that year. SFD reported that in 2025, there were 7 districts with Class B bond approvals for a total approval amount of \$826 million. (Gordon Robertson)

**AHCCCS – Quarterly Report on the Parents as Paid Caregivers Program** – Pursuant to A.R.S. § 36-2970.01, the Arizona Health Care Cost Containment System (AHCCCS) submitted the third of ongoing quarterly reports detailing the utilization of attendant care and habilitation services under the Parents as Paid Caregivers (PPCG) program.

The agency continues to report that 214 children with physical disabilities and 225 of their parents participated in PPCG for at least some duration between October 2024 and May 2025. (*Children with developmental disabilities are addressed in a separate report submitted by the Department of Economic Security. Please see the February 2026 Monthly Fiscal Highlights for additional information.*) To enable more accurate and clearer reporting to meet statutory requirements, AHCCCS transitioned to an in-house Electronic Visit Verification (EVV) system, which is used by approved

caregivers to report service hours under the program. Compliance with PPCG-related reporting within this EVV system was mandatory as of October 31, 2025. AHCCCS details that the EVV system has been approved by the federal Centers for Medicare and Medicaid Services (CMS) and is currently receiving live data.

For this report, AHCCCS states it could not provide data due to system configuration delays and provider non-compliance issues. AHCCCS currently plans to fully rely on data from its EVV system beginning with the report it will submit six months from now. AHCCCS also states that it has been in talks with CMS to obtain an exception to federal rules regarding prior authorization timelines in order to fully institute PPCG reforms and the extraordinary care review process.

AHCCCS plans to include the following information in future reports:

- The annual growth in the number of parents and members enrolled in the program,
- The number of emergency department visits and inpatient hospitalizations in the calendar quarter,
- The approved annual hours delineated by primary diagnosis, and
- How long a member who receives care under the PPCG Program has been enrolled in the Arizona Long Term Care System (ALTCs) (Brian Belakovsky).



**Office of Economic Opportunity – Microlending Report** – Pursuant to Laws 2025, Chapter 236, the Office of Economic Opportunity (OEO) is required to report on the number of microbusiness lenders in this state, the availability of microbusiness credit in this state and recommendations for increasing the availability of credit to microbusinesses in this state.

According to OEO, microlending services are available through various sources in Arizona. However, OEO’s report identifies that Community Development Financial Institutions (CDFIs) are one of the primary lenders to microbusinesses, although less than half of CDFIs offer microlending services. OEO reports that most of these CDFIs can only issue loans in the county where they reside or to specific tribal communities. OEO reports that Arizona ranks 37<sup>th</sup> nationally in the number of CDFIs per capita, and that there are few qualified microlenders in the state.

OEO reports that since the Microbusiness Loan Program began in August 2024, 118 loans totaling \$1.5 million have been issued by the 10 lending partners to microbusinesses. Pursuant to the program’s required 3:1 funding ratio for lenders, \$364,000 is from microbusiness loan program funds and the remaining \$1.1 million is from the lending partners’ capital.

The report also includes recommendations from the lending partners, who requested that the program be modified to allow for the collection of higher administrative fees, reduce the funding ratio from 3:1 to 2:1 or even 1:1, and allow for program funds to be granted to a collective network of CDFIs instead of to individual partners. (Ethan Scheider).

**Department of Economic Security – Report on Cost Effectiveness Study Expenditures** – Pursuant to an FY 2026 General Appropriation Act footnote, the Department of Economic Security (DES) reported its expenditures from the Cost Effectiveness Study (CES) in FY 2025. The CES reflects a federal requirement for Arizona’s Medicaid program that the net cost of home and community-based services (HCBS) for a Division of Developmental Disabilities (DDD) client may not exceed the net cost of institutional services for that client. If CES cost thresholds are exceeded, the state covers the amount over the threshold with state-only funds. (To better describe the purpose of CES, the FY 2027 JLBC Baseline would relabel the program as a "High-Need Client Supplement.")

In FY 2025, an average of 271 individuals per month had costs of care that exceeded CES thresholds, an increase of 8 individuals above FY 2024. The aggregate amount above the thresholds covered with state-only funds was \$23.3 million.



Of this amount, 261 individuals per month received services in a group home setting at a total cost to CES of \$22.3 million, and 10 individuals per month received services in their own home at a total cost to CES of \$1.0 million. Of the total CES spending, \$2.3 million was from the Special Administration Fund in the CES and JOBS line items, \$7.2 million was from the General Fund in the CES line item, and \$13.1 million was from the Prescription Drug Rebate Fund as a CES line item supplemental. DES reports an outstanding need of \$693,000 to fully cover FY 2025 CES costs, but it has not yet identified a source of funding. (Brian Belakovsky)

**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 2026 on the Empowerment Scholarship Account (ESA) program:

- There were 99,034 total enrollees in the program, including 71,173 universal ESA enrollees.
- Of the students grades 1-12 newly entering the universal ESA program, 7,504, or 58.1%, were enrolled in a public school immediately preceding their enrollment in the ESA program. The percentage for FY 2025 was 57.3%.
- 8.9% of ESA students were kindergarteners or preschoolers with disabilities, 68.7% were in grades 1-8, and 22.4% were in grades 9-12.
- There were 246 ESA students who were English Language Learners and 19,715 students with disabilities.
- ESA enrollees incurred \$207.3 million of expenses in the second quarter of FY 2026, including \$106.2 million for private school tuition, \$30.9 million for tutoring and teaching services, \$15.8 million for curriculum, and \$54.4 million for all other expenses.

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

**Department of Environmental Quality – Report on Use of Indirect Cost Recovery Fund** – Pursuant to an FY 2026 General Appropriations Act footnote, the Department of Environmental Quality (DEQ) provided its report on the intended use of Indirect Cost Fund monies in excess of \$18.8 million in FY 2026.

Revenue for the Indirect Cost Fund comes from the application of a United States Environmental Protection Agency (EPA) approved formula to each fund.

The *Monthly Fiscal Highlights* in October 2025 reported that DEQ estimated that FY 2026 monies in the fund, including the beginning balance, would total \$25.2 million, or \$5.6 million above the \$19.6 million appropriated figure.

DEQ now anticipates disbursing \$25.9 million in FY 2026, an increase of \$0.7 million. Monies in the fund are used for departmentwide administrative personnel and overhead costs that are not directly allocated to the budget of the contributing programs. (Trevor Malzewski)

**Arizona Department of Gaming – Report on Equine Deaths, Equine Injuries, and Pre-Race Inspections –**

Pursuant to an FY 2026 General Appropriation Act footnote, the Department of Gaming (ADG) is required to report each quarter on the number of horses that died or were injured as a result of a horse race and the commercial live racing facility where each incident occurred.

In addition, the department is required to report on the number of pre-race horse inspections performed by a veterinarian employed by or contracted with the state. The department provided a report for the 2<sup>nd</sup> quarter of FY 2026.

The department reported 7 horse fatalities and 28 horse injuries during the 2<sup>nd</sup> quarter of FY 2026. These all occurred at Turf Paradise because it was the only live racing facility open during this time. The department also reported that, of the 1,690 pre-race examinations during the 2<sup>nd</sup> quarter, 1,163 were performed by department staff directly and 527 were completed by track veterinarians unobserved by the department. (Benjamin Newcomb)

**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, 2026, ABOR reports total academy enrollment for the 2025-2026 academic year is 2,788, of which 978 are undergraduate students, 495 are graduate students, 314 are community college students, 100 are teachers seeking a national board certification, and 901 are academy graduates receiving induction services in the first year of teaching.

In addition, ABOR reports 723 students are on the Arizona Teachers Academy waitlist. ABOR estimates a total of \$21.6 million in FY 2026 academy expenditures. (Grace Timpany)

**Arizona Board of Regents – Report on Spouses and Dependents of Law Enforcement Officers Tuition Scholarship –** Pursuant to A.R.S § 15-1809.02, the Arizona Board of Regents (ABOR) submitted its report on the total number of students receiving the Spouses and Dependents of Law Enforcement Officers Tuition Scholarship, the amount of monies awarded, and the law enforcement agency employing the officer whose spouse or dependent receives the scholarship.

For the 2025-2026 academic year, ABOR reports:

- \$877,017 awarded to 106 state university students at an average award of \$8,274.
- \$38,255 awarded to 12 community college students at an average award of \$3,188.
- \$306,222 awarded to 24 private university students at an average award of \$12,759.

Since the beginning of the program in academic year 2023-2024, 290 total students have received funding, of which 39 have graduated. ABOR reports that students receiving the scholarship are the spouses and dependents of officers employed at 50 different law enforcement agencies. (Grace Timpany)

**Northern Arizona University – Report on Translational Genomics Research Institute –**

Pursuant to a FY 2026 General Appropriation Act footnote, Northern Arizona University (NAU) submitted the 2025 report on the Translational Genomics Research Institute (TGen). The budget includes \$5 million from the General Fund for biomedical research funding. Of this amount, \$3 million is appropriated to NAU and \$2 million is appropriated to the Department of Health Services. These monies are distributed to TGen each year.

In calendar year 2025, TGen spent its distribution from NAU on research supplies (\$418,800), research for outside services (\$684,600), research capital (\$1.5 million), proposal development (\$100,000), project management (\$100,000), technical infrastructure (\$100,000), and education (\$100,000). Monies distributed from DHS were used for salaries and benefits (\$151,000), professional and outside services (\$1.7 million), and facilities and administrative costs (\$181,800).

TGen reported 19 new FTE Positions totaling \$3.4 million for salaries and benefits, in addition to \$1.8 million for 53 part-time and temporary positions. The majority of funding for these positions comes from non-state sources and grants. TGen investigators reported submitting 132 grants totaling \$102.0 million and were awarded 21 grants totaling \$5.3 million. TGen also reports that in 2025 there were 7 patents issued that utilized TGen technology and 217 published academic articles and presentations. (Ethan Scheider)

