

Summary

September 2025 General Fund revenue collections were \$1.56 billion. This amount was 5.3% above September 2024 and generated a minor forecast loss of \$(10) million compared to the enacted budget revenue forecast.

From an overall perspective, the state's tax revenue collections were generally consistent with the enacted forecast – combined across all the main tax categories (plus smaller categories such as Luxury Tax), tax revenues grew by 3.7% during September.

However, the performance of certain specific tax categories – Individual and Corporate Income Tax – are complicated by the fact that the Arizona Department of Revenue (ADOR) processed a significant deposit correction during September.

In order to address the miscoding of revenue during the prior month of August, ADOR processed a correction during September which moved approximately \$100 million of revenue from the Individual Income Tax (IIT) category to the Corporate Income Tax (CIT) category.

While this deposit correction does not change the state's total level of revenues or total forecast loss reported for September, it does have the impact of artificially lowering the stated performance of the IIT category and artificially inflating the performance of the CIT category during September.

In terms of major revenue categories unaffected by the data correction:

- September Sales Tax collections (which represent August sales activity) grew by 2.8% during the month and generated a minor forecast loss of \$(9) million compared to the enacted budget forecast. Continuing a theme from last month, the retail and restaurant/bar classifications continue to perform well, in contrast with the contracting tax subcategory which repeated its disappointing performance.
- Insurance Premium Tax collections grew by 17.2% during September compared to the prior year, which resulted in a \$13 million forecast gain for the month.

Year-to-Date Results

Year-to-date through September, excluding Urban Revenue Sharing and one-time revenue adjustments, FY 2026 General Fund revenues are 2.2% above the prior year.

With the September results, after 3 months of tracking against the enacted budget forecast, the state has generated a cumulative forecast gain of \$148 million.

October FAC Update

As part of the October 9th meeting of the Finance Advisory Committee, our office evaluated the year-to-date revenue performance and provided an updated revenue forecast and revised set of [overall budget projections](#).

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September Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2026 Collections	Difference From Enacted Forecast	Difference From FY 2025
September	\$ 1,556.4	\$ (9.9)	\$ 77.8
Year-to-Date	\$ 4,074.6	\$ 148.2	\$ 128.0

Sales Tax collections of \$673.4 million in September were 2.8% above the amount collected in September 2024 and \$(8.5) million below the enacted budget forecast. Year to date through September, sales tax revenue is up by 3.7% compared to the same period in the prior year and \$(0.4) million below forecast. Sales tax revenue collected in September reflects sales activity that occurred in August.

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

Table 2		
September Sales Tax Growth Rates Compared to Prior Year		
	Sept.	YTD
Retail/Remote Seller	7.1%	6.8%
Contracting	(3.1)%	0.2%
Use Tax	(7.7)%	1.2%
Restaurant & Bar	6.9%	5.2%
Utilities	1.6%	0.8%

Tax revenue from the combined Retail/Remote Seller category increased, year-over-year, by 7.1% in September and is up by 6.8% through the first quarter of FY 2026. Within this combined category, standard ("brick-and-mortar") retail sales have increased by 4.7%, year to date, compared to 22.8% for Remote Sellers. Through September, about 40% of the total year-over-year gain for this combined category is attributable to Remote Sellers.

The Retail/Remote Sellers and Restaurants/Bars classifications have performed better than expected through the first 3 months of FY 2026, with year-over-year growth rates of 6.8% and 5.2%, respectively. In contrast, the Contracting and Utilities classifications, as well as the Use Tax category, have remained weak with year-to-date growth rates near or below 1%. For more details, see Table 2.

Individual Income Tax (IIT) net revenue was \$460.3 million in September, a (9.4)% reduction from the previous September and \$(73.0) million short of the enacted budget forecast. As discussed in more detail below, the sharp IIT decline was due to a large technical adjustment related to withholding tax collections. Year-to-date (YTD), IIT has grown by 7.6% compared to the same period in FY 2025, for a forecast gain of \$109.0 million.

In the September *Monthly Fiscal Highlights*, we reported there was an uncharacteristically large withholding deposit on August 21st that did not appear attributable to wage and salary growth. At the time, we speculated this was due to a technical issue. According to the Department of Revenue (DOR), this unusually large deposit was mostly corporate income tax revenue incorrectly classified as withholding, confirming our initial suspicion. We estimate this amount was approximately \$100 million, which was removed from the September withholding total and added to corporate income tax revenue. This downward adjustment is the reason for the large withholding revenue decline of (18.4)% in September. Accounting for this adjustment, withholding revenue grew by 5.4%, in line with the most recent data on national and state wage and salary growth.

Year-to-date, withholding is 4.6% greater than the same period in FY 2025 and \$66.0 million more than forecasted.

Total (estimated plus final) tax payments in September were \$158.5 million, 16.1% growth from the prior September for a forecast gain of \$17.6 million. September is an important month for income tax payments because the 15th of the month is the due date for quarterly estimated payments. September collections make up between 20%-21% of the fiscal year total for estimated payments. This month estimated payments were 16.9% more than last year and final payments grew 13.4%. YTD, total payments have grown by 13.6% compared to the same period in FY 2025, exceeding the forecast by \$22.8 million.



September refunds were \$(38.2) million, (15.4)% less than last year. In a typical year, September refunds make up about 8% of the yearly total. Since the enacted budget forecast assumed a higher refund level of \$45.2 million, the forecast gain for this category was \$7.0 million in September. Refunds are down (14.8)% YTD for a forecast gain of \$20.3 million.

Table 3
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>September</u>	<u>YTD</u>
Withholding	(18.4)%	4.6%
Estimated/Final Payments	16.1%	13.6%
Refunds	(15.4)%	(14.8)%

Net Corporate Income Tax (CIT) collections in September were \$358.0 million, a 25.9% increase from last year. As noted above, this growth was due to approximately \$100 million of August corporate income tax revenue being miscategorized as withholding revenue. This amount was transferred from withholding to CIT in September. YTD, CIT revenue is down by (4.3)%, but is \$11.1 million above forecast.

Insurance Premium Tax (IPT) revenue was \$107.0 million in September, an increase of 17.2% compared to the same month in the prior year. IPT revenue in September was \$13.1 million above the enacted budget forecast. Fiscal year to date, IPT revenue is up by 13.0% and is \$26.4 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in September was \$1.3 million, which is (16.1)% below collections a year prior and \$(0.3) million below the enacted forecast. Year to date, General Fund tobacco tax revenues total \$4.8 million, which is 8.3% above collections through the first quarter of FY 2025 and \$0.2 million above forecast.

Liquor Tax revenue deposited into the General Fund in September was \$2.9 million. This is 36.3% greater than the amount deposited in September 2024 and \$(0.8) million below the enacted forecast. Year to date, General Fund deposits from liquor tax collections total \$10.2 million, a (6.7)% decrease from the same period in FY 2025, and \$(0.9) million below forecast.

The **Lottery Commission** reported that total ticket sales in September were \$144.9 million. This amount is \$37.6 million, or 35.1% higher than in September 2024.

Highway User Revenue Fund (HURF) collections of \$148.9 million in September were 1.5% above the amount collected in September 2024 and \$(2.7) million below forecast. Year to date, HURF collections are \$444.7 million, 2.7% above the prior year and \$(2.7) million less than forecast.

In September, the state collected \$13.8 million in dedicated **Marijuana Excise Taxes**, which was 11.8% greater than September 2024 collections. Monies from this excise tax are deposited into dedicated non-General Fund accounts. September's total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) revenue was \$4.8 million. Of this amount, the General Fund received \$3.5 million. (See *Table 4*).

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

	<u>September</u>	<u>YTD</u>
Marijuana Excise Tax	\$13.8	\$41.3
Medical Marijuana TPT	\$0.8	\$2.5
<u>Distribution:</u>		
General Fund	\$0.6	\$1.8
Counties	\$0.1	\$0.4
Cities	\$0.1	\$0.2
Recreational Marijuana TPT	\$4.0	\$12.5
<u>Distribution:</u>		
General Fund	\$2.9	\$9.2
Counties	\$0.6	\$2.0
Cities	\$0.4	\$1.2
Total State Marijuana Tax Collections	\$18.6	\$56.3

* Amounts may not add to total due to rounding



Table 5

General Fund Revenue: Change from Previous Year and Enacted Forecast September 2025

	Current Month					FY 2026 YTD (Three Months)				
	Actual September 2025	Change From		Enacted Forecast		Actual September 2025	Change from		Enacted Forecast	
		September 2024		September 2024			September 2024		September 2024	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$673,423,988	\$18,339,220	2.8 %	(\$8,512,504)	(1.2) %	\$2,062,125,416	\$74,457,178	3.7 %	(\$368,587)	(0.0) %
Income - Individual	460,332,060	(47,801,577)	(9.4)	(72,980,491)	(13.7)	1,496,491,225	105,529,247	7.6	109,012,624	7.9
- Corporate	358,023,285	73,673,586	25.9	52,242,604	17.1	427,334,478	(19,107,732)	(4.3)	11,125,834	2.7
Property	73,930	(3,252,580)	(97.8)	(1,439,246)	(95.1)	875,504	(3,335,328)	(79.2)	(1,875,109)	(68.2)
Luxury - Tobacco	1,343,910	(256,945)	(16.1)	(296,992)	(18.1)	4,768,678	366,964	8.3	179,252	3.9
- Liquor	2,911,838	775,233	36.3	(777,102)	(21.1)	10,165,239	(727,518)	(6.7)	(878,796)	(8.0)
Insurance Premium	107,005,762	15,702,779	17.2	13,131,449	14.0	280,327,364	32,354,815	13.0	26,354,000	10.4
Other Taxes	1,350,427	588,267	77.2	317,971	30.8	3,645,994	(1,111,802)	(23.4)	(626,169)	(14.7)
Sub-Total Taxes	\$1,604,465,200	\$57,767,982	3.7 %	(\$18,314,310)	(1.1) %	\$4,285,733,898	\$188,425,825	4.6 %	\$142,923,050	3.4 %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	0	0	--	0	--
Gaming	3,515,730	733,518	26.4	508,377	16.9	9,435,296	3,751,754	66.0	1,245,062	15.2
License, Fees and Permits	5,155,697	516,706	11.1	268,841	5.5	12,396,655	(1,402,553)	(10.2)	(1,699,777)	(12.1)
Interest	19,802,482	(4,614,565)	(18.9)	7,855,756	65.8	41,505,083	(10,559,608)	(20.3)	17,693,747	74.3
Sales and Services	1,831,141	(646,983)	(26.1)	(824,772)	(31.1)	4,600,492	(1,472,535)	(24.2)	(1,983,225)	(30.1)
Other Miscellaneous	2,177,959	(287,060)	(11.6)	(521,437)	(19.3)	1,966,249	(12,874,287)	(86.8)	(3,924,840)	(66.6)
Medicaid Hospital Revenue	0	0	--	0	--	0	(71,248,984)	--	0	--
Transfers and Reimbursements	3,711,340	2,950,088	387.5	1,461,340	64.9	991,776	(1,718,543)	(63.4)	(5,758,224)	(85.3)
Sub-Total Other Revenue	\$36,194,349	(\$1,348,296)	(3.6) %	\$8,748,106	31.9 %	\$70,895,552	(\$95,524,755)	(57.4) %	\$5,572,743	8.5 %
TOTAL BASE REVENUE	\$1,640,659,549	\$56,419,686	3.6 %	(\$9,566,204)	(0.6) %	\$4,356,629,450	\$92,901,069	2.2 %	\$148,495,793	3.5 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(98,858,813)	6,829,335	(6.5)	(0)	0.0	(296,576,440)	20,488,006	(6.5)	(0)	0.0
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Income Tax Rebate	(250)	(250)	--	(250)	--	(500)	7,000	(93.3)	(500)	--
Other One-Time Revenue Adjustments	14,574,359	14,574,359	--	(325,641)	(2.2)	14,574,359	14,574,359	--	(325,641)	(2.2)
Sub-Total Other Adjustments	(84,284,704)	21,403,444	(20.3) %	(325,891)	0.4 %	(282,002,581)	35,069,365	(11.1) %	(326,141)	0.1 %
TOTAL GENERAL FUND REVENUE	\$1,556,374,845	\$77,823,130	5.3 %	(\$9,892,095)	(0.6) %	\$4,074,626,869	\$127,970,435	3.2 %	\$148,169,652	3.8 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	148,926,812	2,191,455	1.5 %	(2,692,335)	(1.8) %	444,684,022	11,567,304	2.7 %	(2,738,787)	(0.6) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) third and final estimate of U.S. Real **Gross Domestic Product** (GDP) in the 2nd quarter of 2025 is a seasonally adjusted annual growth rate of 3.8%. This estimate is revised upward from the second estimate of 3.3%.

The **Consumer Confidence Index**, published by the Conference Board, fell to 94.2 in September, a decline of (3.6) points from the revised August level. While concerns about tariffs and inflation persisted, consumers reported that their most pressing worries were about the current job market. This caused the Present Situation Index, which is a subcomponent of the overall Consumer Confidence Index to decline by (7.0) points, the largest such drop since the previous September. Future expectations also worsened, as evidenced by a (1.3) point decline in the Expectations Index, which is also subcomponent of the overall index. Over the last 12 months, the Consumer Confidence Index has decreased by (5.0)%.

The Conference Board's **U.S. Leading Economic Index** (LEI) fell by (0.5)% in August to a level of 98.4, the largest decline since April 2025. Of the 10 components that make up the index, stock prices, credit, and manufacturing new orders on consumer goods made the only positive contributions to the total. Consumer expectations, overall manufacturing new orders, and employment all dipped significantly during the month. The Conference Board believes this suggests that "economic activity will continue to slow" but the organization is "not forecasting recession currently." In the 6 months from February to August, the LEI fell by (2.8)%, compared to the (0.9)% contraction in the previous 6-month period.

ARIZONA

Housing
In August, Arizona had a 12-month total of 36,455 **single-family building permits** issued. This represents a decrease of (3.0)% from the prior month's rolling total and a decrease of (11.7)% from the previous August's 12-month total.

Arizona's 12-month total of 14,582 **multi-family building permits** in August is (7.9)% below July's rolling total and (30.5)% below the 12-month period ending in August 2024.



Tourism
Phoenix Sky Harbor Airport Ridership fell to 3.8 million passengers in August, which is a (9.3)% drop from the prior month and (2.9)% below August 2024's figure. August ridership is typically about 5 to 10 percent below July's.

In August, **revenue per available room** fell slightly to \$65.35, representing a (1.2)% decrease from July's average revenue and a (6.2)% decrease from August 2024's figure.

Hotel occupancy was 56.0% in August, which is identical to July's rate but (2.9)% below the rate 12 months prior.

Employment
The Arizona employment and unemployment report for September 2025 is postponed due to the federal government shutdown and suspension of services by the federal Bureau of Labor Statistics.

OEO reported that a total of 2,783 **initial claims for unemployment insurance** were filed in Arizona in the week ending on October 4th. This represents a (25.8)% decrease in initial claims compared to a year ago.

According to OEO, there were a total of 26,185 **continued claims for unemployment insurance** in Arizona for the week ending on September 27th, which is (8.2)% lower than the comparable week in 2024.

State Personal Income
The U.S. Bureau of Economic Analysis (BEA) recently released state personal income estimates for the 2nd quarter of 2025. Personal Income in Arizona rose at a seasonally adjusted annual rate of 7.7%. Net earnings, dividends, interest, rental income, and government transfer payments each improved during the quarter. Transfer payments increased the most, at an annualized rate of 21.6%. The BEA estimates that the total level of personal income in Arizona was \$520.9 billion.

State Agency Data
As of October 1, 2025, the total **AHCCCS caseload** was 1.85 million members. Total monthly enrollment decreased (1.0)% from September to October and decreased (11.4)% compared to a year ago.

Parent and child enrollment in the Traditional population decreased (1.4)% in October compared to September and decreased (8.7)% compared to a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 783,912, a decrease of (0.7)% from September and (15.7)% lower than last year.

For October 2025, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.3% over the prior month. At 74,458, this population is 4.2% higher than a year ago.

Based on information the **Department of Child Safety** provided for August 2025, reports of child maltreatment totaled 44,303 over the last 12 months, an increase of 4.4% from the comparable period in the prior year.

There were 8,272 children in out-of-home care as of August 2025, or (8.4)% less than in August 2024. Compared to the prior month, the out-of-home children increased by 0.2%.

There were 6,660 individuals receiving **TANF Cash Assistance** in September 2025, representing a (8.5)% decline from August 2025. Year over year, the number of cash benefit recipients has decreased by (32.2)%.

The **Supplemental Nutrition Assistance Program (SNAP)** provides assistance to low-income households to purchase food. There were 855,273 individuals receiving SNAP benefits in September 2025, representing a (4.7)% decline from August 2025. Year over year, the number of SNAP recipients has decreased by (10.4)%. These declines may be related to federal policy changes, such as an expansion of work requirements, that went into effect in July 2025.



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	August	4.1%	0.0%	0.4%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2025	7.9%	0.2%	0.7%
- Initial Unemployment Insurance Claims	Week Ending Oct 4	2,783	13.0%	(25.8)%
- Continued Unemployment Insurance Claims	Week Ending Sep 27	26,185	(3.7)%	(8.2)%
- Non-Farm Employment - Total	August	3,229,400	1.3%	1.2%
Manufacturing	August	192,200	0.2%	(0.6)%
Construction	August	228,700	1.3%	2.1%
- Average Hourly Earnings, Private Sector	August	\$34.91	0.3%	4.1%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	August	36,455	(3.0)%	(11.7)%
Multi-family		14,582	(7.9)%	(30.5)%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	August	4,904	(3.3)%	4.9%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	August	\$472,723	0.6%	(0.5)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	August	3,789,488	(9.3)%	(2.9)%
- State Park Visitors	September	164,146	(13.1)%	(18.3)%
- Revenue Per Available Hotel Room	August	\$65.35	(1.2)%	(6.2)%
- Arizona Hotel Occupancy Rate	August	56.0%	0.0%	(2.9)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	2 nd Q 2025	\$520.9 billion	7.7%	6.6%
- Arizona Population (U.S. Census)	July 2024	7,582,384	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	July 2024/Nov 2019	Positive/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	October 1st	1,845,037	(1.0)%	(11.4)%
Traditional Acute Care		986,667	(1.4)%	(8.7)%
Other Acute Care		783,912	(0.7)%	(15.7)%
Long-Term Care – Elderly & DD		74,458	0.3%	4.2%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	August	44,303	0.7%	4.4%
DCS Out-of-Home Children	August	8,272	0.2%	(8.4)%
Filled Caseworkers (1406 Budgeted)	August	1,287	(9)	(3)
- ADC Inmate Growth	August	35,466	0.0%	0.6%
- Department of Economic Security				
- TANF Cash Assistance Recipients	September	6,660	(8.5)%	(32.2)%
- SNAP Recipients	September	855,273	(4.7)%	(10.4)%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	2 nd Q, 2025 3 rd Estimate)	\$23.8 trillion	3.8%	2.4%
- Consumer Confidence Index (1985 = 100)	September	94.2	(3.7)%	(5.0)%
- Leading Economic Index (2016 = 100)	August	98.4	(0.5)%	(3.7)%
- Consumer Price Index, (1982-84 = 100)	August	324.0	0.4%	2.9%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Financial Status and Performance Standards for Special Employee Health Insurance Trust Fund – Pursuant to A.R.S. § 38-654F, the Arizona Department of Administration (ADOA) submitted their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF) for Plan Year (PY) 2024 through PY 2026 and the performance standards for its health plans during PY 2024.

ADOA reported that the plan was not considered actuarially sound in any of the 3 years due to inadequate ongoing resources.

If a vendor fails to meet any of the measures within the specified performance range, a percentage of the vendor's annual payment, or a previously agreed upon amount, is then withheld by ADOA as a performance penalty. ADOA estimates that performance penalties paid to Benefit Services Division related to PY 2024 will total approximately \$960,600. In comparison, ADOA collected \$1.1 million from PY 2023 penalties. Some of the largest contributors to the PY 2024 performance penalties include vendors failing to:

- Process 95% of claims within 14 days,
- Process 100% of claims within 30 days,
- Process 99% of claims accurately,
- Receive a 90% customer satisfaction survey result, and
- Ensure that at least 98% of mail service prescriptions with available generics are dispensed with a generic product. (Chandler Coiner)

ADOA – School Facilities Division – Quarterly Report on Credit Enhancement Program – Pursuant to A.R.S. § 41-5858, the School Facilities Division (SFD) within the Arizona Department of Administration is required to submit quarterly reports on the Public School Credit Enhancement Program. The program is operated by the Governor's Office of Education. The total outstanding principal amount of guaranteed financings is \$329.2 million. To date through the end of FY 2025, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$118.6 million and has a leverage ratio of 2.78 (based only on the outstanding principal of guaranteed financings). The statutory limit for the program's leverage ratio is 3.5. (Gordon Robertson)

Department of Child Safety – Report on Extended Foster Care Success Coaching Program – Pursuant to A.R.S. § 8-521.03, the Department of Child Safety (DCS) submitted its quarterly report on implementation of the Extended Foster Care Success Coaching Program (formerly the EFC Comprehensive Service Model). The program, which started in November 2023, provides support services and case management by contracted community providers to youth ages 17-20 in out-of-home care.

As of September 2025, the program has served 1,328 young adults, with 81% of participants attending regular reviews with extended foster care staff and 91% maintaining work/school eligibility requirements. Of this population, 99% have identified a connection to one or more family members and supportive adults, such as foster parents, teachers, pastors, etc. In addition, 96% of participants have obtained an individualized skill to assist with success outside of the foster care program, such as post-secondary education, financial literacy training, and independent housing. (Maggie Rocker)

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 FY 2025 report were as follows:

- Most of the 7 service categories (residential, in-home supports, day treatment, employment, transportation, professional nursing, and professional therapy) were either stable or showed improvement across 5 metrics of access to care between FFY 2023 and FFY 2024, with 1 of the 35 categories undergoing a material decline.
- The consultant considered whether the 2024 DDD rates met or exceeded 85% of market rates, which are intended to represent the average "reasonable and necessary" costs of delivering DDD services. Compared to 2019 market rate data, 29 of the 30 rates reviewed exceeded the 85% threshold. However, compared to the rebased 2024 market rate data, only 14 of the 30 rates still exceeded the 85% threshold.



- The consultant believes that the current rates are "adequate" overall. As a result, the consultant is not recommending an across-the-board rate increase.

However, the consultant does recommend that the state consider raising service rates to a level at or above 85% of the 2024 benchmark rates. (Brian Belakovsky)

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 2025 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 2025, 2,577 applicant households chose the grant diversion option and were diverted from long-term assistance, a decrease of (639) from FY 2024. A total of 1,806 households obtained employment within 90 days of receiving assistance under the diversion program during the 12-month period of April 2024 through March 2025. Through January 2025, the most recent month for which complete data is available, 83 of 1,711 households, or 4.9%, reapplied for long-term assistance within 180 days of their participation in the diversion program. Complete data for FY 2024 indicates 181 of the total 3,216 households receiving diversion payments, or 5.6%, reapplied within 180 days, a decrease from the FY 2023 rate of 6.9%. (Brian Belakovsky)

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. DES reported the following for FY 2025:

- The average number of children served decreased to 28,741, or (6)% below FY 2024. The decrease was largely a result of the end of the Arizona Education Workforce Scholarship Program which served a monthly average of 3,080 children in FY 2024.

- The amount spent by DES on child care subsidies was \$364.1 million, a decrease of \$(31.4) million or (8)% from FY 2024.
- The child care wait list was also reinstated in August 2024. As of October 3, 2025, there are 8,666 children on the waiting list.
- The total amount of co-payments collected increased by 3% from FY 2024 to \$7.0 million.
- Effective August 1, 2024, DES increased provider rates to the 50th percentile of the 2022 market rate survey for children ages 2-5.

(Grace Timpany)

Department of Economic Security – Quarterly Report on the Parents as Paid Caregivers Program – Pursuant to A.R.S. § 36-2970.01, the Department of Economic Security (DES) submitted the second of ongoing quarterly reports detailing the utilization of attendant care and habilitation services under the Parents as Paid Caregivers (PPCG) program.

The agency is currently implementing a rollout of changes to its Electronic Visit Verification (EVV) system, which is used by approved caregivers to report service hours under the program. DES expects that the EVV system data will be available beginning sometime in 2026. As a temporary alternative to this EVV system, the agency is reporting demographic data from its case management system for the first quarter of this year, from January 1st to March 31st of 2025. Because of this limitation in data reporting, DES notes that this quarter's reported data may undercount the number of parents and members in the program.

DES reported the following for the quarter ending March 31, 2025:

- There were 6,501 children and 6,170 parents in the PPCG program. This represents a decrease of (197) and (189), respectively, compared to the prior quarter.

Table 7

Average Approved Hours (Weekly) by Primary Diagnosis

	October 1, 2024 through December 31, 2024	January 1, 2025 through March 31, 2025
Autism	22.4	22.9
Cerebral Palsy	29.8	30.0
Epilepsy	29.0	29.5
Intellectual Disability	24.6	24.8
"At Risk" Individuals	25.5	25.9



- There were 1,880 emergency department visits across 817 children and 230 inpatient hospitalizations across 183 children.
- The average amount of time a minor in the PPCG program has been enrolled in the Arizona Long Term Care System (ALTCS) is 5.5 years. Their actual participation in PPCG would be much shorter.
- The average weekly hours of approved services, delineated by primary diagnosis, is displayed in *Table 7* above. (Brian Belakovsky)

Arizona Department of Education – Report on Failing Schools Tutoring Fund Planned Expenditures – Pursuant to a provision in the FY 2026 K-12 Education BRB, the Arizona Department of Education (ADE) reported on proposed expenditures of its \$1,500,000 appropriation from Education Sales Tax revenues to the Failing Schools Tutoring Fund, which may be used to purchase materials to assist students in meeting Arizona academic standards and to achieve passing scores on statewide assessments. ADE plans to use \$830,000 from the fund for assistance to districts and charters schools for approved tutoring providers, Project Momentum grants, and other school improvement grants. The department intends to allocate an additional \$713,200 for operating costs, including 6.3 FTE Positions. These amounts are funded from the \$1,500,000 FY 2026 appropriation, as well as \$13,200 of unexpended monies in the Failing Schools Tutoring Fund from the FY 2025 appropriation. (Gordon Robertson)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2025 – Pursuant to an annual General Appropriations Act footnote, the Department of Environmental Quality (DEQ) submitted its annual report to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program and is designed to remediate contaminated groundwater at specified sites. The report lists total FY 2025 expenditures of \$16.8 million. Revenues totaled \$12.4 million, including \$15.0 million in appropriations, \$(6.2) million in other fines and forfeitures, \$2.3 million in fees, \$725,900 in other revenues, and \$576,500 recovered from responsible parties.

In FY 2026, DEQ plans to spend \$17.3 million on the WQARF Program, including \$10.0 million for 36 registry sites and preliminary investigations, \$7.1 million for administration, and \$141,000 for the Department of Water Resources.

Pursuant to an annual General Appropriations Act footnote, DEQ also reported on the progress of each site listed on the WQARF registry. At the end of FY 2025, DEQ reported 37 WQARF registry sites, one fewer than FY 2024. DEQ reported completing 2 proposed remedial action plans, 1 delisting, and 2 records of decision at the end of FY 2025. (Maggie Rocker)

Department of Environmental Quality – Report on Use of Indirect Cost Recovery Fund – Pursuant to an FY 2026 General Appropriations Act footnote, the Department of Environmental Quality (DEQ) provided its report on the intended use of Indirect Cost Fund monies in excess of \$19.6 million in FY 2026.

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

DEQ estimates that FY 2026 monies in the fund, including the beginning balance, will total \$25.2 million. DEQ anticipates disbursing the full amount in FY 2025, or \$5.6 million above the \$19.6 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 Gaming – Report on Equine Deaths, Equine Injuries, and Pre-Race Inspections – Pursuant to an FY 2026 General Appropriation Act footnote, the Department of Gaming (ADG) is required to report each quarter on the number of horses that died or were injured as a result of a horse race and the commercial live racing facility where each incident occurred. In addition, the department is required to report on the number of pre-race horse inspections performed by a veterinarian employed by or contracted with the state. The department provided a report for the 1st quarter of FY 2026.

There was no racing activity in the 1st quarter of FY 2026. Given this, there were no pre-race inspections and no racing-related horse injuries or deaths. Horseraces are expected to begin November 10, 2025. (Benjamin Newcomb)

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 2.5 million **Individual Income Tax** credit claims totaling \$1.04 billion in FY 2025. This is an increase of 2.1% over the prior year.

The credit with the highest dollar level of claims was the Credit for Entity Level Income Tax Paid at \$341.9 million. This credit prevents double taxation of pass-through income at both the business and individual level. Therefore, the overall effective revenue impact of the credit is \$0. Of the remaining total, the Income Taxes Paid to Other States or Countries Credit accounted for \$190.1million, the Dependent Tax Credit for \$144.1 million, Private School Tuition Organization credits accounted for \$135.3 million, the Charitable and Foster Care Contributions credits accounted for \$125.0 million, the Public-School Extracurricular Activity Fee Credit accounted for \$35.7 million, and the Credit for Increased Excise Taxes Paid accounted for \$19.1 million. Use of other credits, including the Solar Energy Device Tax Credit, totaled \$44.3 million. The number of claims and credit use are listed in *Table 8* below.

Credits:	# of Claims	Credit Use
Entity Level Income Tax Paid ^{1/}	21,900	\$341.9
Income Taxes Paid to Other States or Countries ^{1/}	98,953	190.1
Dependent Tax Credit	1,009,737	144.1
School Tuition Organizations	132,915	135.3
Contributions to Charitable and Foster Care Organizations	235,357	125.0
Public School Contributions	130,068	35.7
Increased Excise Taxes Paid	431,235	19.1
Other Credits ^{2/}	476,876	44.3
Total Value of Credits	2,537,041	\$1,035.5

^{1/} Credit prevents double-taxation of income.
^{2/} 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 85 individual filers claimed tax credits under the **Small Business Income (SBI) Tax** in FY 2025, for a total of \$1.3 million. This is a (58.7)% decline from the \$3.2 million in SBI credits claimed in FY 2024. With the SBI tax rate of 2.5% being equal to the individual income tax rate, many filers choose not to classify qualifying income as SBI.

Details on the number of claimants and the amount of credits used under this alternative tax are shown in *Table 9* below.

Credits:	# of Claims	Credit Use
Entity Level Income Tax Paid ^{1/}	11	\$0.2
Income Taxes Paid to Other States or Countries ^{1/}	66	1.0
Other Credits ^{2/}	8	0.1
Total Value of Credits	85	\$1.3

^{1/} Credit prevents double-taxation of income.
^{2/} 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 \$397.3 million in **Corporate Income Tax** credits in FY 2025, a 32.1% increase from the prior year. Of the total amount used, \$239.2 million was for Research and Development (R&D) credits, \$77.3 million for the Qualified Facilities Credit, and \$54.1 million was for Private School Tuition Organization credits. Use of other credits, including the Renewable Energy Production Credit, totaled \$16.6 million in FY 2025. The number of claims and amount of credits used are listed in *Table 10* below.

Credits:	# of Claims	Credit Use
Research and Development	839	\$239.2
Qualified Facilities	57	77.3
School Tuition Organizations	148	54.1
New Employment	33	10.1
Other Credits ^{1/}	30	16.6
Total Value of Credits	1,107	\$397.3

^{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 \$56.7 million in insurance premium tax credits were used in FY 2025. This is a decrease of (8.0)% from the prior year. Of the \$56.7 million in total credit use, \$48.3 million was for Private School Tuition Organization Credits. The dollar impacts of the specific credits are listed in *Table 11* below. (Ben Newcomb)

Table 11

FY 2025 Insurance Premium Tax Credits
(\$ in millions)

	<u>Credit Use</u>
Credits:	
Private School Tuition Organizations	\$43.7
- Low Income Students ^{1/}	
Private School Tuition Organizations	4.6
- Disabled/Displaced Students ^{2/}	
New Employment	0.1
Health Insurance Premium ^{3/}	1.0
Insurance Guaranty Fund	7.3
Total Value of Credits	\$56.7

^{1/} The credit was capped at \$135.0 million in FY 2025 between corporate, individual income and insurance premium taxpayers.

^{2/} Credit was capped at \$6.0 million in FY 2025 between corporate, individual income and insurance premium taxpayers.

^{3/} Credit is capped at \$5.0 million annually.

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 report by October 1 annually 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 2025 the State Fleet Operations Fund has a cash balance of \$5.9 million and the State Vehicle Replacement Fund has a cash balance of \$17.1 million, with fleet agencies having their own subaccounts. In FY 2025, 182 vehicles within the state fleet were replaced.

The department further reports that the state fleet consists of 1,715 vehicles across 37 agencies. In addition, ADOT replaced 20 vehicles in FY 2025 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; the expected lifetime in miles and age depends on the type of vehicle but typically ranges between 135,000 miles and 108 months to 250,000 miles and 180 months for trucks and sedans. Under this methodology, the department has identified 182 vehicles in the state fleet currently in need of replacement.

The department will continue to analyze utilization data to remove vehicles that are not being properly utilized. (Jordan Johnston)

Arizona Board of Regents – Report on Spouses of Military Veterans Tuition Scholarships – Pursuant to an FY 2025 General Appropriation Act footnote, the Arizona Board of Regents (ABOR) reported the distribution of Spouses of Military Veterans Tuition Scholarship awards and the average award amount by each eligibly postsecondary institution. Resident spouses of honorably discharged veterans are eligible to receive free tuition at any Arizona public university or participating community college based on available funding.

In FY 2025, ABOR reports the following disbursements:

- ASU distributed \$983,734 to 113 students, for an average award of \$8,706.
- NAU distributed \$95,885 to 18 students, for an average award of \$5,327.
- UA distributed \$60,715 to 11 students, for an average award of \$5,520.
- Arizona Western, Central Arizona, Cochise, Maricopa, Mohave, and Pima Community Colleges distributed a total of \$112,348 to 77 students, for average awards ranging from \$900 to \$2,391 at community colleges. (Grace Timpany)

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 2025 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 2024 and 2025 did not include an interstate water banking component, interstate water banking monies were not distributed or received during FY 2025. (Micaela Andrews)

