

Summary

September 2022 General Fund revenues totaled \$1.60 billion, which is an increase of 12.3% above the prior year. This amount of collections was \$230 million above the enacted budget forecast.

The September revenue gains were in part due to an extraordinarily high level of Corporate Income Tax (CIT) collections during the month. CIT collections have grown rapidly over the last 2 years, and September 2022 CIT revenues grew by 59% above September 2021.

This surge in collections resulted in an unprecedented level of revenue for the category – September 2022 CIT revenue of \$292 million was well above the previous record month (April 2022, which had \$227 million of CIT collections).

The increase in CIT collections comes after significant growth in corporate profits during calendar year (CY) 2021 and continued profit growth through the middle of CY 2022. There are concerns, however, about the sustainability of these CIT gains given the tax category's pattern of volatility during previous economic cycles.

September also saw significant gains in the Sales Tax and Individual Income Tax categories.

Overall Sales Tax collections increased by 14.1% during September and were \$63 million above forecast. After seeing retail tax collections moderating last month, retail growth is now back to increasing by double digits in September. Contracting tax collections continue to have robust growth, with this Sales Tax component increasing by 38% above the prior year during September.

Individual Income Tax posted a forecast gain of \$90 million during September. This gain was equally split between withholding tax collections and income tax payments. September is an important month for payment collections as quarterly estimated payments are due for many taxpayers by September 15th each year.

In contrast to the above categories, Insurance Premium Tax (IPT) posted a \$(60) million forecast loss for the month. This loss is likely the result of a technical timing issue with tax payments – the processing of IPT payments can impact the amounts which get deposited in September and October.

Year-to-Date Results/Operating Balance

Year-to-date through September, excluding Urban Revenue Sharing and fund transfers, FY 2023 General Fund revenues are 11.1% above the prior year and \$453 million above the enacted budget forecast.

Given the gains that have accrued only 3 months into the fiscal year, the 4-sector revenue forecast released at the [October meeting](#) of the Finance Advisory Committee (FAC) increased the FY 2023 revenue projection by \$1.2 billion compared to 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-October 2022 is \$11.17 billion.

Table of Contents

September Revenues	2	OEO – FY 2022 IDA Program Activity	12
Monthly Indicators	5	DES – Annual Child Care Expenditures.....	12
JLBC Meeting Summary	8	DES – DD Program Reimbursement Rates	12
JCCR Meeting Summary	8	DES – TANF Grant Diversion Program.....	13
JLBC/JCCR Meeting Follow Up	10	JLBC Staff – State Agency Travel/Relocation Costs.....	13
Summary of Recent Agency Reports		DPS – Border Strike Task Force Report	13
ADOA/SFD – Emergency Deficiencies Correction Fund ...	10	DOR/DIFI – Report on Tax Credits.....	13
AHCCCS – Uncompensated Hospital Costs.....	10	DOR – Annual Enforcement Report	15
AHCCCS – Behavioral Health Outpatient Fee Increase	11	Supreme Court – Report on Automation Projects.....	15
AHCCCS – DCS Comprehensive Health Plan.....	11	Tourism – Raceway Event Promotion Expenditures.....	16
ACJC – Anti-Racketeering Fund	11	ADOT – State Motor Vehicle Fleet Report	16
		DWR – Interstate Water Banking Report.....	16



September Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2023	Difference From	Difference
	<u>Collections</u>	<u>Enacted Forecast</u>	<u>From FY 2022</u>
September	\$ 1,596.3	\$ 230.0	\$ 174.4
Year-to-Date	\$ 4,021.3	\$ 453.4	\$ 341.0

Sales Tax collections of \$635.3 million in September were 14.1% above the same month in the prior year and \$62.6 million above the enacted budget forecast.

Year to date through September, sales tax revenue is up 11.4% compared to the same period in the prior year and is \$148.6 million above forecast.

Table 2 shows the September 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		
	<u>Sept</u>	<u>YTD</u>
Retail/Remote Seller	10.8%	8.0%
Contracting	38.0%	30.5%
Use	19.1%	20.4%
Restaurant & Bar	12.9%	15.0%
Utilities	13.5%	2.7%
Hotel/Motel Lodging	9.4%	4.8%
Amusements	61.3%	5.5%

All categories listed in Table 2 performed well in September, especially the Contracting and Amusements category. The Amusements category includes sales tax collected from sports events, music concerts and other types of entertainment.

Among the 5 major sales tax categories, Contracting growth has been especially impressive, with a year-over-year increase of 38.0% in September and 30.5% through the first 3 months of FY 2023. More detailed sales tax data from the Department of Revenue indicates that most of this growth is coming from nonresidential construction activities, such as commercial and industrial construction.

Individual Income Tax (IIT) net collections in September were \$676.6 million, 6.4% growth from September 2021 and \$89.7 million over the enacted budget forecast. Increased withholding collections and final payments were the major drivers of this growth. Year to date (YTD), IIT collections are 7.7% higher than the same period last year.

September withholding revenue was \$484.1 million, 10.6% greater than last year and a forecast gain of \$50.7 million. This growth is commensurate with the available wage and salary data at the national and state level. Nationally, wages and salary disbursements increased 8.6% in August, the most recent month of data reported by the U.S. Bureau of Economic Analysis (BEA). The BEA's most recent estimate of growth in Arizona wages and salaries is 10.0% in the 2nd quarter of 2022. YTD, withholding has risen 7.9%.

Payments in September were \$229.1 million, outpacing September 2021 by 2.7% and outperforming the enacted budget forecast by \$51.8 million. The month of September is an important month for payment collections as quarterly estimated payments are due for many taxpayers by September 15th each year.

At \$229.1 million, this is the largest amount of total payments ever collected in September. Estimated payments made up the bulk of payment collections at \$175.7 million, a decline of (5.8)% compared to the previous September. Final payments set a September record at \$53.3 million, 45.6% higher than last year. YTD, overall payments are up 5.0% compared to same period last year.

Refunds were \$36.5 million in September, 49.2% above last September and \$12.8 million greater than under the enacted budget forecast, representing a forecast loss of \$(12.8) million. YTD, refunds are (0.3)% below the comparable period last year.



Table 3
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>September</u>	<u>YTD</u>
Withholding	10.6%	7.9%
Estimated/Final Payments	2.7%	5.0%
Refunds	49.2%	(0.3)%

Corporate Income Tax (CIT) net collections in September were \$292.1 million, 59.0% growth from last year and \$109.5 million above the enacted budget forecast. This sets a new record for CIT collections in a single month, surpassing the previous high from April 2022 by 28.8%. September is an important month for CIT, as net collections for this month typically represent about 20% of the fiscal year total. YTD, net CIT is 49.7% greater than the same period last year.

Insurance Premium Tax (IPT) revenue was \$36.5 million in September, a decrease of (55.3)% compared to the same month in the prior year and \$(60.3) million below the enacted budget forecast. Year to date through September, IPT revenue is down by (18.9)% and is \$(36.6) million below forecast. While September is an important month for IPT, (on average 14% of the fiscal year-total is collected in September), the level of collections can fluctuate considerably due to timing issues. Available data on daily IPT deposits through mid-October indicates that the state can expect a large forecast gain in October.

The amount of **Tobacco Tax** deposited into the General Fund in September was \$1.7 million, which is 7.4% above September 2021 and \$(0.2) million below the enacted budget forecast. Year to date, General Fund tobacco tax revenues total \$4.8 million, (5.6)% below the amount collected at this point in FY 2022, and \$(0.9) million below forecast.

Liquor Tax revenue deposited into the General Fund in September was \$3.8 million. This is 8.5% above the amount deposited in September 2021 and \$(0.2) million below the enacted budget forecast. Year to date, General Fund deposits from liquor tax collections total \$10.6 million, which is (0.6)% below the comparable period in FY 2022 and \$(0.1) million below forecast.

The Lottery Commission reported that total ticket sales in September were \$103.2 million. This amount is \$(3.8) million, or (3.6)%, below September 2021. Year to date, ticket sales are \$355.4 million, which is 9.7% above the prior year.

Highway User Revenue Fund (HURF) collections of \$144.1 million in September were 2.5% above the amount collected in September 2021 and \$(4.6) million below forecast. Year to date, HURF collections are \$412.3 million, (3.6)% below the prior year and \$(27.6) million less than forecast.

The state collected \$12.8 million in dedicated **Marijuana Excise Taxes** in September and \$37.5 million year to date through September. The month of September saw the third highest level of state revenue collected from this tax so far, representing a 33.1% increase over September 2021.

The total combined amount of **Medical and Recreational Marijuana state Transaction Privilege Tax (TPT)** collected was \$5.7 million in September and \$16.7 million year to date. Of the \$5.7 million from overall TPT collections, the General Fund received \$4.2 million in September. Fiscal year to date, the General Fund has received a total of \$12.3 million in state TPT from medical and recreational marijuana retail sales.

Table 4
Marijuana State Tax Collections and Distributions
(\$ in Millions)

	<u>September</u>	<u>FY 2023</u>
Marijuana Excise Tax	\$12.8	\$37.5
Medical Marijuana TPT*	\$1.9	\$5.9
<u>Distribution:</u>		
General Fund	\$1.4	\$4.3
Counties	\$0.3	\$1.0
Cities	\$0.2	\$0.6
Recreational Marijuana TPT*	\$3.8	\$10.8
<u>Distribution:</u>		
General Fund	\$2.8	\$8.0
Counties	\$0.6	\$1.8
Cities	\$0.4	\$1.1
Total State Marijuana Tax Collections	\$18.4	\$54.3

* Amounts may not add to total due to rounding



Table 5

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

	Current Month					FY 2023 YTD (Three Months)				
	Actual September 2022	Change From September 2021		Enacted Forecast		Actual September 2022	Change from September 2021		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$635,302,850	\$78,368,628	14.1 %	\$62,647,341	10.9 %	\$1,885,454,501	\$193,173,975	11.4 %	\$148,553,196	8.6 %
Income - Individual	676,579,172	40,409,133	6.4	89,688,540	15.3	1,747,304,793	124,684,205	7.7	184,354,085	11.8
- Corporate	292,101,004	108,442,367	59.0	109,468,594	59.9	387,735,297	128,641,871	49.7	122,800,788	46.4
Property	122,442	(799,146)	(86.7)	(290,698)	(70.4)	674,053	(1,048,953)	(60.9)	(690,158)	(50.6)
Luxury - Tobacco	1,739,254	119,297	7.4	(154,304)	(8.1)	4,775,704	(283,451)	(5.6)	(933,816)	(16.4)
- Liquor	3,836,043	300,241	8.5	(233,625)	(5.7)	10,609,048	(62,349)	(0.6)	(77,480)	(0.7)
Insurance Premium	36,535,717	(45,200,751)	(55.3)	(60,293,293)	(62.3)	150,159,257	(34,927,912)	(18.9)	(36,567,946)	(19.6)
Other Taxes	860,686	40,198	4.9	26,263	3.1	2,497,401	79,564	3.3	(319,872)	(11.4)
Sub-Total Taxes	\$1,647,077,167	\$181,679,967	12.4 %	\$200,858,819	13.9 %	\$4,189,210,052	\$410,256,952	10.9 %	\$417,118,796	11.1 %
Other Revenue										
Lottery	0	0	--	0	--	40,000,000	0	0.0	1,837,701	4.8
Gaming	2,105,326	2,105,326	--	1,081,836	105.7	20,694,001	20,694,001	--	15,018,981	264.7
License, Fees and Permits	4,852,753	2,314,911	91.2	1,909,321	64.9	12,701,003	3,353,283	35.9	2,365,649	22.9
Interest	17,095,206	17,094,013	--	17,084,846	--	30,029,038	13,113,339	77.5	28,989,880	--
Sales and Services	4,769,353	2,289,810	92.3	2,238,351	88.4	8,192,554	1,685,538	25.9	2,085,673	34.2
Other Miscellaneous	2,671,297	(3,992,731)	(59.9)	(799,451)	(23.0)	(18,821,813)	(28,033,424)	(304.3)	(23,616,539)	(492.6)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	9,968,707	1,951,541	24.3	7,586,390	318.4	16,050,706	7,433,139	86.3	9,646,077	150.6
Sub-Total Other Revenue	\$41,462,642	\$21,762,870	110.5 %	\$29,101,292	235.4 %	\$108,845,488	\$18,245,875	20.1 %	\$36,327,422	50.1 %
TOTAL BASE REVENUE	\$1,688,539,809	\$203,442,837	13.7 %	\$229,960,111	15.8 %	\$4,298,055,540	\$428,502,827	11.1 %	\$453,446,218	11.8 %
Other Adjustments										
Urban Revenue Sharing	(92,246,556)	(29,077,040)	46.0	0	(0.0)	(276,739,669)	(87,505,438)	46.2	0	(0.0)
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	(92,246,556)	(29,077,040)	46.0 %	0	(0.0) %	(276,739,669)	(87,505,438)	46.2 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$1,596,293,253	\$174,365,797	12.3 %	\$229,960,111	16.8 %	\$4,021,315,871	\$340,997,389	9.3 %	\$453,446,218	12.7 %
Non-General Funds										
Highway User Revenue Fund	144,129,405	3,488,579	2.5 %	(4,593,546)	(3.1) %	412,253,502	(15,318,030)	(3.6) %	(27,591,037)	(6.3) %

Monthly Indicators

NATIONAL

The third estimate of the 2nd quarter **U.S. Real Gross Domestic Product (GDP)** is a decline of (0.6)%, according to the U.S. Bureau of Economic Analysis (BEA). This estimate was revised from their preliminary estimate of (0.9)%. This is the second consecutive quarter with negative GDP growth, which has not occurred since the first half of 2020.

The **Consumer Confidence Index**, published by the Conference Board, increased 4.2% to 108.0 points in September. This marks a 5-month peak but remains (1.6)% below the previous September. Views of both the present situation and future expectations improved for the second consecutive month. Concerns about inflation eased from prior months but remain elevated. Households' perception of the labor market continued to improve in September. More consumers reported plans to purchase "big ticket" items such as cars and major appliances in the next six months, but the share of respondents expecting to purchase a home during that time declined amid rising mortgage rates.

The Conference Board's **U.S. Leading Economic Index (LEI)**, fell to 116.2 points in August, a (0.3)% decline from the revised July number. August marked the 6th consecutive month of decline, "potentially signaling a recession" according to the press release. Of the indicators comprising the index, only the interest rate spread and employment improved, with the labor market expected to contract in the coming months. The Conference Board attributes the slowdown primarily to tighter monetary policy intended to counter inflation.

The U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)** increased month-over-month (after seasonal adjustment) by 0.4% in September, with food and energy prices increasing slightly while other prices remained largely unchanged. From September 2021, the CPI increased 8.2%; food prices increased 11.2%; energy prices rose 19.8% (including 18.2% for gasoline and 58.1% for oil); and shelter increased 6.6% year-over-year. Excluding food and energy, the year-over-year "core" CPI increased by 6.6% in September.

ARIZONA

In August, Arizona's 12-month total of **single-family building permits** was 43,413. This represents a (2.0)% decrease from July's figure and a (11.4)% decrease from August 2021's 12-month total. The annual rate of change for this total has decreased for each of the past 15 months beginning in June 2021.

In August, Arizona's 12-month total of 22,076 **multi-family building permits** was 35.7% above the level for the period ending in August 2021. This is the 13th consecutive month in which this total has seen greater than 10% annual growth.

Tourism and Restaurants

In August, **revenue per available room** was \$69.34, which is (2.4)% below July's figure and 9.3% above the amount reported for August 2021.

Hotel occupancy was 59.8% in August, which is 0.4% above July's occupancy rate and 2.2% above August 2021's rate.

Phoenix Sky Harbor Airport Ridership was 3.5 million in August, which is (5.2)% below July's level and (4.7)% less than August 2019's figure.

State park visitation fell to 264,245 visitors in June, a (6.9)% decrease from May and (6.3)% below the number of visitors in June 2021.

According to data reported by OpenTable, on October 8, **daily restaurant reservations** were 30.7% above 2019 reservations on the comparable date.

Employment

The Office of Economic Opportunity (OEO) reported that a total of 3,243 **initial claims for unemployment insurance** were filed in Arizona in the week ending on October 8th. For the same week in the prior year, 3,800 initial claims were filed.

According to OEO, for the week ending on October 1st, there were a total of 20,130 **continued claims for unemployment insurance** in Arizona. At this time one year ago, the number of continued claims was 22,830.



State Personal Income

The U.S. Bureau of Economic Analysis (BEA) released its 2nd quarter estimates of Arizona personal income, estimating personal income grew in the state at a seasonally adjusted annual rate of 6.6%, slightly outpacing the national average by 0.3%. All forms of income grew during the quarter, but income from dividends, interest, and rent increased the most at an annual rate of 10.8% with government transfer payments and net earnings rising at rates of 8.1% and 4.8% respectively. The BEA estimates that the total annualized level of Arizona personal income was \$411.4 billion in the 2nd quarter.

The Arizona Department of Corrections' inmate

population was 33,584 as of September 30, 2022. This was an increase of 0.4% since August 31, 2022 and a (5.3)% decrease since September 2021.

State Agency Data

As of October 1, 2022, the total **AHCCCS caseload** was 2.41 million members. Total monthly enrollment increased 0.6% in October over September and increased 7.5% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.3% in October and was 6.7% higher than a year ago.

Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 1,079,550 in October – an increase of 0.9% over September and 8.8% above last year. For October 2022, Elderly, Physically Disabled and Developmental Disabilities Long-Term Care enrollment increased by 0.2%. At 66,836, this population is 2.4% higher than a year ago.

There were 11,798 **TANF** Cash Assurances cases in September 2022, representing a 2.1% increase from August. The year-over-year number of cash benefit recipients has decreased by (4.6)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In September 2022, 931,700 people received food stamp assistance. This was a 2.0% increase from August and a 12.3% increase since September 2021.

Based on information the Department of Child Safety provided for August 2022, **reports of child maltreatment** totaled 45,620 over the last 12 months, an increase of 1.1% over the prior year. There were 12,314 **children in out-of-home care** as of August 2022, or (12.2)% less than in August 2021. Compared to the prior month, the number of out-of-home children decreased by (0.8)%.



Table 6

MONTHLY INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	Aug	3.5%	0.2%	(1.0)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2022	7.1%	(1.0)%	(4.7)%
- Initial Unemployment Insurance Claims	Week Ending Oct 8	3,243	19.6%	(14.7)%
- Continued Unemployment Insurance Claims	Week Ending Oct 1	20,130	(4.0)%	(11.8)%
- Non-Farm Employment - Total	Aug	3,073,000	1.5%	3.7%
Manufacturing	Aug	195,800	0.4%	7.8%
Construction	Aug	187,700	2.0%	5.0%
- Average Hourly Earnings, Private Sector	Aug	\$30.36	0.4%	7.4%
<u>Building</u>				
- Building Permits (12 month rolling sum)	August	43,413	(2.0)%	(11.4)%
Single-family	August	22,076	2.5%	35.7%
Multi-family				
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	August	4,920	20.0%	(30.5)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	August	\$476,605	(1.7)%	12.1%
- Maricopa Pending Foreclosures	August	964	(1.9)%	15.2%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	August	3,481,624	(5.2)%	2.5%
- State Park Visitors	June	264,245	(6.9)%	(6.3)%
- Revenue Per Available Hotel Room	August	\$69.34	(2.4)%	9.3%
- Arizona Hotel Occupancy Rate	August	59.8%	0.4%	2.2%
- Az OpenTable Reservations – % Change from 2019	October 8	N/A	N/A	30.7%
<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	October 1st	2,406,700	0.6%	7.5%
Traditional Acute Care		1,260,300	0.3%	6.7%
Other Acute Care		1,079,600	0.9%	8.8%
Long-Term Care – Elderly & DD		66,800	0.2%	2.4%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	August	45,620	(6.4)%	1.1%
DCS Out-of-Home Children	August	12,314	(0.8)%	(12.2)%
Filled Caseworkers (1406 Budgeted)	August	1,152	14	(70)
- ADC Inmate Growth	September	33,584	0.4%	(5.3)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	September	11,798	2.1%	(4.6)%
- SNAP (Food Stamps) Recipients	September	931,700	2.0%	12.3%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	2 nd Q, 2022 (3 rd Estimate)	\$19.9 trillion	(0.6)%	1.8%
- Consumer Confidence Index (1985 = 100)	September	108.0	4.2%	(1.6)%
- Leading Economic Index (2016 = 100)	August	116.2	(0.3)%	(0.9)%
- Consumer Price Index, SA (1982-84 = 100)	September	296.8	0.4%	8.2%



JLBC Meeting Summary

At its September 2022 meeting, the Joint Legislative Budget Committee considered the following issues:

Executive Session

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

Executive Session – Consent Agenda

Arizona Department of Administration – Review for Committee the Planned Contribution Strategy for State Employee and Retiree Medical and Dental Plans as Required Under A.R.S. § 38-658A – A.R.S. § 38-658 (A) requires the director of the Arizona Department of Administration (ADOA) to meet with and review for the Joint Legislative Budget Committee, in Executive Session, the planned contribution strategy for each health plan at least 10 days before ADOA enters into, or renews, contracts for medical and dental insurance coverage. The Committee gave a favorable review of the contribution strategy for state employee and retiree dental coverage.

Regular Consent Agenda

Arizona Department of Administration/Automation Projects Fund – Review of FY 2023 Projects – A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). In addition, an FY 2023 General Appropriation Act footnote requires the Arizona Department of Administration

(ADOA) to request review of AHCCCS's expenditure plan for the Prepaid Medicaid Management Information System.

The Committee gave a favorable review to 3 projects: 1) AHCCCS to begin the development of the PMMIS Systems Integrator; 2) DOR to start design and procurement of the Integrated Tax System project; and 3) ADOA to begin Phase 2 of the Business One-Stop web portal project. The AHCCCS and DOR projects total \$2.6 million in new spending, while the ADOA project involves the reallocation of unspent FY 2022 funds. The Committee review also included 2 provisions. The first provision requires ADOA to submit a report on the projected remaining system costs at its next review of FY 2023 appropriations for the Business One-Stop Portal. The second provision requires ADOA to request Committee review of its plan to address projects specifications required in the FY 2023 General Appropriation Act before awarding a procurement contract for the tax system.

AHCCCS/Department of Economic Security – Review of Capitation Rate Changes for Plan Year 2023 – Pursuant to an FY 2023 General Appropriation Act footnote, the state's Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The Committee gave a favorable review of AHCCCS's and the Department of Economic Security's proposed capitation rates for October 2022 through September 2023.

JCCR Meeting Summary

At its September 2022 meeting, the Joint Committee on Capital Review considered the following issues:

Regular Agenda

Arizona Department of Corrections – Review of HVAC and Door, Lock and Fire System Replacement Project – A.R.S. § 14-1252 requires Committee review of expenditure plans for capital project and building renewal appropriations.

The FY 2023 Capital Outlay Bill appropriated a total of \$20.4 million from the General Fund to ADC for door, lock, and fire system replacement and \$47.6 million from the General Fund for HVAC replacement projects. The

Committee gave a favorable review of the full \$20.4 million for door, lock, and fire systems replacement, but only gave a favorable review of \$38.9 million for HVAC replacement, which excludes \$8.7 million in contingency funds that ADC requested.



Department of Public Safety – Review of Remote Housing Placement – A.R.S. § 41-1252 requires Committee review of expenditure plans for capital project appropriations. The FY 2023 Capital Outlay Bill appropriated \$9.8 million from the General Fund to the Department of Public Safety (DPS) for the replacement of highway patrol officer remote housing units and for the purchase of new housing units. The Committee gave a favorable review of DPS's expenditure plan to use \$7.8 million to replace remote housing units only, which excludes, pending additional information, \$2.0 million DPS requested to use for purchasing either existing houses or modular units. The favorable review included a provision requiring that on or before December 1, 2022, DPS shall report to the JCCR Chairman and JLBC Staff on the geographic areas proposed for either existing home purchases or new modular units. The report shall include the areas selected, the availability of homes in the selected areas, and the justification for choosing each area.

Consent Agenda

Arizona Department of Administration – Review of Demolition Projects – A.R.S. § 41-1252 requires Committee review of expenditure plans for capital project appropriations. The Committee gave a favorable review of the department's request to demolish 3 buildings: 1) DHS Vital Records Building (1818 W Adams); 2) ADOA Maintenance Building (1850 W Jackson); and 3) DES Data Center (1720 W Madison). The demolition projects will have an estimated total cost of \$1.6 million, which was appropriated to the department from the General Fund in FY 2023 for this purpose.

Arizona Department of Administration/School Facilities Division – Review of Minimum Adequacy Guidelines Rulemaking Fiscal Impact – A.R.S. § 41-5711 requires the Arizona Department of Administration's School Facilities Division (SFD) to submit a fiscal impact statement for Committee review when adopting rule changes to the Minimum Adequacy Guidelines. The Committee gave a favorable review of SFD's fiscal impact statement.

Arizona Department of Administration/Judiciary – Review of Air Handler and Sewer Replacement Project – A.R.S. § 41-1252 requires Committee review of capital projects with estimated costs exceeding \$250,000. The Committee gave a favorable review of the Judiciary's request to spend its \$3.2 million appropriation from the General Fund for replacing air handler units and the sewer system at 1501 W Washington.

Arizona Schools for the Deaf and the Blind – Review of FY 2023 Capital Projects – A.R.S. § 41-1252 requires Committee review of capital projects with estimated costs exceeding \$250,000. The Committee gave a favorable review of the agency's request to spend its \$866,000 FY 2023 capital appropriation from the General Fund for 3 capital improvement projects. The favorable review includes a provision which states that before spending these monies on any other project, the agency shall report the change to the Committee Chairman and JLBC Staff. If there is significant change in the reallocation, the Chairman may require further Committee review.

Arizona Exposition and State Fair Board – Review of Capital Improvement Projects – A.R.S. § 41-1252 requires Committee review of capital projects with estimated costs exceeding \$250,000. The Committee gave a favorable review of the board's request to spend \$1.4 million from the Arizona Exposition and State Fair Fund on 3 capital improvement projects.

Department of Liquor Licenses and Control – Review of Space Reconfiguration – The FY 2023 Capital Outlay Bill appropriated \$3,500,000 from the Liquor Licenses Fund to the Department of Liquor Licenses and Control for space reconfigurations at the department's headquarters. A.R.S. § 41-1252 requires the department to submit the scope, purpose, and estimated costs to the Joint Committee on Capital Review (JCCR). The Committee gave a favorable review of the reconfiguration project.

Arizona Pioneers' Home – Review of FY 2023 Capital Improvement Projects – A.R.S. § 41-1252 requires Committee review of capital projects with estimated costs exceeding \$250,000. The FY 2023 Capital Outlay Bill appropriated \$396,500 from the Pioneers' Home State Charitable Fund to the Arizona Pioneers' Home for capital improvements. The Committee gave a favorable review of the agency's request to spend \$396,500 on 4 capital projects. The favorable review includes a provision requiring that prior to expending any monies to address needs not outlined in the agency's August 2021 Facility Assessment Report, the agency shall report to JLBC Staff on the projects and their estimated costs.

Arizona Department of Transportation – Review of FY 2023 Building Renewal Allocation Plan – A.R.S. § 41-1252 requires Committee review of expenditure plans for building renewal monies prior to expenditure. The Committee gave a favorable review of the department's allocation of \$18.1 million from the State Highway Fund for 203 building renewal projects and \$467,800 from the State Aviation Fund for 16 building renewal projects. Laws



2022, Chapter 319 requires ADOT to report quarterly on the status of all nonhighway construction capital projects, such as building renewal projects, including its actual spending relative to its plan.

Northern Arizona University – Review of Capital Projects – A.R.S. § 15-1671 requires Committee review of cash projects funded by the Capital Infrastructure Fund (CIF). In addition, an FY 2023 General Appropriation Act footnote requires Committee review of any capital projects funded by the FY 2023 One-Time Funding appropriation. The Committee gave a favorable review of the University's request to spend \$4.8 million from the CIF and \$12.5

million from the FY 2023 One-Time Funding appropriation on 4 capital projects, including the standard university financing provisions.

University of Arizona – Review of Veterinary Diagnostic Laboratory Projects – A.R.S. § 41-1252 requires Committee review of capital projects with estimated costs exceeding \$250,000. The Committee gave a favorable review of the University's request to spend \$1.6 million of its one-time FY 2023 Veterinary Diagnostic Laboratory appropriation from the General Fund to pay cash for capital improvement projects.

JLBC/JCCR Meeting Follow Up

Department of Corrections – Contracted Per Diem Rate for Florence West Prison – Pursuant to a provision from the July 2022 meeting of the Joint Legislative Budget Committee, the Arizona Department of Corrections (ADC) provided the per diem rate and the annual value of the contract awarded for the management and operations of the Florence West prison. ADC reports that 2 vendors responded to the solicitation. The contracted per diem rate is \$74.50 for 750 inmate beds, an annual contract value of \$20.4 million. The contract has an effective date of October 29, 2022. (Geoffrey Paulsen)

DEMA reported that the final price for the purchase of land near Silverbell was \$2.0 million and the final price for the purchase of land near Picacho Stagefield was \$510,000. The department further reported that the acquisition was fee simple, with no additional terms or conditions for the sale beyond Arizona State Land Department's standard terms of sale and conditions. (Jordan Johnston)

Arizona Department of Emergency and Military Affairs - Report on Land Purchases – Pursuant to a provision from the December 2021 JCCR meeting, the Arizona Department of Emergency and Military Affairs (DEMA) submitted a report on the final sales price, terms, and conditions of land purchases near the Silverbell Army National Guard Heliport and the Picacho Stagefield Army National Guard Heliport.

Arizona State University – Report on Multipurpose Arena – Pursuant to a provision from the December 2020 JCCR meeting, Arizona State University (ASU) submitted a report on revenue sources used to make debt service payments for the Multipurpose Arena project and an update on the terms and conditions of the arena's venue management contract. ASU reports that the FY 2022 debt service payment was funded by capitalized interest and there has been no change in the terms and conditions of the venue management contract. (Morgan Dorcheus)

Summary of Recent Agency Reports

ADOA - School Facilities Division – Report on Transfer to Emergency Deficiencies Correction Fund – Pursuant to A.R.S. § 41-5721, the School Facilities Division (SFD) within the Arizona Department of Administration is required to notify the JLBC of any monies transferred from the New School Facilities Fund to the Emergency Deficiencies Correction Fund. SFD may only transfer funds if the agency determines that the transfer will not affect, interfere with, disrupt or reduce funding for any SFD approved new school construction project. SFD reported transferring \$199,971 on August 17, 2022. This funding

will be used for the Nadaburg Unified School District to relocate portable buildings, as this project is not eligible for other SFD funding sources. (Rebecca Perrera)

AHCCCS – Report on Uncompensated Hospital Costs and Hospital Profitability – Pursuant to A.R.S. § 36-2903.08, AHCCCS reported on uncompensated hospital costs and hospital profitability for Arizona hospitals for Hospital Fiscal Year (HFY) 2021. AHCCCS defines uncompensated care as the total amount of "bad debt" and "charity care" costs incurred by each hospital. Bad debt consists of care provided for which the hospital expected to be paid but was not while charity care represents hospital services



provided for free or a reduced charge. To estimate the amount of uncompensated care, AHCCCS determines the charges for bad debt and charity care for each hospital and adjusts the expense based on a "cost-to-charge" ratio, or each hospital's ratio of actual expenses compared to gross charges and other revenues. The average hospital cost-to-charge ratio was 20.9% in HFY 2021.

The report included the following findings:

- Total uncompensated care costs increased by \$22.8 million, from \$460.0 million to \$482.8 million. As a share of overall hospital expenses, uncompensated care decreased from 2.46% to 2.24%.
- Total net operating profitability increased by \$185.9 million in 2021 for a total of \$1.7 billion. In addition, the average hospital operating margin decreased by 0.1%, from 7.4% to 7.3%, with the share of hospitals with a positive operating margin increasing from 73.6% to 77.3%.
- Uncompensated care continues to vary between different hospital types. Rural hospitals, non-profit hospitals, and high Medicaid-volume hospitals had higher uncompensated care as a share of overall hospital expenses compared to their counterparts. (Maggie Rocker)

AHCCCS – Report on Behavioral Health Outpatient Fee Schedule Increase – Pursuant to an FY 2023 General Appropriation Act footnote, AHCCCS reported on the actual distribution by managed care organizations of a 2.5% rate increase to the outpatient behavioral health fee schedule.

According to AHCCCS, all managed care organizations attested to distributing a 2.5% increase to the relevant behavioral health outpatient service codes. The rate increase went into effect October 1, 2022. (Maggie Rocker)

AHCCCS – Report on DCS CHP Program and Financial Accountability Trends – Pursuant to Laws 2018, Chapter 152, AHCCCS reported program and financial accountability trends from October 1, 2020 to September 30, 2021 for children enrolled in the Department of Child Safety - Comprehensive Health Plan (DCS CHP, formerly CMDP).

Statewide, the percentage of foster care eligible members served increased from 73.9% in October 2020 to 77.8% in September 2021. Monthly utilization decreased, however, with total encounters costing \$10.8 million in October 2020 as compared to \$9.0 million in September 2021. The

services accounting for the largest share of costs in September 2021 were Support Services (\$3.1 million), Inpatient Services (\$2.4 million), and treatment services (\$1.4 million). New monthly enrollment decreased by 14 persons, from 726 to 712.

As of April 2021, AHCCCS is able to disaggregate Notice of Adverse Benefit Determination data for the DCS CHP population from the total number of notices reported by RBHAs. Notices of Adverse Benefit Determination include denials, suspensions, and terminations. In September 2021, the DCS CHP RBHA reported 109 notices of adverse benefit determination, the most reported reason being that the benefit was not medically necessary. In the same month, the RBHA received 3 member appeals. Of the 16 appeal outcomes in September 2021, 3 were upheld, 7 were overturned, and 6 received extensions. (Maggie Rocker)

Arizona Criminal Justice Commission – Report on Anti-Racketeering Revolving Fund – Pursuant to A.R.S. § 13-2314.01 and § 13-2314.03, the Arizona Criminal Justice Commission (ACJC) provided its quarterly report on the activities of the Arizona Anti-Racketeering Revolving Fund (ARRF). ACJC is required to compile quarterly expenditures of the Attorney General, department, agency, county attorney, and political subdivision reports into a single comprehensive report of sources and expenditures as well as report on forfeiture orders.

In the fourth quarter of FY 2022, the ARRF received revenues totaling \$4.4 million and had expenditures totaling \$5.1 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru account of the Attorney General at \$1.8 million. Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with \$2.0 million in ARRF monies spent.

In the fourth quarter of FY 2022, participating agencies received \$2.8 million in net collections from seized assets originally valued at \$7.2 million. Net collections decreased by \$(572,000), or about (17.2)%, from the previous quarter. Net collections were highest in Maricopa County at \$1.5 million, which derived from forfeitures valued at \$3.0 million. Some assets and properties were released back to the owner, but most were retained or sold by law enforcement.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the



involved state and local investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited into the fund and used in accordance with state and federal guidelines. Monies in ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (Ryan Fleischman)

Office of Economic Opportunity – Arizona Industrial Development Authority – FY 2022 Report on Revenues, Expenditures, and Program Activity – Pursuant to A.R.S. § 41-5356B, the Arizona Industrial Development Authority (AZIDA) submitted its annual report to the Joint Legislative Budget Committee regarding AZIDA revenues, expenditures, and program activities for the previous fiscal year.

Gross revenues for AZIDA in FY 2022 were \$66.1 million, the majority of which (\$63.2 million) came from single family mortgage lending fees. The organization paid \$37.9 million in down payment assistance to Arizona homebuyers. Expenses for the year were \$8.1 million, leaving a net operating income of \$20.5 million.

The first program AZIDA operates is issuing single-family mortgage loans with down payment assistance to low- and moderate- income families. The agency originated 2,923 such loans for a total of \$828.5 million in FY 2022.

The second program is issuing conduit revenue bonds for commercial enterprises, non-profit corporations, and government entities to improve access to capital markets. Conduit bonds are tax-exempt municipal securities that finance large-scale projects meant to help the general public. In FY 2022, AZIDA issued 25 such bonds for a total of \$2.0 billion. These bonds financed 13 education projects, 6 multifamily affordable housing projects, 5 healthcare projects, and 1 manufacturing project. (Benjamin Newcomb)

Department of Economic Security – Report on Annual Child Care Expenditures – A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The FY 2022 report shows that the average number of children served decreased to 31,247, or (7.2)% below FY 2021; the number of families served decreased by (2.7)%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) decreased by (8.5)%, child welfare-related placements decreased by (25.9)%, the number of Temporary Assistance for Needy Families-related children decreased

by (47.7)%, the number of children receiving transitional child care decreased by (45.9)%, and the monthly average of children served through the Essential Workers Program increased by 46.4% for the 3 months it was active in FY 2022. The Essential Workers Program ended in September 2021 and was succeeded by the Child Care for Returning Workers Program, which began in June 2021. The Returning Workers Program served a monthly average of 426 children in FY 2022. The wait list for child care subsidies remains at zero at the end of FY 2022. Currently, all eligible families are able to receive child care services immediately.

The amount spent by DES on child care subsidies was \$206.4 million, a decrease of (2.9)% from FY 2021. DES reports the average monthly subsidy paid per child was \$550.33, an increase of 4.7% from FY 2021. The total amount of co-payments collected decreased by (7.4)% from FY 2021 to \$8.9 million. (Chandler Coiner)

Department of Economic Security – Report on Reimbursement Rates for Developmental Disabilities Programs – Pursuant to A.R.S. § 36-2959, the Department of Economic Security (DES) reported on its annual study performed by an independent consulting firm of the adequacy and appropriateness of Medicaid reimbursement rates for service providers that contract with the Division of Developmental Disabilities (DDD). The main findings of the report were as follows:

- The number of unique providers paid greater than \$5,000 in the fiscal year for services increased from 328 in FY 2021 to 341 in FY 2022, a 4% increase. However, within the therapy services category, the number of providers decreased (6.3)%.
- The average number of service units per user increased 3.4% between FY 2021 and FY 2022.
- Total payments to providers increased 0.5% between FY 2021 and FY 2022.
- The average number of units per user increased 41.2% for day treatment services between FY 2021 and FY 2022.
- The consultant believes overall that the current rates are "adequate," but recommended that DES prioritize future rate adjustments for in-home support services with a benchmark wage assumption is below the statewide minimum wage, such as respite care and attendant care. (Chandler Coiner)



Department of Economic Security – Report on Temporary Assistance for Needy Families (TANF) Grant Diversion Program – Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) provided the FY 2022 annual report on the TANF Grant Diversion Program. The program’s purpose is to divert applicants from long-term TANF cash assistance by offering immediate, one-time assistance to resolve a financial crisis. In FY 2022, 2,621 applicant households chose the grant diversion option and were diverted from long-term assistance, a decrease of (390) from FY 2021. A total of 1,639 households obtained employment within 90 days of receiving assistance under the diversion program during the 12-month period of April 2021 through March 2022. Through January 2022, the most recent month for which complete data is available, 115 of 1,555 households, or 7.4%, reapplied for long-term assistance within 180 days of their participation in the diversion program. Complete data for FY 2021 indicates 191 of the total 3,011 households receiving diversion payments, or 6.3%, reapplied within 180 days, a decrease from the FY 2020 rate of 6.8%. (Chandler Coiner)

JLBC Staff – Report on FY 2022 Travel and Relocation Expenses – A.R.S. § 35-196.01 requires agencies to annually report relocation expenses for their employees. As of October 14, 2022, 6 agencies reported spending a total of \$45,422 on these purposes in FY 2022. See Table 7. In FY 2021, 6 agencies reported \$41,469 for such expenses.

Agency	FY 2022 Travel Expense
Corrections, State Department of	15,292
Environmental Quality, Dept. of	8,000
Game and Fish Department, Arizona	6,193
Judiciary	5,000
Juvenile Corrections, Dept. of	6,494
Public Safety, Department of	4,443
Total	\$45,422

Department of Public Safety – Report on Border Strike Task Force Expenditures – Pursuant to a footnote in the FY 2023 General Appropriation Act, DPS is required to submit an expenditure plan for the Border Strike Task Force Local Support line item. The FY 2023 budget appropriated \$12.2 million from the General Fund for the Border Strike Task Force Local Support line item. The line item funding consists of \$761,700 to support local law enforcement positions within the task force, \$500,000 for grants to local governments for prosecutorial and jail costs associated

with border-related crimes, and \$5.0 million to Cochise County for the purchase and renovation of the Southeast Arizona Combined Intelligence and Border Operations Center, with the distribution of the remaining \$6.0 million yet to be determined.

The FY 2023 expenditure plan differs from the FY 2022 DPS allocations due to an increase in funding of \$11.0 million in FY 2023. Similar to FY 2022, DPS plans to expend \$761,700 to support 6 deputy positions at the Cochise County Sheriff’s Office and 3 deputy positions at the Pima County Sheriff’s Department. The \$500,000 for prosecutorial and jail costs will be split equally among Cochise County, Pima County, and Santa Cruz County, similar to FY 2022.

Of the \$11.0 million increased appropriation, \$5.0 million will be allocated to the Cochise County Sheriff’s Department to purchase and renovate a building to serve as the Southeast Arizona Combined Intelligence and Border Operations Center. The county intends to use the new facility to be shared between local, state, and federal law enforcement for enforcement operations and information sharing on border related activities and crime. DPS has yet to determine how the \$6.0 million remaining allocation will be distributed. The department intends to present a plan for those monies prior to expenditure. (Jordan Johnston)

Department of Revenue/Department of Insurance and Financial Institutions – Report on Tax Credits

DOR – Income Tax Credits

Pursuant to A.R.S. § 43-224, the Arizona Department of Revenue submitted its annual report on the amounts of Individual income, Small Business Income, and Corporate Income Tax credits used during the prior fiscal year. The Small Business Income Tax, which is filed by individuals, is an alternative income tax on certain classes of income, including certain capital gains or losses, interest, dividends, and the profit or loss from an individual who is operating a business as a sole proprietor. This alternative tax was made available to individuals for the first time in TY 2021/FY 2022.

The agency reported that there were 2.7 million Individual Income Tax credit claims totaling \$793.3 million in FY 2022. This is a dollar impact growth of 1.9% over the prior year. Of the total, the Income Taxes Paid to Other States or Countries Credit accounted for \$268.2 million, the Dependent Tax Credit for \$145.4 million, Private School Tuition Organization credits accounted for \$156.9 million, the Charitable and Foster Care Contributions credits



accounted for \$109.0 million, and the Public-School Extracurricular Activity Fee Credit accounted for \$33.6 million. Use of other credits, including the Solar Energy Device Tax Credit, totaled \$56.0 million. The number of claims and dollar impact of credits are listed in *Table 8* below.

Credits:	# of Claims	Annual Cost
Income Taxes Paid to Other States or Countries	85,889	\$268.2
Dependent Tax Credit	988,167	145.4
School Tuition Organizations	151,091	156.9
Contributions to Charitable and Foster Care Organizations	229,667	109.0
Public School Contributions	122,978	33.6
Increased Excise Taxes Paid	549,996	24.2
Other Credits ^{1/}	<u>575,682</u>	<u>56.0</u>
Total Value of Credits	2,703,470	\$793.3

^{1/} Due to taxpayer confidentiality, DOR did not report the number of claims or credit use for all "Other Credits"

The Department of Revenue reported that 339 individual filers claimed tax credits under the Small Business Income Tax in FY 2022, for a total of \$3.6 million. Details on the number of claimants and dollar impact of the credits used under this alternative tax are shown in *Table 9* below.

Credits:	# of Claims	Annual Cost
Income Taxes Paid to Other States or Countries	259	\$1.3
School Tuition Organizations	60	2.0
R&D Credit for University Research	16	0.2
Other Credits ^{1/}	<u>4</u>	<u>0.1</u>
Total Value of Credits	339	\$3.6

^{1/} Due to taxpayer confidentiality, DOR did not report the number of claims or credit use for all "Other Credits"

The Department of Revenue reported that taxpayers used a total of \$151.6 million in Corporate Income Tax credits in FY 2022, a dollar impact increase of 18.5% from the prior year. Of the total amount used, \$83.9 million was for Research and Development (R&D) credits, \$24.6 million for

the Qualified Facilities Credit, and \$21.9 million was for Private School Tuition Organization credits. Use of other credits, including the Renewable Energy Production Credit, totaled \$9.9 million in FY 2022. The number of claims and dollar impacts of credits are listed in *Table 10* below.

Credits:	# of Claims	Annual Cost
Research and Development	498	\$83.9
Qualified Facilities	25	24.6
School Tuition Organizations	94	21.9
New Employment	35	11.3
Other Credits ^{1/}	<u>19</u>	<u>9.9</u>
Total Value of Credits	671	\$151.6

^{1/} Due to taxpayer confidentiality, DOR did not report the number of claims or credit use for all "Other Credits".

DIFI – Insurance Premium Tax Credits

Pursuant to A.R.S. § 20-224(I), the Department of Insurance and Financial Institutions submitted its annual report on the amounts of insurance premium tax credits used in the previous fiscal year. The agency reports that a total of \$67.0 million in insurance premium tax credits were used in FY 2022. This is a decrease of (2.9)% over the prior year. Of this amount, \$50.8 million consists of credits earned for donations made by insurance companies to private school tuition organizations that provide scholarships to children of low-income families or to children with disabilities. The dollar impacts of the specific credits are listed in *Table 11* below.

Credits:	Annual Cost
School Tuition Organizations	\$50.8
New Employment	4.8
Health Insurance Premium ^{1/}	3.8
Insurance Guaranty Fund	<u>7.6</u>
Total Value of Credits	\$67.0

^{1/} Credit is capped at \$5.0 million annually.

(Ben Newcomb)



Department of Revenue – Report on Annual Enforcement Goals – Pursuant to 2 General Appropriation Act footnotes, the Department of Revenue (DOR) is required to report on their FY 2023 revenue enforcement goals, provide an annual progress report to the JLBC on the effectiveness of the department’s overall enforcement and collections program for FY 2022, the amount of Transaction Privilege Tax (TPT) delinquent accounts, and the amount of fraud prevented by the private fraud prevention services.

In FY 2022, DOR’s total enforcement goal was \$816.1 million but actual enforcement collections were \$927.5 million. DOR’s FY 2023 goal for enforcement collections is \$930.6 million, which represents an increase of \$3.1 million from actual FY 2022 enforcement collections. These amounts reflect total enforcement collections, which includes General Fund revenue and local government revenue (cities and counties).

DOR's enforcement goals include the following activities:

- Audit enforcement revenue includes revenue due to DOR’s auditing of taxpayer returns and finding and licensing unlicensed businesses.
- Accounts Receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR’s collectors to work on other accounts.
- For Collections revenue, after certain periods of time, unpaid taxpayer accounts are moved from Accounts Receivable to DOR’s Collections section.

At the end of FY 2022, there were 6,850 delinquent TPT accounts, totaling \$496.6 million, of which 37.2% of these cases had been delinquent for less than 1 year, 9.8% between 1 and 4 years, and 53.0% for over 4 years.

The department reports that \$28.9 million in delinquent accounts for all tax types were written off as uncollectible in FY 2022.

Funds are used to contract with a vendor to provide investigative services to identify potentially fraudulent tax returns and prevent fraudulent refunds from being sent by the department. The department reports that the fraud prevention efforts stopped \$42.4 million in Individual Income Tax refunds and \$105.2 million in other invalid refunds being issued. (Benjamin Newcomb)



Supreme Court – Report on Current and Future Automation Projects – Pursuant to an FY 2023 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) provided its FY 2023 report on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2023 will be approximately \$33.7 million. Of this amount, approximately \$6.6 million, or 20%, will be spent on 8 new or continuing projects as listed below; \$19.0 million, or 56%, will be spent on shared infrastructure; and \$8.1 million, or 24%, will be spent on ongoing automation support.

New Projects:

- Replace eAccess remote document request system with new vendor-supported system (\$309,900 in FY 2023).

Continuing Projects:

- Replace Adult Probation Enterprise Tracking System (APETS) with new probation digital Case Management System (CMS) (\$3.7 million in FY 2023, \$4.6 million in FY 2024, and \$3.5 million in FY 2025).
- Replace legacy appellate-court Case Management System (\$891,000 in FY 2023).
- Provide digital cloud repository for digital evidence (\$490,000 in FY 2023 and \$400,000 in FY 2024 and FY 2025).
- Expand new e-filing capabilities for the limited jurisdiction courts in rural counties and expand functionality to new case and filing types (\$469,400 in FY 2023, \$363,000 in FY 2024, and \$344,000 in FY 2025).
- Continue development of redesigned Fines, Fees and Restitution Enforcement (FARE) data warehouse (\$457,100 in FY 2023).
- Convert the Dependent Children's Activity Tracking System (DCATS) from its legacy system to operate as a module on the Juvenile On-Line Tracking System (JOLTSaz) (\$300,000 in FY 2023 and \$183,000 in FY 2024 and FY 2025).
- Continue to develop an automated process for answering public safety assessment questions as part of the pretrial risk assessment report (\$17,900 in FY 2023).

The top 3 funding sources for automation projects included in this plan are the Judicial Collection Enhancement Fund (\$10.6 million), the Grants & Other Special Revenues Fund (\$8.3 million), and the General Fund (\$5.7 million). Together these 3 funds comprise 73% of the proposed funding in FY 2023. (Ryan Fleischman)

Office of Tourism – Report on Expenditures Related to Raceway Event Promotion – A.R.S. § 41-2308 annually appropriates \$1.5 million to the Arizona Office of Tourism (AOT) from FY 2022 through FY 2051 to promote sporting events at host facilities meeting the statutory requirements. The statute also requires AOT to report annually the amounts and purposes of all expenditures in the previous fiscal year. The Office of Tourism reported spending its full \$1.5 million appropriation for FY 2022 on marketing for 3 events held at Phoenix Raceway. Of this amount, AOT reported spending \$527,175 for promoting the 2021 NASCAR Cup Series Championship Race, \$822,825 for promoting the 2022 NASCAR Cup Series Ruoff Mortgage 500 Race, and \$150,000 for promoting the 2022 NASCAR Xfinity Series Championship Race. (Nate Belcher)

Arizona Department of Transportation – Report on State Motor Vehicle Fleet – Pursuant to A.R.S. 28-472, the Arizona Department of Transportation (ADOT) is required to annually report by October 1 on the current status of the state fleet, including: 1) monies deposited into the State Fleet Operations Fund and State Vehicle Replacement Fund, 2) number of vehicles replaced in the prior fiscal year, 3) number of vehicles at each agency, 4) replacement lifecycle for each vehicle, and 5) number of vehicles the department identifies as not requiring replacement.

ADOT reports that as of August 2022 the State Fleet Operations Fund has a cash balance of \$2,295,900 and the State Vehicle Replacement Fund has a cash balance of \$11,195,100. In FY 2022, 4 vehicles within the state fleet were replaced. The department further reports that the state fleet consists of 1,068 vehicles across 35 agencies. In addition, ADOT replaced 56 vehicles in FY 2022 belonging to agencies exempt from the state fleet but which still utilize ADOT fleet services via an interagency service agreement.

ADOT utilizes a 10-point methodology to evaluate the replacement lifecycle for each vehicle according to the following criteria: 1) 60% utilization (mileage) and 2) 40% age. The expected lifetime in miles and age depends on the type of vehicle but varies from 15,000 miles and 12 months to 250,000 miles and 180 months. If a vehicle reaches 10 points or greater, the vehicle is in need of replacement. Under this methodology, the department has identified 180 vehicles in the state fleet currently in need of replacement.

ADOT also reports that they reduced the overall fleet vehicle count by 44 vehicles, including 40 state fleet vehicles and 4 non-state fleet vehicles, as they were not being properly utilized and no longer required regular replacement. (Jordan Johnston)

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 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 2021 and 2022 did not include an interstate water banking component, interstate water banking monies were not distributed or received during those years. (Micaela Larkin)

