

Joint Legislative Budget Committee

Monthly Fiscal Highlights

November 2022

Summary

October 2022 General Fund collections were \$1.33 billion, which is an increase of 13.4% above October 2021. Revenues during October were \$223 million above the enacted budget forecast.

A substantial portion of the October revenue gains related to the Individual Income Tax (IIT). Withholding tax collections grew by 18.5%, a rate which was likely helped by technical timing issues due to an additional major tax processing day in October. This 18.5% growth exceeds recent data patterns, where national and state wage growth has been approximately 6% to 7% over the last several months.

The IIT category also saw significant growth in payment activity – this growth is connected to the trend seen during the April tax filing season, as taxpayers who request a 6-month extension in April must file their returns during October. This payment growth, however, was partially offset by an increase in refunds that were paid to tax extension filers.

The Sales Tax category also generated forecast gains, with the category's October revenues growing by 5.2% and posting a gain of \$23 million above the enacted budget forecast. The more moderate Sales Tax growth during October is due to a large one-time refund issued under the Utilities category (*see the Sales Tax section for more information*). Excluding that refund, October Sales Tax would have grown by 12.1% during the month.

While the overall Sales Tax category continues to generate healthy growth and forecast gains, within the category, the combined retail/remote seller classification has slowed down, growing by only 3.1% in October. One potential

cause is that due to inflationary pressure, consumers may be spending a larger share of disposable earnings on goods such as groceries and gas, which are not subject to state sales tax.

Insurance Premium Tax (IPT) generated a \$47 million forecast gain during October. As noted in the prior *Monthly Fiscal Highlights*, the processing of IPT payments can impact the amounts which get deposited in September and October. Due to the technical timing of these payments, the state saw an artificial loss in this category during September, which has been generally offset by this artificial gain during October.

In contrast to the gains in the state's other major revenue categories, Corporate Income Tax (CIT) declined by (47.7)% during October and posted a forecast loss of \$(32) million for the month. While CIT payments declined modestly, the categories loss was mostly related to a significant increase in the amount of corporate tax refunds issued.

Year-to-Date Results/Operating Balance

Year-to-date through October, excluding Urban Revenue Sharing and fund transfers, FY 2023 General Fund revenues are 12.1% above the prior year and \$677 million above the enacted budget forecast.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-November 2022 is \$11.0 billion.

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October Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2023 Collections	Difference From Enacted Forecast	Difference From FY 2022
October	\$ 1,327.7	\$ 223.4	\$ 157.1
Year-to-Date	\$ 5,349.0	\$ 676.8	\$ 498.1

Sales Tax collections of \$607.7 million in October were 5.2% above the same month in the prior year and \$22.8 million above the enacted budget forecast. Year to date through October, sales tax revenue is up 9.8% compared to the same period in the prior year and is \$171.3 million above forecast.

As discussed below, October's sales tax growth was artificially lowered due to a large one-time refund of \$(40) million. Absent the refund, sales tax growth would have been 12.1% in October and 11.6% year to date.

Table 2 shows the October growth rate for the 5 major sales tax categories as well as for the smaller Amusement and Lodging categories.

Table 2		
Sales Tax Growth Rates Compared to Prior Year		
	Oct	YTD
Retail/Remote Seller	3.1%	6.7%
Contracting	24.2%	28.9%
Use	13.8%	18.6%
Restaurant & Bar	13.0%	14.5%
Utilities	(74.8)%	(15.7)%
Hotel/Motel Lodging	11.3%	6.6%
Amusements	46.5%	13.5%

As shown in Table 2, 5 of the 7 categories included in the table grew at double-digit rates in October. The strongest performer year to date is the contracting category, which is up by 28.9% through October. Contracting tax revenue has grown, year over year, by at least 24% in each of the last 8 months. Detailed contracting data indicates that most of this gain can be attributed to nonresidential (commercial and industrial) construction.

The Utilities category (electricity, natural gas and water) declined by (74.8)% in October. The large decline was due to a one-time taxpayer refund of approximately \$(40) million related to a tax ruling issued by the Department of

Revenue in August 2021 (TPR 21-1). Absent this ruling, the Utilities category would have grown by 8.5% in October.

While the Retail category has posted 29 consecutive months of continuous growth as of October 2022, the growth rate has been trending down since November 2021. Based on detailed retail sector data provided by the Department of Revenue (DOR), it appears that a significant portion of this slowdown is due to consumers holding back on their purchases of durable goods such as motor vehicles and furniture. National personal consumption expenditure data also suggests that households are spending more of their discretionary dollars on necessities such as food and gas. While durable goods are subject to the state sales tax, food and gas are not.

Individual Income Tax (IIT) net collections were \$610.5 million, 17.5% higher than October 2021 and \$137.2 million above the enacted budget forecast. Record final payments and withholding collections were the primary contributors to the highest IIT total ever collected in October. Year to date (YTD), IIT collections are 10.1% greater than the same period last fiscal year.

Withholding collections in October were \$520.6 million, the highest October withholding total on record. This was 18.5% more than last year and \$75.3 million over forecast. Such strong growth is notable for multiple reasons, including: 1) It is markedly higher than the Bureau of Economic Analysis' (BEA) most recent national and state level estimates for wage growth (7.0% in September and 5.9% in the second quarter respectively); and 2) It includes more than \$42 million in withholding refunds due to a \$41 million overpayment in April 2022. In a typical month, withholding refunds are between \$1-\$2 million.

Absent this correction, withholding revenue would have been approximately \$561.6 million, or 27.9% greater than last year. The most likely explanation for the record growth in withholding is due to timing – there is an additional Monday in October 2022 compared to 2021. Monday is typically the largest processing day for



withholding collections during the week. YTD, withholding is 10.5% higher than the same period in FY 2022.

In October, payments were \$228.8 million, 35.3% more than the previous October and \$107.9 million above the enacted budget forecast. The month of October often has elevated payment collections as taxpayers who requested a 6-month extension in April must file their returns during the month.

The \$228.8 million in total payments in October is the largest amount on record for that month. Final payments grew by 61.5%, year over year, to reach a total of \$193.2 million, which is another October record. Estimated payments declined by (28.0)% from October 2021 to \$35.6 million. YTD, overall payments have increased 14.4% from the same period last year.

Refunds were \$138.9 million in October, 56.5% above last year. This was \$46.0 million higher than forecast, therefore constituting forecast loss of \$(46.0) million. YTD, refunds are 26.9% higher than the same period last fiscal year.

Table 3

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

	<u>October</u>	<u>YTD</u>
Withholding	18.5%	10.5%
Estimated/Final Payments	35.3%	14.4%
Refunds	56.5%	26.9%

Corporate Income Tax (CIT) net collections in October were \$36.1 million, (47.7)% lower than October 2021 and \$(32.1) million under the enacted budget forecast. Gross collections were \$66.6 million, a decline of (7.2)% from the previous year, while CIT refunds were over ten times higher than last year at \$30.5 million. YTD, net CIT is 29.2% greater than the same period last year.

Insurance Premium Tax (IPT) revenue was \$58.3 million in October, more than 6 times the amount collected in October 2021 and \$47.1 million above the enacted budget forecast. The unusually large IPT increase in October was due to a timing issue. Deposits that normally would have occurred in September were delayed to October. Year to date through October, IPT revenue is up by 7.1% and is \$10.5 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in October was \$1.2 million, which is (33.7)% below October 2021 and \$(0.5) million below the enacted budget forecast. Year to date, General Fund tobacco tax revenues total \$6.0 million, (12.9)% below the amount collected at this point in FY 2022, and \$(1.4) million below forecast.

Liquor Tax revenue deposited into the General Fund in October was \$3.7 million. This is 4.9% above the amount deposited in October 2021 and \$0.3 million above the enacted budget forecast. Year to date, General Fund deposits from liquor tax collections total \$14.3 million, which represents a 0.8% increase over the comparable period in FY 2022 and is \$0.3 million above forecast.

The state collected \$13.4 million in **Marijuana Excise Taxes** in October and \$51.0 million year to date through October. The month of October saw the highest level of state revenue collected from this tax so far, representing a 45.7% increase over October 2021. These monies are deposited into dedicated non-General Fund accounts.

The total combined amount of **Medical and Recreational Marijuana state Transaction Privilege Tax (TPT)** collected was \$5.2 million in October and \$21.9 million year to date. Of the \$5.2 million from overall TPT collections, the General Fund received \$3.8 million in October. Fiscal year to date, the General Fund has received a total of \$16.1 million in state TPT from medical and recreational marijuana retail sales.

Table 4

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

	<u>October</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$13.4	\$51.0
Medical Marijuana TPT*	\$1.6	\$7.5
<u>Distribution:</u>		
General Fund	\$1.2	\$5.5
Counties	\$0.3	\$1.2
Cities	\$0.2	\$0.7
Recreational Marijuana TPT*	\$3.6	\$14.4
<u>Distribution:</u>		
General Fund	\$2.6	\$10.6
Counties	\$0.6	\$2.3
Cities	\$0.4	\$1.4
Total State Marijuana Tax Collections	\$18.6	\$72.8

* Amounts may not add to total due to rounding

The **Lottery Commission** reported that total ticket sales in October were \$127.3 million. This amount is \$18.7 million, or 17.2%, above October 2021. Year to date, ticket sales are \$482.7 million, which is 11.6% above the prior year.

Highway User Revenue Fund (HURF) collections of \$139.8 million in October were 1.1% above the amount collected in October 2021 and \$(7.2) million below forecast. Year to date, HURF collections are \$552.1 million, (2.4)% below the prior year and \$(34.8) million less than forecast.



Table 5

General Fund Revenue: Change from Previous Year and Enacted Forecast October 2022

	Current Month					FY 2023 YTD (Four Months)				
	Actual October 2022	Change From				Actual October 2022	Change from			
		October 2021		Enacted Forecast			October 2021		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$607,650,188	\$29,984,219	5.2 %	\$22,794,486	3.9 %	\$2,493,104,689	\$223,158,194	9.8 %	\$171,347,682	7.4 %
Income - Individual	610,496,008	91,000,874	17.5	137,179,805	29.0	2,357,800,801	215,685,079	10.1	321,533,890	15.8
- Corporate	36,118,488	(32,915,188)	(47.7)	(32,102,724)	(47.1)	423,853,785	95,726,683	29.2	90,698,064	27.2
Property	5,216,581	215,388	4.3	(220,083)	(4.0)	5,890,634	(833,565)	(12.4)	(910,241)	(13.4)
Luxury - Tobacco	1,181,535	(600,884)	(33.7)	(511,459)	(30.2)	5,957,239	(884,334)	(12.9)	(1,445,275)	(19.5)
- Liquor	3,665,416	171,261	4.9	343,856	10.4	14,274,464	108,912	0.8	266,377	1.9
Insurance Premium	58,299,814	48,813,154	514.5	47,075,670	419.4	208,459,071	13,885,242	7.1	10,507,723	5.3
Other Taxes	852,673	(142,175)	(14.3)	9,468	1.1	3,350,073	(62,611)	(1.8)	(310,404)	(8.5)
Sub-Total Taxes	\$1,323,480,703	\$136,526,648	11.5 %	\$174,569,019	15.2 %	\$5,512,690,755	\$546,783,600	11.0 %	\$591,687,816	12.0 %
<u>Other Revenue</u>										
Lottery	46,110,100	11,486,750	33.2	13,077,434	39.6	86,110,100	11,486,750	15.4	14,915,135	20.9
Gaming	2,644,918	2,644,918	--	1,429,550	117.6	23,338,919	23,338,919	--	16,448,530	238.7
License, Fees and Permits	4,017,385	(139,824)	(3.4)	372,750	10.2	16,718,387	3,213,459	23.8	2,738,399	19.6
Interest	20,011,124	20,005,567	--	19,988,811	--	50,040,162	33,118,905	195.7	48,978,691	--
Sales and Services	1,689,506	(752,925)	(30.8)	(756,484)	(30.9)	9,882,059	932,612	10.4	1,329,189	15.5
Other Miscellaneous	20,348,720	17,203,695	547.0	16,641,756	448.9	1,526,907	(10,829,729)	(87.6)	(6,974,784)	(82.0)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,651,768	(542,131)	(24.7)	(1,931,010)	(53.9)	17,702,474	6,891,008	63.7	7,715,066	77.2
Sub-Total Other Revenue	\$96,473,521	\$49,906,049	107.2 %	\$48,822,806	102.5 %	\$205,319,009	\$68,151,924	49.7 %	\$85,150,228	70.9 %
TOTAL BASE REVENUE	\$1,419,954,224	\$186,432,697	15.1 %	\$223,391,826	18.7 %	\$5,718,009,764	\$614,935,524	12.1 %	\$676,838,043	13.4 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(92,246,556)	(29,283,767)	46.5	0	(0.0)	(368,986,225)	(116,789,205)	46.3	0	(0.0)
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	(92,246,556)	(29,283,767)	46.5 %	0	(0.0) %	(368,986,225)	(116,789,205)	46.3 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$1,327,707,667	\$157,148,930	13.4 %	\$223,391,826	20.2 %	\$5,349,023,539	\$498,146,319	10.3 %	\$676,838,043	14.5 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	139,825,351	1,586,679	1.1 %	(7,168,959)	(4.9) %	552,078,853	(13,731,351)	(2.4) %	(34,759,995)	(5.9) %

Monthly Indicators

NATIONAL

The U.S. Bureau of Economic Analysis' preliminary estimate for third quarter **U.S. Real Gross Domestic Product (GDP)** is a seasonally adjusted annual growth rate of 2.6%. According to the Bureau of Economic Analysis (BEA), this increase is a result of higher net exports, consumer spending, nonresidential fixed investment, and government spending compared to the second quarter of 2022. This represents the first quarter of GDP growth since the end of 2021.

The Conference Board's **Consumer Confidence Index** decreased by (5.3) points to 102.5 points in October, the first drop in the index since July. This decline is primarily the result of consumers viewing the present situation more negatively. Expectations for the future also worsened as consumers' concerns about business conditions, inflation, and the labor market grew. Despite this increased pessimism, more consumers reported that they planned to purchase big-ticket items such as homes, cars, and major appliances within the next six months.

The **U.S. Leading Economic Index (LEI)**, published by the Conference Board, decreased by (0.4)% to 115.9 points in September. The leading contributors to this reduction were high inflation, weakening labor markets, and increased interest rates. This is the 7th consecutive month of decline for the index, and according to the Conference Board's press release "its persistent downward trajectory in recent months suggests a recession is increasingly likely before yearend." In the six months from March to September, the LEI fell (2.8)% compared to 1.4% of growth in the preceding six month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased 0.4% month-over-month (after seasonal adjustment) in October, with the price of shelter and energy increasing the most during the month. From last October, the CPI has increased 7.7%; food prices increased 10.9%; energy prices rose 17.6% (including 17.5% for gasoline and 68.5% for oil); and shelter increased 6.9% year-over-year. Excluding food and energy, the year-over-year "core" CPI increased by 6.3% in October.

ARIZONA

In September, Arizona's 12-month total of **single-family building permits** was 42,066. This represents a (2.5)% decrease from August's figure and a (12.2)% decrease from September 2021's 12-month total. The annual rate of change for this total has decreased for each of the past 16 months beginning in June 2021.

In September, Arizona's 12-month total of 22,867 **multi-family building permits** was 34.1% above the level for the period ending in September 2021. This is the 14th consecutive month in which this total has seen greater than 10% annual growth.

Tourism and Restaurants

In September, **revenue per available room** rose to \$90.83, which is 31.0% above August's figure and 14.7% above the amount reported for September 2021.

Hotel occupancy was 66.1% in September, which is 6.3% above August's occupancy rate and 3.4% above September 2021's rate.

Phoenix Sky Harbor Airport Ridership was 3.5 million in September, which is 0.8% above August's level and 1.6% above September 2019's figure. This is the first month in 2022 to exceed its 2019 ridership.

According to data reported by OpenTable, on November 12, **daily restaurant reservations** were 35.3% above the level of 2019 reservations on the comparable date.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state added 31,000 **nonfarm jobs** in October compared to the prior month. Prior to the pandemic, nonfarm employment recorded an average net increase of 27,800 jobs in October (2010-2019).

Compared to the same month in the prior year, the state gained 105,600 jobs in October, an increase of 3.5%. While year-over-year job growth in the state remains strong, it has gradually trended down since the start of the year, going from 4.4% in January to 3.5% in October.

The state's seasonally adjusted unemployment rate increased from 3.7% in September to 3.9% in October. The state's jobless rate has been slowly rising over the last 6 months after reaching a record-low reading of 3.2% in April.



The U.S. unemployment rate rose from 3.5% in September to 3.7% in October.

The Office of Economic Opportunity (OEO) reported that a total of 2,816 **initial claims for unemployment insurance** were filed in Arizona in the week ending on October 29th. For the same week in the prior year, 2,714 initial claims were filed.

According to OEO, for the week ending on October 22nd, there were a total of 19,687 **continued claims for unemployment insurance** in Arizona. At this time one year ago, the number of continued claims was 18,838.

State Agency Data

As of November 1, 2022, the total **AHCCCS caseload** was 2.42 million members. Total monthly enrollment increased 0.5% in November over October and increased 7.4% compared to a year ago. Enrollment growth has accelerated since AHCCCS cannot disenroll applicants until the end of the federal public emergency, which is currently scheduled to continue until at least January 2023. Since the prohibition on disenrollment was first enacted in March 2020, total AHCCCS membership has grown by 595,000, or 32.7%.

Parent and child enrollment in the Traditional population increased by 0.2% in November and was 6.1% higher than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,087,897 in November – an increase of 0.8% over October and 9.3% above last year. For November 2022, Elderly, Physically Disabled and Developmental Disabilities Long-Term Care enrollment increased by 0.3%. At 67,067, this population is 2.5% higher than a year ago.

There were 11,348 **TANF** Cash Assistances cases in October 2022, representing a (3.8)% decrease from September. The year-over-year number of cash benefit recipients has decreased by (8.4)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In October 2022, 897,940 people received food stamp assistance. This was a (3.6)% decrease from September and a 9.4% increase since October 2021.

Based on information the Department of Child Safety provided for September 2022, **reports of child maltreatment** totaled 48,350 over the last 12 months, a decrease of (1.6)% over the prior year. There were 12,264 **children in out-of-home care** as of September 2022, or (11.5)% less than in September 2021. Compared to the prior month, the number of out-of-home children decreased by (0.1)%.

The Arizona Department of Corrections' **inmate population** was 33,665 as of October 31, 2022. This was an increase of 0.2% since September 30, 2022 and a (2.8)% decrease since November 2021.



Table 6

Indicator	MONTHLY INDICATORS			
	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	October	3.9%	0.2%	0.0%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2022	7.1%	(1.0)%	(4.7)%
- Initial Unemployment Insurance Claims	Week Ending Oct 29	2,816	(2.9)%	3.8%
- Continued Unemployment Insurance Claims	Week Ending Oct 22	19,687	0.7%	4.5%
- Non-Farm Employment - Total	October	3,127,400	1.0%	3.5%
Manufacturing	October	197,800	0.3%	8.1%
Construction	October	187,800	0.3%	5.3%
- Average Hourly Earnings, Private Sector	September	\$30.57	0.5%	7.8%
<u>Building</u>				
- Building Permits (12 month sum)				
Single-family	September	42,066	(2.5)%	(12.2)%
Multi-family	September	22,867	3.6%	34.1%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	September	4,279	(13.0)%	(38.5)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	September	\$481,345	1.0%	13.3%
- Maricopa Pending Foreclosures	September	1,014	5.2%	25.5%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	September	3,507,766	0.8%	6.2%
- State Park Visitors	June	264,245	(6.9)%	(6.3)%
- Revenue Per Available Hotel Room	September	\$90.83	31.0%	14.7%
- Arizona Hotel Occupancy Rate	September	66.1%	6.3%	3.4%
- Az OpenTable Reservations – % Change from 2019	November 12	N/A	N/A	35.3%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	2 nd Q 2022	\$411.4 billion	6.6%	1.6%
- Arizona Population	July 2021	7,276,316	N/A	1.4%
- 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	November 1st	2,418,000	0.5%	7.4%
Traditional Acute Care		1,263,000	0.2%	6.1%
Other Acute Care		1,087,900	0.8%	9.3%
Long-Term Care – Elderly & DD		67,100	0.3%	2.5%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	September	48,350	(0.9)%	(1.6)%
DCS Out-of-Home Children	September	12,264	(0.1)%	(11.5)%
Filled Caseworkers (1406 Budgeted)	September	1,192	40	(50)
- ADC Inmate Growth	November	33,665	0.2%	(2.8)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	October	11,348	(3.8)%	(8.4)%
- SNAP (Food Stamps) Recipients	October	897,940	(3.6)%	9.4%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	3 rd Q, 2022 (1 st Estimate)	\$20.0 trillion	2.6%	1.8%
- Consumer Confidence Index (1985 = 100)	October	102.5	(4.9)%	(8.2)%
- Leading Economic Index (2016 = 100)	September	115.9	(0.4)%	(1.4)%
- Consumer Price Index, SA (1982-84 = 100)	October	298.0	0.4%	7.7%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Arizona Financial Information System Transactions –

Pursuant to A.R.S. § 41-740.01, the Arizona Department of Administration (ADOA) reported on the Arizona Financial Information System (AFIS) transaction counts by agency and fund source for FY 2022 and the proposed FY 2024 AFIS Transaction Fee. For FY 2022, the total number of transactions were 27.1 million compared to 24.1 million in FY 2021. The FY 2024 AFIS transaction fee is calculated by dividing the FY 2023 AFIS budget of \$13.4 million by the FY 2022 total transactions. The FY 2023 budget charges consist of \$9.9 million for AFIS operating costs and \$3.5 million for AFIS upgrade costs. Therefore, the FY 2024 transaction fee will be 49 cents, an increase of 2 cents from FY 2022.

ADOA's FY 2022 budget request included a total increase of \$9.5 million over 3 years for an upgrade to AFIS. The FY 2024 project budget assumes an increase of \$500,000 above FY 2023 costs which may require an increase to the 49-cent AFIS transaction fee to continue to finance the project. (Rebecca Perrera)

Arizona Department of Administration – Report on Delayed Delivery – Pursuant to A.R.S § 35-191, the Arizona Department of Administration (ADOA) submitted their report on administrative adjustments. A.R.S § 35-191 allows administrative adjustments for goods and services received after the end of the fiscal year if written documentation is provided by an agency and approved by ADOA. Statute requires ADOA to report any approvals for goods or services ordered in one fiscal year but received beyond August 30 of the following fiscal year. For FY 2022, ADOA granted approval to the following agencies for purchases made prior to the end of the fiscal year but received after August 30, 2022:

The majority of the approvals were for information technology equipment, vehicles, and facilities equipment with long-lead times and delayed shipping. Of the \$12.4 million in approvals, \$5.7 million of goods and services have not yet been received by the agency. (Rebecca Perrera)

Table 7

FY 2022 Administrative Adjustments Approved after August 30, 2022

Agency	Amount
Department of Agriculture	\$ 582,700
Board of Behavioral Health Examiners	56,300
Department of Corrections	3,834,800
Department of Economic Security	138,500
Board of Dental Examiners	82,400
Department of Health Services	191,500
Medical Board	110,000
Board of Pharmacy	57,900
Department of Public Safety	7,260,900
Board of Technical Registration	<u>122,100</u>
TOTAL	\$12,437,100

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 first 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 15 active APF projects, ADOA has labeled 6 on track, 2 are at risk, 2 are off track, and 5 have not yet started. The 2 off-track projects include:

Child Support Services System Replacement (DES)

ASET continues to list the Department of Economic Security (DES) Child Support Services System Replacement project as off track as the project design and development processes are still not within the projected schedule. DES still plans to "re-baseline" the project schedule and submit a change request to ADOA in the spring of 2023 once the federal government approves changes to the project.

ADOA Business One-Stop

ASET continues to list the ADOA Business One-Stop as off track. ADOA has decided to release the Phase 1 functionality in 4 phases, beginning with the "minimum viable product." ADOA pushed the Phase 1 "go live" date for a second time to August 2022. While some functions are now available to the public and have been utilized, ADOA still has to design Application Programming Interfaces (APIs), conduct vulnerability penetration testing, develop a data sharing plan with agencies, and coordinate a media roll-out.



Status of ITAC Projects

In its report, ADOA notes 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 the State Appellate Courts CMS Replacement system is off-track because the Courts continue to have "significant staffing resource constraint." ADOA reported that in the next quarter, the Courts may revise their project plans or ADOA may suggest pausing the project.

ITAC Third-Party Reports

Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5 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: Business One-Stop (ADOA), Arizona Financial Information System Upgrade (ADOA), Child Support Services System Replacement (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 Perrera)

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 October 18, 2022, AHCCCS projects its ARPA HCBS spending plan will total \$1.67 billion, or \$156.9 million higher than its original spending plan and \$244.2 million higher than the July 2022 quarterly report. The July 2022 expenditure plan did not assume expenditure of all available federal drawdown monies, hence the increase in resources in the revised spending plan. Major changes from last quarter include:

- \$212.7 million in additional funding for time-limited directed provider payments.
- \$20.7 million in additional funding for continuing education units and continuing medical education for Intellectual and Developmental Disability providers. This funding will support trainings on person-centered care.

- \$10.8 million in increased funding for other initiatives, due to plan revisions.

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 Rocker)

Arizona Commerce Authority – Annual Report on Arizona Competes Fund – Pursuant to A.R.S. § 41-1545.04, the Arizona Commerce Authority (ACA) provided its annual report on: 1) grants from the previous fiscal year and other projects currently funded from the Arizona Competes Fund, and 2) performance measures for the recipients including job creation, capital investment and average wages.

New FY 2022 Grants

ACA awarded grants from the Arizona Competes Fund totaling \$3.7 million in FY 2022. These grants were in 2 categories – expanding or retaining businesses in Arizona and small and rural business grants.

ACA awarded 2 new grants totaling \$1.6 million for the purpose of expanding or retaining businesses in Arizona. These grants were awarded to Commercial Metals Company (\$1.0 million) and Rauch North America, Inc. (\$600,000). Each recipient agreed, as part of the granting process, to meet certain metrics regarding job creation. Over the next 3 years, they plan to create a collective total of 395 new jobs, retain 307 existing jobs, provide average annual wages above the county median wage, make a collective capital investment of more than \$715.4 million, and pay for at least 65% of their employees' health insurance costs.

ACA also provides grants to small and rural businesses through 4 different programs, though only 2 of the programs awarded grants in FY 2022. The Arizona Innovation Challenge (AIC) awarded a total of \$1.8 million to 12 different companies to promote new technologies and small business growth. The Arizona Small Business Development Center Grant (AZSBDCG) program gave \$335,000 to Maricopa County Community Colleges to "enhance economic development" through tracking and improving small business creation and expansion. No grants were awarded via the Rural Economic Development Grant (REDG) or the Arizona COVID-19 Assistance Grant (AZCAG) in FY 2022.

Performance Measures

ACA awarded 49 grants totaling \$69.8 million from FY 2012 through FY 2022 for the purpose of expanding or retaining business in Arizona. In addition, 5 grants totaling \$6.5 million were rescinded. Through FY 2022, these grantees created 20,611 jobs with average annual wages of \$89,527



and made capital investments totaling \$4.4 billion. This compares to commitments of 29,139 jobs created, average annual wages of \$66,318, and capital investments totaling \$4.5 billion. The grantees have 3 years to reach the agreed upon metrics from the time the grant is awarded. Grantees that did not achieve the agreed upon metrics were only funded for the job creation and capital investments that were completed.

In addition to the grants above, from FY 2012 through FY 2022, ACA made 145 REDG, AIC, AZBDCCG, and AZCAG grant awards totaling \$31.4 million for the purpose of supporting rural and small businesses. As of June 30, 2022, these grantees created 6,264 jobs and \$578.1 million in capital investment compared to commitments of 5,441 jobs and \$643.3 million in capital investment. The average annual wage of the jobs created was \$38,000. Only 1 AIC grant for \$250,000 was rescinded.

ACA reports that of those jobs created by all grants, the 2 largest categories of jobs were in manufacturing (9,570) and finance and insurance (6,552 jobs).

Fund Status

The Arizona Competes Fund typically receives a General Fund deposit of \$5.5 million and an additional deposit of \$3.5 million in lottery revenues but received an additional \$50.0 million General Fund deposit in FY 2022. As of June 30, 2022, the Arizona Competes Fund had a balance of \$113.4 million, which includes balances reserved for grants which have not been completed. (Nate Belcher)

Department of Corrections – Report on Health Care Credits Taken Against Payments to Health Care Vendor –

The state can seek Medicaid reimbursement for the costs of outside medical care for eligible inmates. To receive reimbursement, the care is paid by the Arizona Health Care Cost Containment System (AHCCCS). The Department of Corrections (ADC) pays the state match portion, and AHCCCS covers the federal portion. Since ADC already pays for all health care of inmates in state facilities in the inmate health care services contract, the total dollar amount of Medicaid expenditures is offset on subsequent invoices by the vendor. The savings to the department is the federal portion.

A.R.S. § 35-142.01 allows the department in the current fiscal year to take credit against payments for the total expenditures paid for hospitalization and outside medical care from the current fiscal year or previous years. Pursuant to statute, ADC submitted its report on the credits taken for the previous fiscal year.

For FY 2022, the department took \$12.6 million in credits. The department paid \$1.8 million for the state match, and received \$10.8 million in net savings. Of the net savings, \$2.5 million was for services rendered in FY 2021, and \$8.3 million was for services rendered in FY 2022. ADC utilizes the net savings to augment funding for the inmate health care contracted services. (Geoffrey Paulsen)

Department of Economic Security – Report on Federal COVID Child Care Monies – Pursuant to an FY 2023 General Appropriation Act footnote, the Department of Economic Security (DES) reported on the status of federal Child Care and Development Block Grant (CCDBG) monies provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Consolidated Appropriations Act (CAA); and the American Rescue Plan Act of 2021 (ARPA). The footnote also requires that DES report on the number of children supported by these federal COVID monies, the average monthly child care reimbursement rates, and the number of child care settings with a quality rating.

Of the \$88.0 million in discretionary CCDBG funding from the CARES Act for programs and initiatives, DES reports year-to-date expenditures of \$86.3 million. Of the \$620.8 million in discretionary CCDBG funding from the CAA and ARPA, DES reports year-to-date expenditures of \$89.8 million. As a result, \$531.0 million is available for expenditure in FY 2023.

The ARPA also provided an additional \$596.4 million in CCDBG stabilization funding. Of that amount, DES reports year-to-date expenditures of \$191.5 million. As a result, \$404.9 million is available for expenditure in FY 2023.

The following programs and initiatives were implemented by DES as a result of the COVID pandemic, supported by federal CCDBG funding from COVID related legislation:

- The Arizona Enrichment Centers Scholarships Program (ended August 2020) served an average of 3,989 children each month at an average monthly reimbursement rate of \$856.91.
- The Essential Workers Child Care Relief Scholarship Program has served an average of 5,805 children each month at an average monthly reimbursement rate of \$676.32.
- Child Care for Returning Workers has served an average of 420 children each month at an average monthly reimbursement rate of \$562.76.
- Continued child care waitlist suspension supported by COVID funding has served an average of 25,408 children each month at an average monthly reimbursement rate of \$756.85.



DES reports that according to the most recently available data, 672 providers are enrolled in the Quality First Program and therefore have a quality rating. (Chandler Coiner)

Arizona Department of Education – Report on ESSER Expenditures – Pursuant to an FY 2023 General

Appropriation Act footnote, the Arizona Department of Education (ADE) reported on expenditure of monies allocated to the Superintendent of Public Instruction from the federal Elementary and Secondary School Emergency Relief (ESSER) Fund through September 30, 2022. ADE reports that the department and Local Education Agencies (LEAs) (i.e. school districts and charter schools) have expended \$1.39 billion of ESSER monies through the first quarter of FY 2023, or an increase of \$202.0 million above the prior quarter. Given Arizona's total ESSER allocation of \$4.01 billion, there are \$2.62 billion of ESSER monies that remain unexpended.

The \$202.0 million of first quarter expenditures include the following amounts:

- \$188.7 million for direct allocations to LEAs. ADE is required to allocate a minimum of 90% of ESSER monies for direct distributions to school districts and charter schools.
- \$6.2 million for discretionary allocations by ADE.
- \$2.7 million is for afterschool programs.
- \$2.2 million is for programs to address learning loss.
- \$1.9 million is for summer enrichment programs.
- \$295,500 for ADE administrative expenses.

The final deadline for ESSER expenditures is September 30, 2024. (Patrick Moran)

Arizona Department of Education – Report on K-12 Aggregate Expenditure Limit – Pursuant to A.R.S. § 15-911B, the Department of Education reported that currently budgeted expenditures for school districts collectively for FY 2023 are \$1.39 billion above the aggregate expenditure limitation (AEL) established for school districts in the State Constitution.

A.R.S. § 15-911C allows the Legislature to authorize school district spending above the AEL for a current fiscal year with a two-thirds majority vote in both the House of Representatives and Senate. A permanent increase in the AEL would require a voter-approved change to the State Constitution. (Patrick Moran)

Department of Emergency and Military Affairs – Report on Border Security Fund Expenditures – Pursuant to a footnote in the FY 2023 General Appropriation Act, DEMA, in consultation with the Department of Public Safety (DPS) and the Arizona

Department of Homeland Security, is required to submit a quarterly report on the status of project allocations and monies expended from the Border Security Fund. *Table 8* below delineates the various allocations from the \$544.2 million FY 2023 Border Security Fund appropriation as well as the current FY 2023 expenditures through September 30, 2022.

DEMA reports that they have begun implementation of the asylum seeker transportation program. In FY 2023, from July 1, 2022 through September 30, 2022, DEMA has expended \$2.9 million of the \$15.0 million project allocation. Additionally, DEMA reports that they've

	FY 2023 Allocations	FY 2023 Spending Through September
Cochise County Jail	\$20,000,000	\$ 0
Local ICE Reimbursement	15,000,000	0
Antihuman Trafficking Grant Fund	10,000,000	0
Local Prosecution Costs	30,000,000	0
Arizona National Guard	10,000,000	0
Emergency Testing and Care	10,000,000	0
Asylum Transportation	15,000,000	2,933,000
Deputy Sheriff Compensation	53,405,000	0
State Guard – Chain of Command	800,000	0
Emergency Operations Center	30,000,000	0
Coordinated Response Center	15,000,000	0
Border Fence and Border Security Technologies	335,000,000	10,250,000 ^{1/}
Total	\$544,205,000	\$13,183,000

^{1/} The \$10.3 million expended for border fence and border security technologies went towards erecting 3,820 feet of cargo containers along private and public property in Yuma County.



started placement of a physical barrier along the southern border. In August 2022, the department expended \$10.3 million to erect 3,820 feet of cargo containers along private and public property in Yuma County.

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

Board of Executive Clemency – Report on FY 2022

Caseload – Pursuant to a footnote in the FY 2023 General Appropriation Act, the board is required to submit a report on its FY 2022 caseload by November 1, 2022.

The board conducted 2,629 case hearings in FY 2022, as described below:

Phases 1 and 2 Commutation (208): After reviewing an inmate's request to have their sentence commuted, the board can decide to deny the request or allow the request to move to a Phase 2 Commutation hearing.

Pardon (2): -The board may recommend that the Governor pardon an offender.

Absolute Discharge (26): The board can discharge a person from imprisonment or parole supervision prior to the sentence expiration date or prior to the expiration of parole.

Modification (0): The board can recommend to the Governor that an inmate's sentence be modified or commuted.

Reprieve (2): The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate's punishment.

Parole (287) These hearings only apply to offenders sentenced prior to 1994. The board may place these offenders on parole or deny their application for parole and return them to the Department of Corrections.

Revocation (1,288): -These hearings are conducted when an offender has violated the terms of community supervision.

Probable Cause (816): These hearings can be requested by an inmate prior to revocation proceedings to determine if there is probable cause to believe that the defendant violated the terms of community supervision. (Ryan Fleischman)

Arizona Department of Forestry and Fire

Management – Report on Nonnative Vegetation Species Eradication Grant Expenditures – Pursuant to A.R.S. § 37-1309C, the Arizona Department of Forestry and Fire Management (DFFM) reported on the total expenditures of grant-funded nonnative vegetation species eradication (NVSE) projects in FY 2022.

In FY 2020, the Legislature appropriated \$2.0 million for NVSE projects, of which \$1,328,300 has been expended to date. Six of the 11 projects from this grant cycle have been completed, 4 of which were completed in FY 2022.

In FY 2021, the Legislature appropriated \$1.0 million for NVSE projects, of which \$434,400 has been expended to date. Two of the 7 projects from this grant cycle have been completed.

In FY 2022, the Legislature appropriated \$1.0 million for NVSE projects, of which \$68,200 has been expended through August 31 for grant reimbursements. DFFM selected 10 projects to receive NVSE grant funding out of 23 applicants. All 10 of the selected projects have begun,

Table 9

DFFM Nonnative Vegetation Species Eradication Grant FY 2022 Expenditures For 2021 Grant Cycle

<u>Grantee</u>	<u>Project Title</u>	<u>Grant Amount</u>	<u>Expenditures as of August 31</u>	<u>Expected Completion Date</u>
Arizona Department of Emergency and Military Affairs	Camp Navajo Invasive Species	\$87,000	\$ 0	June '24
Arizona Department of Transportation	Control of Stinknet along I-17 and SR 74	95,000	0	December '23
Arizona Elk Society	Diffuse Knapweed Control	10,000	0	June '24
Arizona Game and Fish Department	BASF Stinknet Mitigation	98,000	0	March '24
Borderlands Restoration Network	Treatment of Yellow Bluestem	150,000	0	December '23
Friends of the Tonto National Forest	Superstition Mountains Invasive Plants	65,000	35,700	March '23
Friends of the Verde River	Arundo Free Oak Creek	150,000	0	June '24
Gila Watershed Partnership	Eradication of Invasive Vinca	118,000	0	June '24
Graham County	Gila River Fire Mitigation	87,000	0	December '24
Watershed Management Group	Tanque Verde Creek Arundo Control	110,000	32,500	December '23
Total		\$970,000	\$68,200	



and all projects are projected to be completed within 3 years of their respective start dates. Please see *Table 9* for more information. (Nate Belcher)

A total of \$4.0 million has been appropriated in FY 2020 through FY 2022, of which \$1.8 million has been expended to date.

JLBC Staff – County Flexible Revenue Report – The FY 2023 Local Government Budget Reconciliation Bill (BRB) (Laws 2022, Chapter 318) permits counties with a population under 250,000 persons according to the 2020 Census to use any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2023, but limits this authority to no more than \$1.25 million used for purposes other than the purpose of the revenue source. The FY 2023 Local Government BRB requires counties to report on their use of this provision.

Of the 12 eligible counties, 3 reported using \$3.55 million of flexibility:

- Apache County: \$1.05 million from the Library District, Post-Secondary Education District, Community College District, and Flood Control District to the Jail District for Jail District Operations. Apache County utilized \$900,000 last year.
- Coconino County: \$1.25 million from the Jail District to the General Fund to pay down the Public Safety Personnel Retirement System (PSPRS) debt and pay for information technology needs for the Sheriff's Department. Coconino County utilized \$1.25 million last year.
- La Paz County: \$1.25 million from the Vehicle License Tax to the General Fund to pay down a General Fund shortfall. La Paz County utilized \$1.25 million last year.

Last year, 5 eligible counties reported utilizing a total of \$4.95 million of flexibility.

The following 9 counties indicated that they are not utilizing this provision: Cochise, Gila, Graham, Greenlee, Mohave, Navajo, Santa Cruz, Yavapai, and Yuma. (Ryan Fleischman)

Arizona State University – Report on University Campuses – Pursuant to A.R.S. § 15-1601 Arizona State University (ASU) has reported required financial and operational information for each of the university's campuses.

- Total capital expenditures in FY 2021 and FY 2022 (in millions):

	FY 2021	FY 2022
Tempe	\$290.8	\$238.5
Downtown	94.0	32.7
West	5.0	1.5
East	4.7	2.5
Multiple Campuses	<u>6.1</u>	<u>5.2</u>
TOTAL	\$400.6	\$280.4

- 21st day Full-time Equivalent (FTE) student and a head count of students enrolled in one or more courses by campus:

	FTEs	Headcount
Tempe	81,822	110,364
Downtown	23,945	43,379
West	11,972	26,756
East	<u>9,459</u>	<u>21,161</u>
TOTAL	127,198	201,660

- Revenues: \$1.17 billion (ASU excluded all non-appropriated revenues, including the non-appropriated share of tuition revenues, from the reported amounts). ASU did not allocate this amount by campus.
- ASU is also required to report any long-term capital or expansion plans for each campus. The university highlighted its Annual Capital Plan, which includes plans to construct new academic buildings and resident halls, a thermal energy storage installation project, and renovations to existing academic and research spaces across all campuses. (Morgan Dorcheus)

Universities – Report on University Centers – In conjunction with an ongoing appropriation, the FY 2023 General Appropriation Act requires Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) to operate University Centers and report on each Center's 1) total funding; 2) faculty and courses; 3) student enrollment; and 4) community events, initiatives, and publications.



Arizona State University – The FY 2023 General Appropriation Act appropriated \$6.0 million to ASU to operate the School of Civic and Economic Thought and Leadership (SCETL). Along with a carry-forward balance of \$2.2 million and \$1.1 million from other sources, SCETL had \$9.3 million in total available funds in FY 2023. ASU expects carry-forward balances to be spent by FY 2025.

SCETL currently has 13 faculty members, offers 84 courses, and enrolled 624 undergraduate students and 44 graduate students in FY 2022. SCETL provides internships and special courses, a public affairs program, and a visiting scholars program. SCETL also coordinates the Civic Discourse Project, which presents forums, lectures, and panel discussions. The 2022 series theme was "Renewing America's Civic Compact." SCETL houses 2 research centers, the Center for Political Thought and Leadership and the Center for the Study of Economic Liberty.

Northern Arizona University – The FY 2023 General Appropriation Act appropriated \$865,300 to NAU to operate the Economic Policy Institute (EPI). Along with \$455,900 in other sources, EPI reports \$1.3 million in total available funds in FY 2023. EPI is staffed by 4 graduate student assistants, 2 teaching assistants, and 4 student employees. NAU reports no formal student enrollment. EPI focuses on regional and tribal economic development, technology policy, and student-centered activities. In FY 2022, it conducted Tribal Entrepreneurship Training, Tribal Business Plan Competitions, Seven Generation Money Management sessions, youth financial literacy bootcamp, business plan competition events, technical assistance community outreach, and participated in several research projects, surveys, and reports. EPI publications include research on Head Start programming, Arizona tourism, food security in the White Mount Apache Tribe, and many others.

University of Arizona – The FY 2022 General Appropriation Act appropriated \$3.8 million to UA to operate the Center for the Philosophy of Freedom. Along with \$347,000 in other sources, UA reports \$4.1 million in total available funds in FY 2022. UA's report does not include total fund sources for FY 2023. The Center has 14 faculty members and 2 post-doctoral fellows, offers 57 courses, and enrolls 748 undergraduate students and 55 graduate students. In addition to academic courses, the Center reports hosting community events such as large public discussion forums, voices of culture, informal lunch talks, and workshops. (Cameron Mortensen)

