

Joint Legislative Budget Committee

Monthly Fiscal Highlights

May 2023

Summary

April General Fund revenues were \$1.56 billion, which was a (24.7)% decline below April 2022. With the recent enactment of the state's FY 2024 budget, our office is now benchmarking the state's revenue collections against the enacted budget revenue forecast. The enacted budget projections were based on the 4-sector forecast outlined at the April Finance Advisory Committee meeting. General Fund collections during April were \$7.6 million above the enacted budget forecast.

While overall April revenues were close to forecast, there was significant variation in the growth rates of the state's major revenue categories.

The Corporate Income Tax (CIT) category posted yet another month of record collections, increasing by 50.8% above the prior year and generating a forecast gain of \$29 million during April.

The reason behind the CIT category's surge in collections during FY 2023 has been difficult to identify – while there has been some growth in nationwide corporate profits and CIT collections at the federal level, Arizona's CIT performance has far exceeded those metrics. Based on recent discussions with the Department of Revenue, it appears that a portion of the record growth is related to a state policy change for partnership and S-corporations ("pass-through entities").

Starting in TY 2022, these entities may elect to be taxed at the entity-level, which generates federal tax savings, but is revenue neutral to the state. However, one side effect of this option is that when selected, it shifts the categorization of revenue – the former pass-through income was reported under Individual Income Tax, while the newly selected entity-level tax payments are reported under the Corporate Income Tax category. *(See the Corporate Income Tax section below for more discussion).*

Overall Sales Tax collections in April showed only modest growth, increasing by 2.5% during the month, resulting in a forecast loss of \$(11) million. This is in contrast to the category's performance previously during FY 2023, where it has generally had robust growth of above 8% in most months. While it is unclear if a new trend is developing for the Sales Tax category, recent data from Sales Tax classifications/subcategories suggest there could be slowing in consumer activity. Higher interest rates appear to be putting significant downward pressure on motor vehicles sales, while general inflation for consumer staples (such as gasoline, not subject to sales tax) may be finally dampening consumer spending in other areas such as general merchandise (which is subject to sales tax).

In total, April Individual Income Tax collections were close to forecast, generating a modest forecast loss of \$(6) million:

- Withholding collections declined by (24.2)% during the month – a decline was expected due to the state's new withholding tax rates implemented in January.
- Income tax payments fell sharply, which was also expected during the first tax filing season under the new lower Tax Year (TY) 2022 income tax rates. This resulted in total income tax payments (estimated and final) declining by (37.5)% during April.
- The state continued to see an increase in refunds, which is also related to the income tax reductions implemented in TY 2022. The level of refunds issued by the state during April was 10.6% above the prior year.

Year-to-Date Revenues

Year-to-date through April, excluding Urban Revenue Sharing and one-time transfers, FY 2023 General Fund revenues are 1.9% above the prior year.

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April Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2023 Collections	Difference From Enacted Forecast	Difference From FY 2022
April	\$ 1,559.3	\$ 7.6	\$ (510.9)
Year-to-Date	\$ 12,786.6	\$ 7.6	\$ 17.8

Sales Tax collections of \$698.4 million were 2.5% above April of last year and \$(11.4) million below the enacted budget forecast. April sales tax revenue reflect sales activity that occurred in March. April's year-over-year increase of 2.5% is the slowest growth rate since the start of the economic recovery from the pandemic in June of 2020. Year to date, sales tax revenue is up by 8.1%.

Table 2 shows the April growth rate for the 5 major sales tax categories, which together make up approximately 85% of total sales tax collections.

Table 2		
Sales Tax Growth Rates Compared to Prior Year		
	April	YTD
Retail/Remote Seller	(2.9)%	4.9%
Contracting	9.4%	18.8%
Use Tax	(3.1)%	10.0%
Restaurant & Bar	7.1%	12.0%
Utilities	10.6%	(3.3)%

With the exception of the Utilities category, all the other major sales tax classifications grew at a slower rate than in prior months or experienced an outright decline in April. The combined Retail/Remote Seller category decreased year-over-year by (2.9)% in April, the first such decline since May of 2020.

More detailed industry data provided by the Department of Revenue indicates that more than 25% of the decline in retail sales in April was attributable to the motor vehicle retail sector. April marked the second consecutive month with a year-over-year decline in auto related sales. Several other retail industry sectors experienced year-over-year declines in April, albeit to a lesser extent, including the retail sector for building material, lawn and garden supplies, and general merchandise (such as department stores and supercenters).

Individual Income Tax (IIT) net revenue was \$486.9 million in April, a decrease of (54.3)% from last April and \$(6.0) million lower than the enacted budget forecast. The large year-over-year percentage decline is partially due to the record collections in April 2022, which were over \$1 billion. Year to date (YTD), net collections are down by (20.3)% and are \$(6.0) million below the forecast.

Withholding revenue in April was \$391.3 million, (24.2)% lower than last year and \$(24.5) million less than the forecast. This is the fourth month in a row with a year-over-year decrease in withholding collections. This reduction is due to the lower state withholding rates that were implemented in January 2023. Year to date through April, withholding revenue has declined (2.8)% compared to the same period last year.

Payments in April were \$666.7 million, a (37.5)% decrease from April 2022, but \$11.0 million above the forecast. Since the filing due date for individual income tax occurs in April, this is typically the month with the highest amount of tax payments. At \$666.7 million, payments were historically high (the third largest amount ever collected in April), but the record \$1 billion in tax payments collected in the previous April had the effect of producing a large year-over-year percentage decline in 2023. Record capital gains in 2021 contributed to the high level of payment collections in April 2022. While 2022 data is not currently available, capital gains were likely lower in 2022 – this factor, along with the TY 2022 income tax reductions, contributed to the sharp decrease in 2023 payments. As shown in Table 3, total payments YTD are (20.0)% below last year.

Refunds in April were \$571.1 million, an increase of 10.6% from last year. Since the amount of refunds in the enacted budget April forecast is \$578.6 million, April's refund level resulted in a forecast gain of \$7.5 million. YTD, the amount of refunds is 36.5% above the same period in the prior fiscal year.



Income tax processing data through the first half of May shows that the level of refunds is over four times higher than for the comparable period in May 2022. If this trend continues during the second half of the month, the state could incur a significant revenue loss in May relative to the enacted forecast.

Table 3
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>April</u>	<u>YTD</u>
Withholding	(24.2)%	(2.8)%
Estimated/Final Payments	(37.5)%	(20.0)%
Refunds	10.6%	36.5%

Net **Corporate Income Tax (CIT)** collections in April were \$342.0 million, an increase of 50.8% from the prior April, and \$28.6 million more than the enacted budget forecast. This is the highest amount of CIT ever collected in April and is only the second time that CIT collections have exceeded \$300 million in a single month. Typically, April makes up about 20% the yearly CIT total. YTD, corporate income tax revenue is \$1.49 billion, which is 60.7% more than in the same period last year. With two months remaining in FY 2023, this is already the largest amount ever collected in any fiscal year.

Some portion of the increase in CIT revenue can be attributed to legislation enacted in 2021 that allows partnerships and S corporations (commonly referred to as pass-through-entities) to be taxed at the entity level. Prior to this legislation, the business income of such entities was not directly subject to tax but instead each partner or shareholder of that business paid individual income tax on their portion of the entity's income.

This form of business taxation (which is referred to as "entity-level" taxation) went into effect for TY 2022. While the entity-level taxation generates federal income tax savings by effectively avoiding the \$10,000 deduction cap on state and local taxes imposed on individuals, it has no impact on state tax revenue. However, this form of taxation results in a shift of tax revenue from individual income tax to corporate income tax. The reason for this is that the partnership/S corporation that elects entity-level taxation is required to make corporate estimated payments.

Before this option became available to pass-through entities in TY 2022, each partner/shareholder of that business was instead required to make individual estimated payments.

While corporate estimated payments have increased rapidly during the first 10 months of FY 2023 (+61.7%) at the same time as individual estimated payments have declined sharply (-21.8%), we cannot tell from available data exactly how much of this shift can be attributed to entity-level taxation. This is an area that requires further analysis as more income tax data becomes available in the future.

Arizona continues to outperform the CIT collections in other states. To provide some perspective, the latest US Census Bureau data shows that overall state corporate income tax collections nationwide slowed in each of the 4 calendar quarters through December 2022. This is also consistent with national corporate profit data provided by the federal Bureau of Economic Analysis. In contrast, however, the growth in Arizona's corporate income tax revenue accelerated during this period.

Insurance Premium Tax (IPT) revenue was \$56.4 million in April, a decrease of (49.9)% from April 2022 collections and \$(4.1) million below the enacted budget forecast. April's steep decline in collections follows March's large revenue increase of 66%. Depending on when collections are deposited into the General Fund, the year-over-year growth in IPT revenue can vary widely in the months of March and April. Fiscal year to date, IPT revenue is up by 8.0%.

The amount of **Tobacco Tax** deposited into the General Fund in April was \$1.8 million, which is 6.7% above April 2022 collections and \$(0.3) million below the enacted budget forecast. Fiscal year to date through April, General Fund tobacco tax revenue totals \$15.7 million, which is (8.6)% below the prior year.

Liquor Tax revenue deposited into the General Fund in April was \$1.4 million. This is (68.6)% lower than the amount deposited in April 2022 and \$(3.2) million lower than under the enacted budget forecast. Fiscal year to date, General Fund liquor tax revenue totals \$35.5 million, which is (1.3)% below last year.

The **Lottery Commission** reported that total ticket sales in April were \$120.8 million. This amount is \$(2.9) million, or (2.4)%, below April 2022. Year to date, ticket sales are \$1.3 billion, which is 12.7% above the prior year.



Highway User Revenue Fund (HURF) collections of \$167.1 million in April were 6.3% above the amount collected in April 2022 and \$2.3 million above forecast. Year to date, HURF collections have increased by 0.8% compared to the same period in the prior year and are \$(57.1) million below forecast.

As shown in *Table 4*, the state collected \$15.4 million in **Marijuana Excise Taxes** in April, which represents a 21.3% increase over April 2022 collections. Fiscal year to date through April, \$137.1 million in excise taxes have been collected, which is 28.2% above FY 2022 collections over the same period. Monies from this excise tax are deposited into dedicated non-General Fund accounts.

Table 4		
Marijuana State Tax Collections and Distributions		
(\$ in Millions)		
	<u>April</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$15.4	\$137.1
Medical Marijuana TPT*	\$1.5	\$16.9
<u>Distribution:</u>		
General Fund	\$1.1	\$12.5
Counties	\$0.2	\$2.7
Cities	\$0.1	\$1.7
Recreational Marijuana TPT	\$4.2	\$39.2
<u>Distribution:</u>		
General Fund	\$3.1	\$28.9
Counties	\$0.7	\$6.3
Cities	\$0.4	\$3.9
Total State Marijuana Tax*	\$21.1	\$193.2
Collections		

* Amounts may not add to total due to rounding

Table 5

General Fund Revenue: Change from Previous Year and Enacted Forecast April 2023

	Current Month					FY 2023 YTD (Ten Months)				
	Actual	Change From				Actual	Change from			
		April 2022		Enacted Forecast			April 2022		Enacted Forecast	
		April 2023	Amount	Percent	Amount		Percent	April 2023	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$698,444,005	\$17,120,024	2.5 %	(\$11,377,679)	(1.6) %	\$6,401,235,389	\$478,550,736	8.1 %	(\$11,377,679)	(0.2) %
Income - Individual	486,850,964	(579,324,889)	(54.3)	(6,015,278)	(1.2)	4,463,923,387	(1,139,817,662)	(20.3)	(6,015,278)	(0.1)
- Corporate	342,022,074	115,199,311	50.8	28,613,258	9.1	1,490,897,366	563,213,324	60.7	28,613,258	2.0
Property	1,033,353	(870,590)	(45.7)	(917,436)	(47.0)	17,705,332	(4,402,123)	(19.9)	(917,436)	(4.9)
Luxury - Tobacco	1,843,001	115,734	6.7	(340,771)	(15.6)	15,690,022	(1,477,213)	(8.6)	(340,771)	(2.1)
- Liquor	1,389,497	(3,041,909)	(68.6)	(3,241,980)	(70.0)	35,539,331	(474,352)	(1.3)	(3,241,980)	(8.4)
Insurance Premium	56,444,468	(56,237,558)	(49.9)	(4,141,500)	(6.8)	550,705,905	41,025,718	8.0	(4,141,500)	(0.7)
Other Taxes	2,522,734	539,935	27.2	739,631	41.5	15,416,711	754,424	5.1	739,631	5.0
Sub-Total Taxes	\$1,590,550,096	(\$506,499,943)	(24.2) %	\$3,318,245	0.2 %	\$12,991,113,443	(\$62,627,149)	(0.5) %	\$3,318,245	0.0 %
<u>Other Revenue</u>										
Lottery	15,490,000	(11,377,200)	(42.3)	(127)	(0.0)	175,811,973	(7,868,261)	(4.3)	(127)	(0.0)
Gaming	0	0	--	(1,502,047)	(100.0)	37,922,860	34,114,616	895.8	(1,502,047)	(3.8)
License, Fees and Permits	3,293,532	(1,303,703)	(28.4)	(964,506)	(22.7)	35,902,512	1,316,977	3.8	(964,506)	(2.6)
Interest	35,316,300	35,313,971	--	5,685,567	19.2	249,436,145	232,491,471	--	5,685,567	2.3
Sales and Services	3,497,692	197,259	6.0	(175,552)	(4.8)	27,326,712	2,664,260	10.8	(175,552)	(0.6)
Other Miscellaneous	2,591,034	1,287,065	98.7	569,240	28.2	13,834,448	(8,048,574)	(36.8)	569,240	4.3
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	789,535	708,602	875.5	693,012	718.0	102,254,293	62,423,742	156.7	693,012	0.7
Sub-Total Other Revenue	\$60,978,094	\$24,825,994	68.7 %	\$4,305,588	7.6 %	\$642,488,944	\$317,094,231	97.4 %	\$4,305,588	0.7 %
TOTAL BASE REVENUE	\$1,651,528,190	(\$481,673,948)	(22.6) %	\$7,623,833	0.5 %	\$13,633,602,386	\$254,467,083	1.9 %	\$7,623,833	0.1 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(92,246,556)	(29,214,199)	46.3	0	(0.0)	(922,465,563)	(292,141,988)	46.3	0	(0.0)
One-Time Transfers	0	0	--	0	--	75,462,096	55,462,096	277.3	0	0.0
Sub-Total Other Adjustments	(92,246,556)	(29,214,199)	46.3 %	0	(0.0) %	(847,003,467)	(236,679,892)	38.8 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$1,559,281,633	(\$510,888,147)	(24.7) %	\$7,623,833	0.5 %	\$12,786,598,919	\$17,787,191	0.1 %	\$7,623,833	0.1 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	167,126,091	9,967,172	6.3 %	2,325,685	1.4 %	1,439,739,214	11,093,835	0.8 %	(57,087,522)	(3.8) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) preliminary estimate of the U.S. **Real Gross Domestic Product (GDP)** for the 1st quarter of 2023 is an annualized growth rate of 1.1%. Decreased inventory and residential investment was offset by increases in consumer spending, government spending, and nonresidential investment.

The Conference Board's **Consumer Confidence Index** was 101.3 in April, a decrease of (2.7) points from the revised March level. Despite growing optimism about the present situation, respondents' perspective of the future grew more pessimistic due to looming recession worries. Consumers also expressed concern about future labor market conditions. The index has declined (7.3) points, or (6.7)%, since April 2022.

The **U.S. Leading Economic Index (LEI)**, published by the Conference Board, declined (1.2)% in March to 108.4 points. Stock prices and manufacturing orders were the only components that provided positive contributions to the index, which sits at its lowest level since November 2020. Over the past 6 months, the LEI has decreased (4.5)%. In their April press release, the Conference Board forecasts that "economic weakness will intensify and spread more widely throughout the US economy over the coming months, leading to a recession starting in mid-2023."

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** rose 0.4% month-over-month (after seasonal adjustment) in April. Rising shelter and energy prices were the primary contributors to the index's increase. Food prices remained unchanged. The overall CPI has increased 4.9% year-over-year since last April; food prices increased 7.7%; energy prices fell (5.1)% (including a (12.2)% decrease for gasoline and (20.2)% decline for oil); and shelter costs increased 8.1%. Excluding food and energy, the year-over-year "core" CPI increased by 5.5% in April.

ARIZONA

Housing

In March, Arizona's 12-month total of **single-family building permits** was 30,546. This was a reduction of (6.7)% from February's total and (35.2)% below March 2022's 12-month total. March was the 22nd consecutive month with a decline in the year-over-year growth rate.

In March, Arizona's 12-month total of 24,867 **multi-family building permits** was 21.4% greater than the same 12-month period ending in March 2022. March 2023 is the 19th consecutive month with an annual growth rate greater than 10%, and it is the 14th month in a row to top 20% annual growth.

The **median home price** in Maricopa County rose to \$455,400 in April, representing a 2.3% increase from last month's median sale price and a (8.7)% decrease compared to the same month in 2022. This was the 5th consecutive month with a year-over-year decline in the median sales price. Previously, the median sales price had not declined on a year-over-year basis since November 2011.

Tourism

In March, **revenue per available room** decreased slightly to \$166.54, representing a (1.0)% reduction from February's figure and a 9.2% increase over last March's revenue per available room.

Hotel occupancy was 79.3% in March, which is 6.6% greater than February's occupancy rate and 0.9% above that of March 2022.

Phoenix Sky Harbor Airport Ridership was about 4.6 million in March, which represents a 21.0% increase over February's figure and an 8.2% increase above March 2022 ridership.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state gained 13,800 **nonfarm jobs** in April compared to the prior month. Prior to the pandemic, nonfarm employment recorded an average gain of 9,500 jobs in April (2010-2019). The private sector recorded a gain of 10,300 jobs over the month. Prior to the pandemic, the private sector averaged a gain of 8,600 jobs in April.

Compared to the same month in the prior year, the state gained 60,700 jobs in April, an increase of 2.0%. Job growth has slowed considerably since the start of the fiscal year when the state's nonfarm employment growth was closer to 4%.

The state's seasonally adjusted **unemployment rate** decreased from 3.5% in March to 3.4% in April. This matches the U.S. unemployment rate, which also declined from 3.5% in March to 3.4% in April.



The Office of Economic Opportunity (OEO) reported that a total of 4,640 **initial claims for unemployment insurance** were filed in Arizona in the week ending on May 6th. For the same week in the prior year, 3,391 initial claims were filed, which is an increase of 36.8%. The year-over-year growth in the number of weekly initial claims has been trending up since November of 2022.

According to OEO, for the week ending on April 29th, there were a total of 24,593 **continued claims for unemployment insurance** in Arizona. This is 44.0% greater than last year's total of 17,080 on the comparable date. As with the initial claims for unemployment insurance, the number of continued claims has been trending up since November of 2022.

State Agency Data

As of May 1, 2023, the total **AHCCCS caseload** was 2.41 million members. Total monthly enrollment decreased (0.8)% from April and increased 3.1% compared to a year ago. Pursuant to a provision in the federal 2023 Consolidated Appropriations Act, AHCCCS began removing members who do not meet the financial eligibility requirements of the program on April 1. AHCCCS had previously been prohibited from disenrolling members who would have otherwise lost eligibility based on income, pursuant to federal legislation from March 2020. As a result, the (0.8)% decline is likely attributable to that policy change and we anticipate further caseload declines in the coming months.

Parent and child enrollment in the Traditional population decreased by (1.0)% in May, but was 0.4% higher than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,104,942 – a decrease of (0.7)% from April and 6.4% above last year. For May 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.3%. At 67,928, this population is 3.1% higher than a year ago.

There were 11,188 **TANF Cash Assistances** cases in April 2023, representing a 0.1% increase from March 2023. The year-over-year number of cash benefit recipients has decreased by (12.2)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In April 2023, 910,991 people received food stamp assistance. This was a 0.1% increase from March 2023 and a 6.5% increase from April 2022.

The Arizona Department of Correction's **inmate population** was 34,073 as of April 30, 2023. This was a 0.2% increase from March 31, 2023 and a 1.3% increase since April 2022.

Based on information the Department of Child Safety provided for March 2023, **reports of child maltreatment** totaled 46,772 over the last 12 months, a decrease of (7.7)% from the prior year.

There were 11,454 **children in out-of-home care** as of March 2023, or (12.0)% less than in March 2022. Compared to the prior month, the number of out-of-home children decreased by (1.1)%.



Table 6

<u>Indicator</u>	MONTHLY INDICATORS			
	<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	April	3.4%	(0.1)%	(0.2)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2022	6.6%	(0.2)%	(2.4)%
- Initial Unemployment Insurance Claims	Week Ending May 6	4,640	6.9%	36.8%
- Continued Unemployment Insurance Claims	Week Ending Apr 29	24,593	22.8%	44.0%
- Non-Farm Employment - Total	April	3,159,200	0.4%	2.0%
Manufacturing	April	195,000	(0.5)%	2.1%
Construction	April	197,900	1.0%	3.2%
- Average Hourly Earnings, Private Sector	April	\$32.09	3.3%	6.9%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	March	30,546	(6.7)%	(35.2)%
Multi-family	March	24,867	6.4%	21.4%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	April	5,310	(12.7)%	(27.7)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	April	\$455,400	2.3%	(8.7)%
- Maricopa Pending Foreclosures	April	1,260	(1.6)%	15.8%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	March	4,615,127	21.0%	8.2%
- State Park Visitors	December	166,673	(36.9)%	(8.2)%
- Revenue Per Available Hotel Room	March	\$166.54	(1.0)%	9.2%
- Arizona Hotel Occupancy Rate	March	79.3%	6.6%	0.9%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	4 th Q 2022	\$428.5 billion	7.9%	6.0%
- Arizona Population	July 2022	7,359,197	N/A	1.3%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	May 2015/Nov 2019	Stable/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	May 1st	2,409,500	(0.8)%	3.1%
Traditional Acute Care		1,236,700	(1.0)%	0.4%
Other Acute Care		1,104,900	(0.7)%	6.4%
Long-Term Care – Elderly & DD		67,900	0.3%	3.1%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	March	46,772	0.2%	(7.7)%
DCS Out-of-Home Children	March	11,454	(1.1)%	(12.0)%
Filled Caseworkers (1406 Budgeted)	March	1,296	(8)	147
- ADC Inmate Growth	April	34,073	0.2%	1.3%
- Department of Economic Security				
- TANF Cash Assistance Recipients	April	11,188	0.1%	(12.2)%
- SNAP (Food Stamps) Recipients	April	910,991	0.1%	6.5%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	1 st Q, 2023 (1 st Estimate)	\$20.2 trillion	1.1%	1.6%
- Consumer Confidence Index (1985 = 100)	April	101.3	(2.6)%	(6.7)%
- Leading Economic Index (2016 = 100)	March	108.4	(1.2)%	(9.1)%
- Consumer Price Index, (1982-84 = 100)	April	303.4	0.4%	4.9%

JLBC Meeting Summary

At its May 2023 meeting, the Joint Legislative Budget Committee considered the following issues:

Executive Session

Arizona Department of Administration, Risk Management Services – Consideration of Proposed Settlements Under Rule 14 – The Committee approved settlements under Rule 14, which requires Committee approval of Risk Management settlements above \$250,000 pursuant to A.R.S. § 41-621(N).

Regular Agenda

Secretary of State – Review of Election Services Line Item Transfer – Laws 2022, Chapter 313 requires that the Secretary of State (SOS) submit transfers of funding into or out from the Election Services line item to the Committee for review. SOS requested review of a \$411,000 transfer to fund 2 agency initiatives. The Committee gave a favorable review of transferring \$261,000 from the Election Services line item to the agency's operating budget in FY 2023 as follows: \$161,000 to backfill county underpayments for Access Voter Information Database operating costs and \$100,000 to make physical security improvements at the Secretary of State's office.

Consent Agenda

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

AHCCCS – Review of Mid-Year Capitation Rate Changes for Plan Year 2023 – Laws 2022, Chapter 313 requires that prior to implementing any changes in capitation rates, Medicaid agencies must first present their plans to the Committee for review. AHCCCS submitted its proposed mid-year capitation rate adjustments to the Committee for the contract year ending September 30, 2023, in which the agency proposed to reduce the current plan year capitation rate by (0.4)% to account for higher-than-expected enrollment of lower-cost AHCCCS members. The Committee gave a favorable review of the plan.

Department of Child Safety – Review of Line Item Transfers – Laws 2022, Chapter 313 requires Committee review of money transfers between any Department of Child Safety (DCS) line items. DCS requested review of 3

transfers: a FY 2022 transfer of \$225,000 and FY 2023 transfer of \$750,000 from the Foster Home Placement line item to the Permanent Guardianship line item to address increased caseloads, a FY 2023 transfer of \$2.4 million from the Congregate Group Care line item to the Attorney General Legal Services line item to provide a 10% salary increase to Attorney General staff which was not previously included in the statewide FY 2023 salary raises, and a FY 2023 transfer of \$8.1 million from the Congregate Group Care line item to the Caseworkers line item to pay DCS caseworker staff. The Committee gave a favorable review of the transfers.

Department of Economic Security – Review of Developmental Disabilities Line Item Transfers – Laws 2022, Chapter 313 requires Committee review of transfers between certain Department of Economic Security (DES) line items. DES requested review of 2 transfers: an FY 2022 transfer of \$600,000 from the Case Management State-Only line item to the Home and Community Based Services (HCBS) State-Only line item and an FY 2023 transfer of \$1.0 million from the HCBS State-Only line item into the Case Management State-Only line item. The Committee gave a favorable review of the transfers.

Department of Education – Review of Federal Monies Report – Pursuant to A.R.S. § 15-1052, the Arizona Department of Education (ADE) requested Committee review of its annual federal monies report. The report lists a total of over \$1.5 billion in federal funding to ADE, including \$831 million in formula funding, \$697 million in reimbursements, and \$5 million in discretionary funding. The Committee gave a favorable review of the report.

Department of Public Safety – Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount – A.R.S. § 41-1724(G) and A.R.S. § 41-1724(H) require the Arizona Department of Public Safety (DPS) to submit its expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount for Committee review prior to expending any monies. DPS submitted its plan to spend \$1.1 million from the fund for grants to 6 county sheriffs' offices. The Committee gave a favorable review of the expenditure plan, including a provision that DPS shall report to the Committee prior to implementing any changes to the allocation of the grants, with the Chairman to decide whether the revisions require Committee review.



JCCR Meeting Summary

At its May 2023 meeting, the Joint Committee on Capital Review considered the following issues:

Consent Agenda

Adoption of Committee Rules and Regulations – The Committee adopted rules and regulations identical to those of the previous Legislature, with one technical change to conform to existing statutory requirements.

Arizona Exposition and State Fair Board – Review of Capital Projects – A.R.S. § 41-1252 requires Committee review of expenditure plans for monies appropriated to capital projects. The Committee gave a favorable review to the Arizona Exposition and State Fair Board for 6 capital projects totaling \$2.3 million.

Department of Juvenile Corrections – Review of Water and Waste Chase Closet Replacement Capital Project – A.R.S. § 41-1252 requires Committee review of monies appropriated for land acquisition, capital projects, and building renewal. The Committee gave a favorable review for the Department of Juvenile Corrections to spend \$400,000 to replumb water and waste chase closets at the Adobe Mountain School Facility.

Arizona Game and Fish Department – Reallocation of FY 2022 Building Renewal Monies – A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies. The Committee gave a favorable to the Arizona Game and Fish Department to reallocate \$152,000 of unused monies from the agency's FY 2022 building renewal appropriation to repave the Flagstaff regional office visitor parking lot.

Summary of Recent Agency Reports

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its third quarter FY 2023 update of 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 14 active APF projects, ADOA has labeled 9 as on track, 2 as at risk, and 3 as off track. The 3 off-track projects are:

Child Care Management System Update (DES)

The Arizona Strategic Enterprise Technology (ASET) Office continues to list the Department of Economic Security (DES) Child Care Management system as off-track because the timeline has been delayed. After the end of the quarter, the department submitted a change order to the Information Technology Authorization Committee (ITAC) to extend the timeline of the project. As a result, the appropriation for the project required an extension. The system manages the administration of the child care subsidy program.

ADOA Business One-Stop

ASET lists the ADOA Business One-Stop as off track. This is the second time the project has been labeled as off-track over its implementation. The project has not yet completed Phase 1 functionality as planned for the fall of 2022. In addition, the project is off track due to the replacement of IT systems at the Arizona Corporation Commission and the Department of Revenue which connect to the system.

e-Licensing System Modification (Board of Psychologist Examiners)

ASET lists the board's e-licensing project as off track because ASET has concerns about the timeline, cost, and scope of the project. Specifically, the scope of work requires changes for the data remaining in the old system which has delayed the start of the project. As a result, the appropriation for the project required an extension.

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 is on hold due to schedule delays with the Department of Child Safety (DCS).



In addition, ADOA reported that 2 other non-APF projects are off track due to staffing resource constraints, data cleaning and migration delays, and delays in scheduled development. These projects include the State Appellate Courts CMS Replacement (Judiciary) and the Payroll Calculation Re-Engineering (Arizona State Retirement System).

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. The Independent Verification and Validation (IVV) reports were submitted for the following projects: Arizona Financial Information System Upgrade (ADOA), Business One-Stop (ADOA), Human Resources Information System (ADOA), Child Support Services System Replacement (DES), Unemployment Insurance Benefits Modernization (DES) and School Finance System Replacement (Arizona Department of Education). The reports provided commentary on project progress that generally matched that of the quarterly APF reports from ASET. (Rebecca Perra)

ADOA - 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 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 \$34,000 on April 5, 2023. This funding will be used for the Nadaburg Unified School District for a water retention basin project. (Rebecca Perra)

Arizona Health Care Cost Containment System – Report on the American Rescue Plan Act Spending Plan – Pursuant to Laws 2022, Chapter 313, the Arizona Health Care Cost Containment System (AHCCCS) is required to report quarterly on any changes to the agency's Home and Community-Based Services (HCBS) spending plan for the implementation of the American Rescue Plan Act (ARPA) of 2021.

As of April 2023, AHCCCS projects its ARPA HCBS spending plan will total \$1.69 billion, or \$178.2 million higher than its original spending plan and \$(16.2) million lower than the January 2023 quarterly report. Major changes from last quarter include:

- \$14.5 million in additional funding to encourage providers to use a new career development pathway platform intended to help recruit and retain direct care workers. AHCCCS is offering the incentive as a positive rate adjustment to participating providers. The pathway platform will eventually be integrated with Pipeline AZ, a career readiness platform widely used by in-state education programs and career training centers.
- \$(30.7) million in reduced funding for time-limited directed provider payments, associated with a downward revision of federal match rates.

ARPA provided states a temporary 10% federal match increase for HCBS expenditures for the period beginning April 1, 2021 and ending March 31, 2022. States have until March 31, 2025, to fully expend funds. (Maggie Roker)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures – Pursuant to A.R.S. § 41-199, the Attorney General (AG) submitted its quarterly report on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund receives an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age restricted areas. Monies in the fund are utilized to support the ICAC Task Force, which is housed within the Phoenix Police Department and works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the third quarter of FY 2023, the AG received \$675,000 for deposit into the ICAC Enforcement Fund. A total of \$919,900 was expended from the fund balance through the third quarter of FY 2023 to help pay for the operating costs of the ICAC Task Force. As of March 31, 2023, the ICAC Enforcement Fund had an unencumbered fund balance of \$1.1 million. (Ryan Fleischman)

Attorney General – Quarterly Report on Child and Family Advocacy Center Fund Expenditures – Pursuant to A.R.S. § 41-191.11, the Attorney General (AG) submitted its quarterly report on expenditures from the Child and



Family Advocacy Center Fund (CFAF), which funds nonprofit and government entities that serve victims of child abuse or investigate and prosecute their abusers.

Through the third quarter of FY 2023, the AG has expended \$600,000 from the CFAF. The fund has no unencumbered fund balance as of March 31, 2023. (Ryan Fleischman)

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

In the third quarter of FY 2023, the AG deposited a total of \$22.6 million into various consumer accounts. Of that amount, \$3.6 million was deposited into the CPCF Revolving Fund, the AG made no deposits into the Antitrust Enforcement Revolving Fund, \$3.7 million was deposited into the Consumer Restitution Subaccount, and \$15.4 million was deposited into the Consumer Remediation Subaccount. In addition, the AG deposited \$75.5 million into the General Fund.

Deposits to the CPCF Revolving Fund

The AG deposited \$3.6 million into the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. This amount resulted from a deposit of \$1.8 million from a settlement with Mercedes-Benz USA, LLC and Daimler AG regarding deceptive acts related to the advertisement/sale of its BlueTEC vehicles, a \$1.1 million settlement with Google LLC regarding deceptive acts related to the advertisement of its smartphones, \$355,100 from a settlement with Robert Bosch LLC regarding deceptive acts related to the advertisement/sale of its "Clean Diesel" vehicles, and small legal settlements. As of March 31, 2023, the fund had an unencumbered balance of \$26.9 million.

Deposits to Antitrust Enforcement Revolving Fund

The AG made no deposits into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. As of March 31, 2023, the fund had an unencumbered balance of \$1.1 million.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$3.7 million into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from a deposit of \$2.9 million from a settlement with Mercedes-Benz USA, LLC and Daimler AG regarding deceptive acts related to the advertisement/sale of its BlueTEC vehicles, a \$634,800 settlement with Santander Consumer USA, Inc. regarding deceptive acts related to high-interest subprime auto loans, small legal settlements and interest income. As of March 31, 2023, the fund had an unencumbered balance of \$8.6 million. These funds are specifically earmarked for restitution payments.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$15.4 million into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. This amount resulted from a deposit of \$10.0 million from a settlement with Johnson & Johnson, Janssen Pharmaceuticals, Inc., and Janssen Pharmaceutica, Inc. resolving allegations regarding deceptive acts related to the advertisement or sale of opioid-containing prescription drugs, an internal fund transfer of \$5.0 million, small legal settlements and interest income. As of March 31, 2023, the fund had an unencumbered balance of \$37.0 million.

Deposits to the General Fund

The AG deposited \$75.5 million into the General Fund. This amount resulted from a settlement with Google LLC resolving allegations regarding deceptive acts related to tracking of location data. (Ryan Fleischman)

Arizona Commerce Authority – Annual Report on the Healthy Forest Enterprise Incentives Program – Pursuant to A.R.S. § 41-1516I, the Arizona Commerce Authority provided its annual May 1 report on the Healthy Forest Enterprise Incentives Program regarding the: 1) quantity and measured weight of qualifying forest products and 2) number of new full-time employees hired in qualified employment positions; and 3) number of full-time employees employed in qualified employment positions.

In calendar year 2022 the total weight of qualified harvested, processed, or transported forest products was 663,475 tons compared to 695,243 tons in 2021. None of the 8 participating companies reported net new employment positions or existing full-time employment positions for income tax credits in any year from 2017 through 2022. A.R.S. § 43-1076, which established the tax credits for net new and full-time positions, was repealed effective September 24, 2022, and as a result these will not be mentioned in future reports.



The Healthy Forest Enterprise Incentives Program allows businesses primarily engaged in the harvesting, initial processing, or transporting of forest products in Arizona to qualify for the following: a use and transaction privilege tax exemption on qualified purchases, a 50% reduction in the use fuel tax, a reduction in the assessment ratio of personal and real property from 18.5% to 5%, an income tax credit of up to \$3,000 per employee on new jobs created, and an income tax credit of up to \$9,000 per employee for the cost of training. Laws 2022, Chapter 235, Section 14 repealed the income tax credit of up to \$3,000 per new employee effective September 24, 2022. (Nate Belcher)

