

Summary

October 2023 General Fund revenue collections were \$1.04 billion, which represents an overall decline of (22.0)% below October 2022. The level of collections during October generated a forecast loss of \$(130) million below the enacted budget revenue forecast. The October forecast loss was concentrated in the Individual Income Tax category.

Individual Income Tax

In total, Individual Income Tax (IIT) collections during October were (39.0)% below October 2022 and \$(125) million below the enacted budget forecast.

The largest contributor to the IIT forecast loss was tax refunds – the dollar amount of refunds issued to taxpayers during October 2023 grew by 85% above October 2022, and the increased level of refunds paid caused a forecast loss of \$(116) million. This elevated amount of refunds continues a trend seeing during the spring 2023 tax filing season, as the subset of taxpayers using the extended return process have a due date in mid-October to make their final tax filing with the state.

Another component of the extended tax filing season is IIT payments, which performed poorly in October, also in continuation of trends seen earlier in the year. October IIT payments declined by (37)% below October 2022 and were \$(40) million below forecast.

In contrast to payments and refunds, the withholding component of IIT generated a forecast gain during October, as withholding revenues ended up \$31 million above forecast for the month. Withholding collections during October were expected to decline due to the new default withholding rate, however, October's withholding decline of (6.8)% was less-than-expected. This lower-than-expected decline could be due to underlying wage/salary growth offsetting a portion of the decline caused by the new withholding rate.

Sales Tax

While October Sales Tax collections did not generate a significant forecast gain (\$5 million above forecast), the category's performance during the month was surprising in that it did break against recent trends. The category has recently experienced weak performance, with monthly growth not exceeding 3% since March. October Sales Tax collections returned to a more healthy growth pattern, increasing by 6.0% during the month compared to October 2022, or 7.7% growth after adjusting for a technical correction by the Department of Revenue. The growth during October was driven by both retail and restaurant/bar collections.

The Sales Tax performance since March raised concerns about whether consumer spending activity was beginning to slow after the surges during the pandemic years – data in the coming months will help determine if the positive October data represents a new trend.

Corporate Income Tax

Corporate Income Tax (CIT) revenue during October increased by 9.9% for the month and was essentially at forecast. October is not a significant month for the tax category, as the state typically only collects about 2% of annual CIT revenue during October. The next significant data point for the category will be in December, a month which accounts for about 25% of annual CIT revenue.

Year-to-Date Results

Year-to-date through October, excluding Urban Revenue Sharing and fund transfers, FY 2024 General Fund revenues are (9.1)% below the prior year and \$(331) million below the enacted budget forecast.

Table of Contents

October Revenues	2
Monthly Indicators	6
JLBC Meeting Summary	9
JLBC Meeting Follow Up	9
Summary of Recent Agency Reports	
ADOA – FY 2024 Rent Exemptions	10
Attorney General – Legal Settlements ..	10
Attorney General – Advocacy Centers...	10

Attorney General – Internet Crimes Report	11
Commerce Authority – Competes Fund Report.....	11
DEQ – Indirect Cost Recovery Fund Report	12
Forestry – Nonnative Species Eradication Grants.....	12
DHS – Accelerated Nursing Program Report.....	12
JLBC Staff – County Flexible Revenue Report	12
Supreme Court – Automation Projects Report	13
DWR – Interstate Water Banking Report.....	13



October Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2024	Difference From	Difference
	Collections	Enacted Forecast	From FY 2023
October	\$ 1,035.1	\$ (129.9)	\$ (292.6)
Year-to-Date	\$ 4,675.0	\$ (331.0)	\$ (674.1)

Sales Tax collections of \$644.3 million in October were 6.0% above the same month in the prior year and \$4.6 million above the enacted budget forecast. Year to date through October, sales tax revenue is up by 2.7% compared to the same period in the prior year and \$(59.1) million below the enacted budget forecast.

According to the Department of Revenue (DOR), a taxpayer incorrectly filed and remitted sales tax collections for an extended period from January 2021 to May 2022 under the Use Tax category rather than the Retail classification of the Transaction Privilege Tax (TPT).

In October, DOR made the necessary technical adjustments to correct for the misreporting of collections from January 2021 to May 2022, which required the department to shift monies from the Use Tax category to the Retail classification.

Use Tax collections (which are associated with out-of-state purchases) are allocated 100% to the General Fund. In contrast, Retail sales tax collections are allocated approximately 75% to the General Fund, with the remaining 25% distributed to local governments. Because of the different allocations, reclassifying collections from Use Tax to Retail sales tax has the effect of reducing General Fund revenues, and then increasing local government distributions by a corresponding amount.

As a result, October's General Fund sales tax revenue was reduced by \$(10) million due to this adjustment. Absent this technical adjustment, the "real" General Fund sales tax growth in October would have been 7.7%.

As we noted in the September *Monthly Fiscal Highlights*, DOR made a similar \$(21) million adjustment to sales tax revenue in August due to the taxpayer also filing under the same incorrect sales tax categories from February 2017 to December 2020. This means that year to date through October, sales tax revenue has been reduced by a total of \$(31) million. Without the adjustments in August and October, year-to-date sales tax revenue growth through October would be 4.0%.

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

Table 2		
October Sales Tax Growth Rates		
Compared to Prior Year		
	October	YTD
Retail/Remote Seller ^{1/}	10.9%	7.1%
Contracting	3.9%	10.3%
Use Tax ^{2/}	(65.6)%	(60.2)%
Restaurant & Bar	6.2%	2.8%
Utilities ^{3/}	374.7%	34.9%

^{1/} Absent DOR's technical corrections in August and October, Retail/Remote Seller growth would have been 6.5% in October and 3.8% YTD.

^{2/} Absent DOR's technical corrections in August and October, Use Tax growth would have been (19.5)% in October and (22.0)% YTD.

^{3/} Absent a large taxpayer refund of approximately \$(40) million issued in October 2022, Utilities TPT growth would have been 10.4% in October 2023 and 9.2% YTD.

The combined Retail/Remote Seller category, which makes up close to 54% of total sales tax revenue, increased by 10.9% in October compared to the same month in the prior year. However, this growth rate was artificially inflated by DOR's technical adjustment discussed above. Absent this adjustment, October's Retail/Remote Seller growth rate would have been 6.5%.

October marked the second consecutive month with slower growth for the Contracting classification. Year over year, contracting tax revenue increased by a modest 3.9% in October, which followed September's year-over-year gain of 6.0%. To provide some perspective, during the 18-month period from March 2022 to August 2023, contracting sales tax revenue grew at double-digit rates in all but 2 months.



Individual Income Tax (IIT) net collections were \$372.3 million in October, a (39.0)% decrease from last year and \$(125.5) million below the enacted budget forecast. The forecast loss comes as the result of reduced payment revenues and increased refunds. Year-to-date (YTD), IIT revenue has declined (30.4)% from the same period last year and is \$(367.6) million below the forecast.

Withholding revenue in October was \$485.1 million, (6.8)% less than the previous October but exceeding the forecast by \$30.5 million. This year-over-year decline can be attributed to the default withholding rate being lowered in January of this year by the Department of Revenue. The original rate of 2.7% was changed to 2.0% in response to the single 2.5% IIT rate implemented at the start of 2023. The lower withholding rate has been partially offset by wage and salary growth, which according to the latest data from the Bureau of Economic Analysis has been increasing at the national and local levels. YTD, withholding has decreased (13.3)% compared to the same period last year and is \$(94.7) million below the enacted budget forecast.

Payments in October were \$143.6 million, a decrease of (37.3)% from last year and \$(40.2) million under the forecast. October is an important month for final payment revenue as taxpayers who requested a 6-month extension in April must file their returns during the month. The level of final payments declined by (33.8)% from the record level in October 2022, but was still the second-highest total ever collected for the month. YTD, payments are down (42.2)% relative to FY 2023, and are \$(102.6) million below the forecast.

October refunds were \$256.4 million, an increase of 84.5% from October 2022, resulting in a forecast loss of \$(115.8) million. October often has elevated refund levels as filers who received an extension in April are required to file their returns in this month. As such, the level of refunds issued in October typically mirrors what occurred during the tax filing season. From February through April 2023, a record amount of refunds was issued. Refunds in October followed this trend with the highest level ever issued for this month. YTD, refunds are up 81.1% from the same period last year, with a forecast loss of \$(170.3) million.

	October	YTD
Withholding	(6.8)%	(13.3)%
Estimated/Final Payments	(37.3)%	(42.2)%
Refunds	84.5%	81.1%

Corporate Income Tax (CIT) net collections in October were \$39.7 million, 9.9% greater than the previous October and a forecast gain of \$0.5 million. Gross collections were \$64.0 million, a decline of (3.9)% from last year. Refunds were \$24.3 million, (20.4)% lower than the October 2022 total. YTD, net CIT collections are 11.3% greater than the same period last year and \$84.2 million above the forecast.

Insurance Premium Tax (IPT) refunds in October exceeded actual collections by \$2,600, which therefore resulted in a net IPT revenue loss of \$(2,600) for the month. Compared to the enacted budget forecast, this resulted in revenue loss of \$(20.9) million. Fiscal year to date, IPT revenue is up by 2.6% and is \$(15.2) million below forecast.

IPT collections in October are usually much lower than during the first 3 months of the fiscal year, as neither quarterly estimated payments by AHCCCS health contractors nor installments payments by other insurers are due in this month. However, due to timing issues related to when actual deposits are recorded, net collections in October can still fluctuate considerably.

The amount of **Tobacco Tax** deposited into the General Fund in October was \$1.8 million, which is 49.1% higher than October 2022 collections and approximately \$0.3 million above the enacted budget forecast. Year to date, General Fund tobacco tax revenues total \$6.5 million, 9.6% greater than the amount collected for the comparable period in FY 2023, and \$(0.1) million under the forecast.

Liquor Tax revenue deposited into the General Fund in October was \$3.5 million, which is a decrease of (4.9)% from the amount deposited in October 2022 and \$0.1 million more than the enacted budget forecast. Year to date, General Fund deposits from liquor tax collections total \$12.6 million, an (11.6)% decline from the comparable period in FY 2023, and \$(1.8) million below forecast.

The **Lottery Commission** reported that total ticket sales in October were \$132.1 million. This amount is \$4.8 million, or 3.8% greater than October 2022.



Highway User Revenue Fund (HURF) collections of \$138.7 million in October were (0.8)% below the amount collected in October 2022 and \$(5.7) million below forecast. Year to date, HURF collections are \$567.2 million, 2.7% above the prior year, but \$(1.8) million less than forecast.

The state collected \$14.8 million in dedicated **Marijuana Excise Taxes** in October, marking a 10.0% increase over October 2022 revenues. Monies from this excise tax are deposited into dedicated non-General Fund accounts. The total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) was \$6.3 million in October. Of this amount, the General Fund received \$4.7 million. (Table 4 details October 2023 collections).

	<u>October</u>	<u>YTD</u>
Marijuana Excise Tax	\$14.8	\$56.6
Medical Marijuana TPT*	\$1.6	\$6.1
<u>Distribution:</u>		
General Fund	\$1.2	\$4.5
Counties	\$0.3	\$1.0
Cities	\$0.2	\$0.6
Recreational Marijuana TPT*	\$4.7	\$16.9
<u>Distribution:</u>		
General Fund	\$3.5	\$12.5
Counties	\$0.8	\$2.7
Cities	\$0.5	\$1.7
Total State Marijuana Tax Collections	\$21.1	\$79.6

* Amounts may not add to total due to rounding

Due to delays in reporting final September revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For September, DOR has increased the amount of prior General Fund revenue collections by \$22,000 and the adjustment has been included in the reported year-to-date results.



Table 5

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

	Current Month					FY 2024 YTD (Four Months)				
	Actual October 2023	Change From October 2022		Enacted Forecast		Actual October 2023	Change from October 2022		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$644,268,206	\$36,618,017	6.0 %	\$4,588,337	0.7 %	\$2,560,756,100	\$67,651,411	2.7 %	(\$59,088,790)	(2.3) %
Income - Individual	372,305,092	(238,193,431)	(39.0)	(125,478,062)	(25.2)	1,640,855,144	(716,948,172)	(30.4)	(367,559,292)	(18.3)
- Corporate	39,704,621	3,586,233	9.9	540,208	1.4	471,719,735	47,866,050	11.3	84,170,016	21.7
Property	2,206,064	(3,010,518)	(57.7)	(3,160,939)	(58.9)	2,904,452	(2,986,182)	(50.7)	(3,427,270)	(54.1)
Luxury - Tobacco	1,762,133	580,598	49.1	289,194	19.6	6,527,373	570,134	9.6	(80,026)	(1.2)
- Liquor	3,484,354	(181,062)	(4.9)	122,951	3.7	12,620,838	(1,653,626)	(11.6)	(1,815,234)	(12.6)
Insurance Premium	(2,643)	(58,302,457)	--	(20,933,133)	--	213,824,350	5,365,279	2.6	(15,163,014)	(6.6)
Other Taxes	897,055	44,382	5.2	22,266	2.5	3,973,714	623,640	18.6	541,249	15.8
Sub-Total Taxes	\$1,064,624,880	(\$258,858,237)	(19.6) %	(\$144,009,179)	(11.9) %	\$4,913,181,705	(\$599,511,465)	(10.9) %	(\$362,422,361)	(6.9) %
Other Revenue										
Lottery	48,307,700	2,197,600	4.8	0	--	128,307,700	42,197,600	49.0	0	0.0
Gaming	0	(2,644,918)	(100.0)	(2,541,463)	(100.0)	4,042,915	(19,296,004)	(82.7)	(4,807,205)	(54.3)
License, Fees and Permits	3,661,658	(355,727)	(8.9)	(684,206)	(15.7)	17,712,995	994,607	5.9	257,184	1.5
Interest	32,623,368	12,612,244	63.0	8,891,781	37.5	101,304,551	51,264,389	102.4	30,966,493	44.0
Sales and Services	4,971,623	3,282,118	194.3	2,023,270	68.6	10,887,850	1,005,790	10.2	(303,916)	(2.7)
Other Miscellaneous	7,814,535	(12,534,185)	(61.6)	4,296,851	122.1	11,129,766	9,602,860	628.9	1,643,473	17.3
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	3,512,952	1,861,184	112.7	2,114,024	151.1	9,990,865	(7,711,609)	(43.6)	3,715,443	59.2
Sub-Total Other Revenue	\$100,891,835	\$4,418,315	4.6 %	\$14,100,257	16.2 %	\$283,376,643	\$78,057,634	38.0 %	\$31,471,472	12.5 %
TOTAL BASE REVENUE	\$1,165,516,716	(\$254,439,923)	(17.9) %	(\$129,908,921)	(10.0) %	\$5,196,558,347	(\$521,453,831)	(9.1) %	(\$330,950,889)	(6.0) %
Other Adjustments										
Urban Revenue Sharing	(130,401,650)	(38,155,093)	41.4	(0)	0.0	(521,606,598)	(152,620,373)	41.4	(0)	0.0
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	(130,401,650)	(38,155,093)	41.4 %	(0)	0.0 %	(521,606,598)	(152,620,373)	41.4 %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,035,115,066	(\$292,595,016)	(22.0) %	(\$129,908,921)	(11.2) %	\$4,674,951,749	(\$674,074,204)	(12.6) %	(\$330,950,889)	(6.6) %
Non-General Funds										
Highway User Revenue Fund	138,651,341	(1,174,010)	(0.8) %	(5,665,001)	(3.9) %	567,165,036	15,086,183	2.7 %	(1,754,508)	(0.3) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) preliminary estimate of the U.S. **Real Gross Domestic Product** (GDP) in the 3rd quarter of 2023 is an annualized growth rate of 4.9%. Acceleration in consumer and government spending more than offset decreased nonresidential fixed investment and increased imports, which are a subtraction to the GDP total.

The Conference Board's **Consumer Confidence Index** was 102.6 in October, a decrease of (1.7) points from the revised September level. Consumers' views of both the present and future situations worsened. Their concerns were driven by greater inflation expectations and moderate concern about the labor market. Compared to October 2022, the index has increased by 0.4 points, or 0.4%.

The **U.S. Leading Economic Index** (LEI), published by the Conference Board, declined by (0.7)% in September to 104.6 points. This marks the 18th consecutive month of decline for the index. The only component with a positive contribution was unemployment claims, which fell during the month. The other nine components, including inflation, interest rates, and manufacturing orders, all contributed negatively to the index's performance. According to its September press release, the Conference Board expects a "shallow recession" to occur in the first half of 2024. In the 6-month period from March to September, the LEI has declined by (3.4)%, a lesser decrease than the (4.6)% decline during the previous 6-month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** remained essentially flat in October compared to September, growing at a seasonally adjusted rate of 0.0% over the prior month. Food and shelter prices continued to increase while gasoline prices declined. The overall CPI (not seasonally adjusted) has increased 3.2% since the previous October. During this period, food prices increased 3.3%; energy prices fell (4.5)% (including a (5.3)% decrease for gasoline and (21.4)% decrease for oil); and shelter costs increased 6.7%. Excluding food and energy, the year-over-year "core" CPI increased by 4.0% in October.

ARIZONA

Housing

In September, Arizona reached a 12-month total of 30,521 **single-family building permits** issued. This was an increase of 3.2% over last month's total and (27.4)% below September 2022's 12-month total.

Arizona's 12-month total of 23,460 **multi-family building permits** in September is 3.6% higher than last month's total and 2.6% greater than the same 12-month period ending in September 2022. September was the third consecutive month and the third overall month since August 2021 to see less than 10% year-over-year growth.

The **median home price** in Maricopa County rose to \$468,645 in October, representing a 1.9% increase over the median sale price in September and a 0.8% increase over October 2022's median home price. October's year-over-year increase ends a 10-month stretch with year-over-year declines in the median sales price, and its month-over-month increase ends a 3-month stretch of monthly declines. Previously, the median sales price had not declined on a year-over-year basis since November 2011.

Tourism

In September, **revenue per available room** declined to \$90.94, representing a (17.1)% decline below August's average revenue and a 0.8% increase over the September 2022 figure.

Hotel occupancy was 64.4% in September, which is 5.0% above the prior month's occupancy rate and (1.7)% below that of September 2022.

Phoenix Sky Harbor Airport Ridership was 3.7 million in September, which represents a 4.3% increase over August's figure and a 6.5% increase over last year's September ridership.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state had 17,200 more **nonfarm jobs** in October compared to September. 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 2022, the state had 51,100 more jobs in October, an increase of 1.6%. This is the smallest year-over-year job gain since the start of the economic recovery from the pandemic began in April 2021.



The state's **seasonally adjusted unemployment rate** rose from 4.0% in September to 4.2% in October. Arizona's unemployment rate is 0.3% higher than the national unemployment rate, which was 3.9% in October.

OEO reported that a total of 3,449 **initial claims for unemployment insurance** were filed in Arizona in the week ending on November 4th. This marks a 11.9% year-over-year increase in initial claims, with the week ending November 5, 2022 seeing 3,082 initial claims.

According to OEO, for the week ending on October 28th there were a total of 24,099 **continued claims for unemployment insurance** in Arizona. This is 26.3% greater than last year's total of 19,087 on the comparable date. The number of continued claims has fallen in each of the 14 weeks since July 29, counteracting a rising trend that began in November 2022. Prior to the start of the pandemic, the average number of weekly continued claims was 22,613.

State Agency Data

As of November 1, 2023, the total **AHCCCS caseload** was 2.14 million members. Total monthly enrollment decreased (0.5)% from October and decreased (11.4)% 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 in March 2020. As a result, the (0.5)% 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 (0.5)% in November, or (13.4)% lower than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 980,039 – a decrease of (0.6)% from October, or (9.9)% lower than last year. For November 2023, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.3%. At 68,961, this population is 2.8% higher than a year ago.

There were 11,065 individuals receiving **TANF Cash Assistance** in October 2023, representing a (0.3)% decrease from September 2023. Year over year, the number of cash benefit recipients has decreased by (2.5)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In October 2023, 954,586 people received food stamp assistance. This was a (0.8)% decrease from September 2023 and a 6.3% increase from October 2022.

Based on information the Department of Child Safety provided for September 2023, **reports of child maltreatment** totaled 43,942 over the last 12 months, a decrease of (0.2)% from the prior year.

There were 10,675 **children in out-of-home care** as of September 2023, or (12.3)% less than in September 2022. Compared to the prior month, the number of out-of-home children declined by (0.4)%.

The Arizona Department of Correction's **inmate population** was 34,333 as of October 31, 2023. This was a 0.1% increase from September 30, 2023 and a 2.0% increase since October 2022.



Table 6				
MONTHLY INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	October	4.2%	0.2%	0.1%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2023	6.8%	0.0%	0.0%
- Initial Unemployment Insurance Claims	Week Ending Nov. 4	3,449	5.1%	11.9%
- Continued Unemployment Insurance Claims	Week Ending Oct. 28	24,099	(1.9)%	26.3%
- Non-Farm Employment - Total	October	3,191,300	0.5%	1.6%
Manufacturing	October	194,600	(0.1)%	(0.6)%
Construction	October	201,500	0.0%	2.0%
- Average Hourly Earnings, Private Sector	October	\$32.09	0.9%	4.2%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	September	30,521	3.2%	(27.4)%
Multi-family	September	23,460	3.6%	2.6%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	October	4,128	(7.8)%	(4.9)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	October	\$468,645	1.9%	0.8%
- Maricopa Pending Foreclosures	October	982	5.5%	(1.6)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	September	3,734,342	4.3%	6.5%
- State Park Visitors	September	217,311	24.2%	5.8%
- Revenue Per Available Hotel Room	September	\$90.94	(17.1)%	0.8%
- Arizona Hotel Occupancy Rate	September	64.4%	5.0%	(1.7)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	2 nd Q 2023	\$454.3 billion	4.7%	6.6%
- 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	November 1st	2,142,700	(0.5)%	(11.4)%
Traditional Acute Care		1,093,700	(0.5)%	(13.4)%
Other Acute Care		980,000	(0.6)%	(9.9)%
Long-Term Care – Elderly & DD		69,000	0.3%	2.8%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	September	43,942	0.1%	(0.2)%
DCS Out-of-Home Children	September	10,675	(0.4)%	(12.3)%
Filled Caseworkers (1,406 Budgeted)	September	1,441	17	249
- ADC Inmate Growth	October	34,333	0.1%	2.0%
- Department of Economic Security				
- TANF Cash Assistance Recipients	October	11,065	(0.3)%	(2.5)%
- SNAP (Food Stamps) Recipients	October	954,586	(0.8)%	6.3%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	3 rd Q, 2023 1 st Estimate)	\$22.5 trillion	4.9%	2.9%
- Consumer Confidence Index (1985 = 100)	October	102.6	(1.6)%	0.4%
- Leading Economic Index (2016 = 100)	September	104.6	(0.7)%	(6.9)%
- Consumer Price Index, (1982-84 = 100)	October	307.7	0.0%	3.2%



JLBC Meeting Summary

At its November 9, 2023 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Corrections – Review of Inmate Healthcare Contract Rates – Pursuant to an FY 2024 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) submitted for review an expenditure plan of its revised contracted rates to the state’s inmate healthcare vendor. The proposed plan would gradually increase the daily rate paid per inmate from \$32.19 to \$40.58 by March 2024, resulting in estimated FY 2024 contract costs of \$348.1 million. Beginning July 1, 2024 the daily rate would increase to \$42.47, resulting in FY 2025 contract costs of \$387.6 million. Relative to the FY 2025 JLBC Baseline, these FY 2025 contract costs would result in a shortfall of \$(117.9) million within ADC's budget.

These change seek to address the federal courts’ injunction in the *Jensen v. Thornell* litigation including to staffing levels, substance abuse treatment, Hepatitis C treatment, and facility upgrades. In addition, the new amendment reestablishes the requirement that the vendor track healthcare spending eligible for Medicaid reimbursement, at an annualized cost of \$15.0 million. ADC estimates that this will result in reimbursement of about \$11.0 million annually.

The Committee gave a review of the department’s request except for an unfavorable review of Medicaid reimbursement component of the proposed daily rates. As part of its review, the Committee included a provision stating that review by the Committee does not constitute endorsement of General Fund appropriation of a FY 2024 supplemental or FY 2025 increase. Additionally, the review included 3 provisions requiring ADC to submit reports to JLBC Staff on monthly vacancy savings, usage of vacancy savings beyond the healthcare contract, and the vendor’s methodology for determining the Medicaid reimbursement administrative costs.

JLBC Meeting Follow-Up

Department of Agriculture – Cloud Migration Feasibility Study Update - At its December 2022 meeting, the JLBC gave a favorable review of \$300,000 of the Department of Agriculture's \$2.0 million FY 2023 APF appropriation for a feasibility study to migrate the department’s applications to the cloud. The review included a provision that the department report to the JLBC Staff on the results and recommendations of the study.

The department provided JLBC Staff with copies of the roadmap and task order produced by the consultants who performed the feasibility study, which estimate that the project will be awarded to the winning bidder in late January of 2024. The study also estimates that the total time to complete the project after awarding the contract will be about 18 months. Neither the consultants nor the department provided an estimate of the total project cost. (Nate Belcher)

Secretary of State – Report on Electronic Records Storage Feasibility Study – Pursuant to a provision from the December 2022 JLBC meeting, the Secretary of State (SOS) submitted a summary of its consultant's report researching the implementation of an Electronic Records Storage System. The consultant surveyed other states, Arizona cities and counties, and Arizona state agencies addressing general records management issues.

Most respondents believe an electronic storage records system would help solve one or more of their data management issues, including security, storage, retrievability, and version control. The consultant found that Arizona needs to improve training and policies to ensure the successful adoption and use of the electronic records storage system. The consultant identified 4 vendors that currently provide IT solutions for records. The project cost could be partially based on the amount of records requiring digital storage. (Rebecca Perrera)



Summary of Recent Agency Reports

Arizona Department of Administration – Report on FY 2024 Rent Exemptions – Pursuant to A.R.S. § 41-792.01, the Arizona Department of Administration (ADOA) is required to report to the JLBC Staff each proposed partial or whole Capital Outlay Stabilization Fund (COSF) or Certificate of Participation (COP) Fund rental exemption. ADOA is authorizing partial FY 2024 rent exemptions as follows:

1. \$(120,500) for the Arizona Department of Homeland Security (AZDOHS). The Governor's Office will backfill the 10,114 square foot space at the Executive Tower and pay the corresponding rent amount.
2. \$(88,900) for ADOA. The AZDOHS will backfill the 6,004 square foot space at 100 N 15th Ave and pay the corresponding rent amount.
3. \$(58,100) for the Department of Economic Security. The Office of Economic Opportunity (OEO) will backfill the 4,875 square foot space at 1400 W. Washington and pay the corresponding rent amount. OEO was previously renting space from the Commerce Authority.

(Rebecca Perrera)

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 and receipts and deposits of opioid claims-related litigation monies.

In the first quarter of FY 2024, the AG deposited a total of \$11.1 million into various consumer accounts. Of that amount, \$704,300 was deposited in the CPCF Revolving Fund, \$136,400 was deposited into the Consumer Restitution Subaccount, \$10.2 million was deposited into the Consumer Remediation Subaccount, and \$3,000 was deposited into the General Fund. The AG made no deposits into the Antitrust Enforcement Revolving Fund.

Deposits to the CPCF Revolving Fund

The AG deposited \$704,300 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 interest and various small legal settlements. As of September 30, 2023, the fund had an unencumbered balance of \$21.1 million.



Deposits to the 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 September 30, 2023, the fund had an unencumbered balance of \$1.1 million.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$136,400 into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from various small legal settlements and interest income. As of September 30, 2023, the fund had an unencumbered balance of \$10.1 million.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$10.2 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 \$10.4 million from a settlement with McKesson Corporation, Cardinal Health, Inc., and AmerisourceBergen Corporation resolving allegations regarding deceptive acts in connection with the opioid industry; \$14,200 in small legal settlements; \$338,000 from interest income; and \$(507,400) in outgoing revenue. As of September 30, 2023, the fund had an unencumbered balance of \$55.0 million.

Deposits to the General Fund

The AG deposited \$3,000 into the General Fund. This amount resulted from \$3,000 in small legal settlements.

Opioid Claims-Related Litigation

Through the first quarter of FY 2024, the AG received \$10.7 million of opioid monies for deposit in the partially-appropriated Consumer Remediation Subaccount. This amount resulted from \$10.4 million from settlements with Cardinal Health, McKesson, and Amerisource Bergen; \$254,900 from interest income; and \$72,400 from unspent grant monies. No monies were expended from the balance of opioid monies through the first quarter of FY 2024. As of September 30, 2023, the fund had an unencumbered balance of \$43.7 million. (Gordon Robertson)

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 first quarter of FY 2024, the AG received \$150,000 of its FY 2024 appropriation to the fund and has expended no monies from the CFAF. As of September 30, 2023, the fund had an unencumbered balance of \$250,000. (Gordon Robertson)

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 first quarter of FY 2024, the AG received no monies for deposit into the ICAC Enforcement Fund. A total of \$499,900 was expended from the fund balance through the first quarter of FY 2024 to help pay for the operating costs of the ICAC Task Force. As of September 30, 2023, the ICAC Enforcement Fund had an unencumbered fund balance of \$1.4 million. (Gordon Robertson)

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 2023 Grants

ACA awarded grants from the Arizona Competes Fund totaling \$13,335,000 in FY 2023.

ACA awarded 3 new grants totaling \$11.5 million for the purpose of expanding or retaining businesses in Arizona. These grants were awarded to the following recipients:

- TSMC Arizona Corporation was awarded \$10.0 million.
- The Reinalt-Thomas Corporation (Discount Tire) was awarded \$1.0 million.
- Ross Dress for Less, Inc. was awarded \$500,000.

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 3,458 new jobs, retain 926 existing jobs, provide average annual wages above the county median wage, make a collective capital investment of more than \$12.9 billion, 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 2023. The Arizona Innovation Challenge (AIC) awarded a total of \$1.5 million to 10 different companies to promote new technologies and small business growth. The Arizona Small Business Development Center Grant (AZSBDCG) 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 via the Arizona COVID-19 Assistance Grant (AZCAG) in FY 2023.

Performance Measures

ACA awarded 52 grants totaling \$82.9 million from FY 2012 through FY 2023 for the purpose of expanding or retaining business in Arizona. These figures exclude 5 grants totaling \$6.5 million that were rescinded. Through FY 2023, these grantees created 21,773 jobs with average annual wages of \$83,186 and made capital investments totaling \$4.9 billion. This compares to commitments of 32,597 jobs created, average annual wages of \$66,323, and capital investments totaling \$17.4 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 2023, ACA made 156 REDG, AIC, AZBDCG, and AZCAG grant awards totaling \$33.0 million for the purpose of supporting rural and small businesses. As of June 30, 2023, these grantees created 7,699 jobs and \$704.2 million in capital investment compared to commitments of 5,906 jobs and \$751.7 million in capital investment. The average annual wage of the jobs created was \$40,500. Only 1 AIC grant for \$250,000 was rescinded.

ACA reports that grants for expanding/retaining businesses in Arizona and grants made via the AIC program created 22,622 jobs. Of those jobs, the 2 largest categories of jobs were in manufacturing (10,591) and finance and insurance (6,614 jobs). (Nate Belcher)



Department of Environmental Quality – Report on Use of Indirect Cost Recovery Fund – Pursuant to an FY 2024 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) provided its report on the intended use of Indirect Cost Fund monies in excess of \$19.0 million in FY 2024.

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

DEQ estimates that FY 2024 monies in the fund, including the beginning balance, will total \$24.0 million; of this amount, DEQ estimates \$21.0 million will be expended in FY 2024, or \$2.0 million above the \$19.0 million appropriated figure. Monies in the fund are used for departmentwide administrative personnel and overhead costs that are not directly allocated to the budget of the contributing programs. (Maggie Rocker)

Arizona Department of Forestry and Fire Management – Report on Gila River Nonnative Species Eradication Grant Expenditures – Pursuant to an FY 2023 General Appropriation Act footnote, the Arizona Department of Forestry and Fire Management (DFFM) reported on the total expenditures for Gila River nonnative species eradication projects in FY 2023. In FY 2023, the Legislature appropriated \$5.0 million from the General Fund for nonnative species eradication projects along the Gila River and made the funds non-lapsing through June 30, 2025.

DFFM has expended \$24,000 of this amount to date on a project to remove invasive stinknet plants from 40 acres of land owned by the City of Buckeye. DFFM also plans to spend \$650,000 of this appropriation on 3 projects in FY 2024 and the remaining \$4.3 million on 2 projects in FY 2025. The FY 2024 projects would see \$550,000 go toward the removal of tamarisk from 75 acres of the Estrella Riparian Habitat, \$50,000 go toward removing 5 acres of already-cut tamarisk from the Robbins Butte Wildlife Area, and \$50,000 go toward continuing the effort to remove stinknet plants from 40 acres of land owned by the City of Buckeye. In FY 2025, DFFM projects spending \$3.2 million to replace tamarisk with native flora on 172 acres of state trust land and plant native species on a further 263 acres. DFFM also projects spending another \$1.1 million in FY 2025 to replace tamarisk with native vegetation on 150 acres of land owned by the Arizona Game and Fish Department.

In addition to the \$5.0 million FY 2023 appropriation, DFFM reports plans to use a total of \$6.3 million in American Rescue Plan Act funding to complete 8 similar projects in FY 2024 and FY 2025. The FY 2023 footnote requires the department to provide similar reports in September 2024 and 2025. (Nate Belcher)

Department of Health Services – Report on Accelerated Nursing Program – Pursuant to Laws 2022, Chapter 314, the Department of Health Services (DHS) reported fund distributions and program metrics for the Accelerated Nursing Program.

The FY 2023 budget appropriated \$44,000,000 one-time to DHS for distribution to public and private universities and community colleges to expand accelerated nursing program capacity. The monies are non-lapsing through FY 2024. DHS reports \$8.1 million was distributed in FY 2023, including \$4.8 million to Arizona State University, \$2.8 million to Creighton University, and \$514,400 to Northern Arizona University. The funding has supported 120 student scholarships to date. (Maggie Rocker)

JLBC Staff – County Flexible Revenue Report – The FY 2024 Local Government Budget Reconciliation Bill (BRB) (Laws 2023, Chapter 143) 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 2024, but limits this authority to no more than \$1.25 million used for purposes other than the purpose of the revenue source. The FY 2024 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 \$1.05 million 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, these 3 counties reported utilizing the same dollar amounts of flexibility.

The following 8 counties indicated that they are not utilizing this provision: Cochise, Gila, Graham, Greenlee, Mohave, Navajo, Yavapai, and Yuma. Santa Cruz County did not report their use of the flexibility spending provision. (Mitch Wenzel)

Supreme Court – Report on Current and Future Automation Projects – Pursuant to an FY 2024 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) provided its FY 2024 report on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2024 will be approximately \$35.1 million. Of this amount, approximately \$6.7 million, or 19.2%, will be spent on 7 new or continuing projects as listed below; \$19.6 million, or 55.8%, will be spent on shared infrastructure; and \$8.8 million, or 25%, will be spent on ongoing automation support.

New Projects:

- Add a new staff position to coordinate courtroom AV technology and assist the courtroom staff (\$97,300 in FY 2024, 2025, and 2026).

Continuing Projects:

- Replace Adult Probation Enterprise Tracking System (APETS) with new probation digital Case Management System (CMS) (\$4.8 million in FY 2024, \$3.7 million in FY 2025, and \$4.2 million in FY 2026).
- Replace legacy appellate-court Case Management System (\$947,000 in FY 2024).
- Provide cloud repository for digital evidence (\$400,000 in FY 2024, FY 2025 and FY 2026).
- Expand new e-filing capabilities for the limited jurisdiction courts in rural counties and expand functionality to new case and filing types (\$309,700 in FY 2024 and \$469,500 in FY 2025).
- Continue development of redesigned Fines, Fees and Restitution Enforcement (FARE) data warehouse (\$186,000 in 2024).
- Continue to develop of PSA Automation Project Phase 3, an automated process for answering public safety assessment questions as part of the pretrial risk assessment report (\$15,100 in FY 2024).

The top 3 funding sources for automation projects included in this plan are the Judicial Collection Enhancement Fund (\$10.1 million), the Grants & Other Special Revenues Fund (\$8.1 million), and the General Fund (\$6.6 million). Together these 3 funds comprise 70% of the proposed funding in FY 2024. (James Martinez-Burney)



Department of Water Resources – Report on Interstate Water Banking – Pursuant to A.R.S. § 45-2473, the Department of Water Resources and the Arizona Water Banking Authority (AWBA) submitted a FY 2023 report accounting for all monies received through the Interstate Water Banking Agreement with the Southern Nevada Water Authority (SNWA).

The AWBA budget operates on a calendar year basis. As AWBA's Annual Plan of Operation in 2022 and 2023 did not include an interstate water banking component, interstate water banking monies were not distributed or received during those years. (Micaela Larkin)