

## Summary

January 2025 General Fund collections totaled \$1.53 billion, which is an increase of 3.7% above January 2024.

Beginning with this *Monthly Fiscal Highlights*, our office is benchmarking the state's revenue collections against the JLBC Baseline revenue forecast. January revenue collections were \$51 million above the Baseline forecast, with most of the forecast gain concentrated in the Individual Income Tax (IIT) category.

### Sales Tax

Overall January 2025 Sales Tax collections (which represent December sales activity) grew by 3.6% compared to January 2024, which resulted in a minor forecast gain of \$4 million for the month.

Given that this collection amount represents sales from the main part of the holiday season, the 5.7% year-over-year growth in collections from the retail subcategory provides some insight into consumer demand – in particular, within retail collections the state saw higher growth in revenue from "remote sellers" who have no physical presence in state. In contrast, the Restaurant/Bar subcategory experienced relatively flat growth for the month.

### Individual Income Tax

Overall January Individual Income Tax (IIT) collections grew by 0.7% above January 2024, which resulted in a moderate forecast gain of \$34 million for the month.

The IIT gain was almost entirely due to withholding tax collections – withholding was expected to decline given a lower number of processing days in January 2025. Instead, withholding revenue actually remained flat for the month compared to the prior year, thereby generating a forecast gain for the state.

In addition, the state's tax filing season began on January 27th. However, given that this processing of tax returns did not start until near the end of the month, we lack any significant data on potential trends during the tax filing season in terms of refunds and final payments.

### Corporate Income Tax

January Corporate Income Tax (CIT) revenues experienced a strong growth rate of 7.7% above January 2024, and collections were \$6 million above forecast. The category's next large revenue month is March, which may reveal more about CIT trends through the end of the fiscal year.

### Year-to-Date Results

Year-to-date through January, excluding Urban Revenue Sharing and one-time revenue adjustments, FY 2025 General Fund revenues are 5.5% above the prior year.

### State Appropriations Limit Report

JLBC Staff is required to annually report by February 15 on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Total FY 2025 state appropriations (both General and Other Funds) are \$28.28 billion, or 5.66% of personal income. Under the JLBC Baseline, projected FY 2026 spending is \$28.83 billion, which would be 5.42% of personal income.

### Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2026, as required by A.R.S. § 41-1276. Due to revised property tax estimates under the TNT process, the cost of the FY 2065 Basic State Aid formula will be \$(3.5) million lower than under the JLBC Baseline. The purpose of TNT is to offset the annual change in the value of existing property statewide with a proportional Qualifying Tax Rate change.

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January Revenues

	<b>FY 2025 Collections</b>	<b>Difference From Baseline Forecast</b>	<b>Difference From FY 2024</b>
January	\$ 1,534.1	\$ 50.7	\$ 54.6
Year-to-Date	\$ 9,365.2	\$ 50.7	\$ 1,111.9

**Sales Tax** collections of \$788.8 million were 3.6% above January of last year and \$3.7 million above the Baseline forecast. Year to date, sales tax revenue is up by 3.4%. Sales taxes collected in January reflect sales activity that occurred in December.

Table 2 shows the January growth rate for the 5 major sales tax categories, which together make up approximately 90% of total sales tax collections.

	<b>January</b>	<b>YTD</b>
Retail/Remote Seller <sup>1/</sup>	5.7%	1.3%
Contracting	3.2%	2.9%
Use Tax <sup>2/</sup>	(9.5)%	24.0%
Restaurant & Bar	0.5%	1.6%
Utilities	6.2%	9.3%

<sup>1/</sup> If this amount was adjusted for corrections of previously filed tax returns in 2023 and 2024, the YTD Retail/Remote Seller growth would have been 2.9% in January.

<sup>2/</sup> If this amount was adjusted for corrections of previously filed tax returns in 2023 and 2024, YTD Use Tax revenue would have been down by (0.9)% in January.

The 5.7% year-over-year growth in January's sales tax revenue from the combined Retail/Remote Seller category was primarily attributable to Remote Sellers and Marketplace Facilitators. These are out-of-state businesses that have economic (but not physical) "nexus" or presence in the state. In January (for sales that occurred in December), total collections from this subcategory of retailers exceeded \$60 million for the first time and were up by 21.1% over the same month in the prior year.

The other major categories (with the exception for the Utilities Classification) underperformed in January relative to the same month in the last few years.

**Individual Income Tax (IIT)** net revenue in January was \$628.3 million, 0.7% greater than the previous year and \$33.9 million above the Baseline forecast. Each IIT category contributed to the forecast gain. Year-to-date (YTD) through January, IIT has grown 10.7% compared to the same period in FY 2024.

Withholding collections in January were \$531.2 million, (0.1)% below last year but \$30.8 million greater than the forecast. There was one fewer Monday in January 2025 compared to 2024, and Monday is typically the most important day of week for processing withholding revenue. As a result, the Baseline forecast assumed withholding would perform worse than it did during the month. YTD, withholding is 6.1% higher than the same period in FY 2024.

Tax payments (estimated and final) were \$146.3 million in January, 3.5% growth from January 2024 and \$2.2 million above the forecast. Both estimated and final payments contributed to the increase. January is an important month for estimated payments, typically making up about 24% of the fiscal year total. YTD through January, total payments have declined (8.3)% from FY 2024.

January refunds were \$49.1 million, (0.6)% less than the same month in the prior year. Since the Baseline forecast assumed a higher refund level of \$50.1 million, there was a forecast gain of \$1.0 million in January. Typically, the level of refunds in January makes up less than 2% of the total for the fiscal year. YTD, refunds have decreased (32.4)% relative to the same period in FY 2024.

	<b>January</b>	<b>YTD</b>
Withholding	(0.1)%	6.1%
Estimated/Final Payments	3.5%	(8.3)%
Refunds	(0.6)%	(32.4)%



**Corporate Income Tax (CIT)** net revenue in January was \$137.4 million, 7.7% higher than last year and surpassing the Baseline forecast by \$5.7 million. On average, CIT revenue in January makes up between 5%-6% of the fiscal year total. YTD through January, CIT collections have grown 10.7% compared to the same period in FY 2024.

**Insurance Premium Tax (IPT)** revenue was \$770,800 in January, a decrease of (60.4)% compared to the same month in the prior year and \$(1.7) million below the Baseline forecast. IPT collections are typically low in January due to refunds from December payments and a lack of incoming quarterly pay. YTD, IPT revenue is up by 9.0% and is \$(1.7) million below forecast.

The **Lottery Commission** reported that total ticket sales in December were \$122.6 million. This amount is \$(2.1) million, or (1.7)% lower than in January 2024.

**Highway User Revenue Fund (HURF)** collections of \$154.9 million in January were 10.3% above the amount collected in January 2024 and \$12.2 million above forecast. Year to date, collections are \$1.04 billion, 2.9% above the same period in the prior year and \$7.4 million more than forecast.

In January, the state collected \$16.8 million in dedicated **Marijuana Excise Taxes**, which was 2.5% above January 2024 collections and the second highest monthly revenue since the tax became law. Monies from this excise tax are deposited into dedicated non-General Fund accounts. This month's total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) revenue was \$5.5 million. Of this amount, the General Fund received \$4.1 million. (See *Table 4*)

	<u>January</u>	<u>YTD</u>
<b>Marijuana Excise Tax</b>	<b>\$16.8</b>	<b>\$100.2</b>
<b>Medical Marijuana TPT</b>	<b>\$0.9</b>	<b>\$7.1</b>
<u>Distribution:</u>		
General Fund	\$0.7	\$5.2
Counties	\$0.2	\$1.1
Cities	\$0.1	\$0.7
<b>Recreational Marijuana TPT</b>	<b>\$4.6</b>	<b>\$30.9</b>
<u>Distribution:</u>		
General Fund	\$3.4	\$22.8
Counties	\$0.7	\$5.0
Cities	\$0.5	\$3.1
<b>Total State Marijuana Tax Collections</b>	<b>\$22.3</b>	<b>\$138.2</b>

\* Amounts may not add to total due to rounding



Table 5

## General Fund Revenue: Change from Previous Year and Baseline Forecast January 2025

	Current Month					FY 2025 YTD (Seven Months)				
	Actual January 2025	Change From January 2024		Baseline Forecast		Actual January 2025	Change from January 2024		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$788,750,285	\$27,368,877	3.6 %	\$3,704,011	0.5 %	\$4,789,916,320	\$157,868,395	3.4 %	\$3,704,011	0.1 %
Income - Individual	628,327,877	4,531,414	0.7	33,926,002	5.7	3,415,068,033	329,685,880	10.7	33,926,002	1.0
- Corporate	137,399,045	9,831,566	7.7	5,688,969	4.3	1,031,936,957	99,601,226	10.7	5,688,969	0.6
Property	2,511,638	865,392	52.6	(171,985)	(6.4)	22,895,372	5,962,745	35.2	(171,985)	(0.7)
Luxury - Tobacco	1,555,672	72,183	4.9	0	--	10,045,799	(957,448)	(8.7)	0	0.0
- Liquor	4,334,332	(587,608)	(11.9)	0	--	27,156,493	1,406,456	5.5	0	0.0
Insurance Premium	770,827	(1,177,632)	(60.4)	(1,708,140)	(68.9)	335,260,412	27,749,958	9.0	(1,708,140)	(0.5)
Other Taxes	1,416,740	670,992	90.0	595,001	72.4	9,424,148	2,765,430	41.5	595,001	6.7
<b>Sub-Total Taxes</b>	<b>\$1,565,066,416</b>	<b>\$41,575,184</b>	<b>2.7 %</b>	<b>\$42,033,858</b>	<b>2.8 %</b>	<b>\$9,641,703,533</b>	<b>\$624,082,642</b>	<b>6.9 %</b>	<b>\$42,033,858</b>	<b>0.4 %</b>
<b>Other Revenue</b>										
Lottery	21,907,900	(13,934,400)	(38.9)	0	--	178,763,962	(28,031,196)	(13.6)	0	0.0
Gaming	5,105,793	3,463,671	210.9	3,245,552	174.5	18,246,464	4,771,951	35.4	3,245,552	21.6
License, Fees and Permits	4,677,713	288,720	6.6	948,566	25.4	33,530,588	1,192,223	3.7	948,566	2.9
Interest	22,488,882	(7,852,148)	(25.9)	3,951,860	21.3	146,470,190	(50,791,193)	(25.7)	3,951,860	2.8
Sales and Services	3,126,270	447,358	16.7	97,610	3.2	14,573,643	(2,981,922)	(17.0)	97,610	0.7
Other Miscellaneous	2,950,067	3,895,621	--	185,205	6.7	26,954,959	10,778,374	66.6	185,205	0.7
Medicaid Hospital Revenue	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	10,974,504	(1,857,176)	(14.5)	281,519	2.6	37,837,851	(30,758,338)	(44.8)	281,519	0.7
<b>Sub-Total Other Revenue</b>	<b>\$71,231,129</b>	<b>(\$15,548,354)</b>	<b>(17.9) %</b>	<b>\$8,710,311</b>	<b>13.9 %</b>	<b>\$456,377,657</b>	<b>(\$95,820,101)</b>	<b>(17.4) %</b>	<b>\$8,710,311</b>	<b>1.9 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$1,636,297,545</b>	<b>\$26,026,830</b>	<b>1.6 %</b>	<b>\$50,744,169</b>	<b>3.2 %</b>	<b>\$10,098,081,190</b>	<b>\$528,262,541</b>	<b>5.5 %</b>	<b>\$50,744,169</b>	<b>0.5 %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(105,688,149)	24,713,501	(19.0)	(0)	0.0	(739,817,041)	303,396,155	(29.1)	(0)	0.0
One-Time Transfers	3,472,950	3,472,950	--	0	0.0	6,945,900	6,945,900	--	0	0.0
Income Tax Rebate	(2,750)	348,750	(99.2)	(2,750)	--	(12,500)	273,295,350	(100.0)	(2,750)	28.2
<b>Sub-Total Other Adjustments</b>	<b>(102,217,949)</b>	<b>28,535,201</b>	<b>(21.8) %</b>	<b>(2,750)</b>	<b>0.0 %</b>	<b>(732,883,641)</b>	<b>583,637,405</b>	<b>(44.3) %</b>	<b>(2,750)</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$1,534,079,596</b>	<b>\$54,562,031</b>	<b>3.7 %</b>	<b>\$50,741,419</b>	<b>3.4 %</b>	<b>\$9,365,197,548</b>	<b>\$1,111,899,946</b>	<b>13.5 %</b>	<b>\$50,741,419</b>	<b>0.5 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	154,933,189	14,522,310	10.3 %	12,162,310	8.5 %	1,041,087,901	29,047,272	2.9 %	7,381,639	0.7 %

## Monthly Indicators

### NATIONAL

The Bureau of Economic Analysis' (BEA) advance estimate of U.S. **Real Gross Domestic Product (GDP)** in the 4<sup>th</sup> quarter of 2024 is a seasonally adjusted annualized growth rate of 2.3%. Increased consumer and government spending more than offset a reduction in investment during the period.

The **Consumer Confidence Index**, published by the Conference Board, fell to 104.1 in January, a decline of (5.4) points from the revised December level. Consumers' future expectations worsened as jobs were perceived as less available and concerns about inflation persisted. Respondents also became less likely to purchase a home due to high interest rates. Over the last 12 months, the index has decreased by (6.1)%.

The Conference Board's **U.S. Leading Economic Index (LEI)**, decreased by (0.1)% in December, bringing it to 101.6. Of the 10 components in the LEI, 5 declined and 5 saw improvement. Credit, stock prices, building permits, manufacturing hours, and employment all contributed positively to the index. Negative contributions came from interest rates, consumer expectations, and manufacturing orders. In the 6 months from June to December, the LEI decreased by (1.3)%, a smaller reduction than the (1.7)% decline over the previous 6-month period. These smaller declines signal "fewer headwinds to US economic activity ahead," according to the Conference Board's press release.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** in January increased by 0.5% from the previous month on a seasonally adjusted basis. The largest contributor to the increase was shelter prices, followed by energy prices. Compared to the same month last year, consumer prices are up by 3.0% before seasonal adjustment. The Core CPI, which excludes food and energy, is up by 3.3% from a year ago.

### ARIZONA

#### Housing

In December, Arizona had a 12-month total of 41,512 **single-family building permits** issued. This marks a decrease of (1.0)% below November's rolling total and an increase of 20.9% over the previous December's 12-month total.



Arizona's 12-month total of 16,772 **multi-family building permits** in December is (5.9)% below the prior month and (27.1)% below the 12-month period ending in December 2023.

The **median home price** in Maricopa County rose to \$490,000 in January, a 1.7% increase over December's median sale price and 5.9% above January 2024's median home price.

#### Tourism

**Phoenix Sky Harbor Airport Ridership** rose moderately to 4.7 million in December, up 5.7% from the prior month and 9.8% greater than December 2023 ridership.

In December, **revenue per available room** declined to \$82.88, representing a (22.6)% decrease from November's average revenue and a 0.5% gain over December 2023's figure.

**Hotel occupancy** was 56.8% in December, which is (9.3)% down from November's occupancy rate and (1.3)% below that of 12 months prior.

#### Employment

Due to the annual revision of employment date (also known as "benchmarking"), January's employment and unemployment rate figures will not be released until the second week of March.

OEO reported that a total of 3,245 **initial claims for unemployment insurance** were filed in Arizona in the week ending on February 1<sup>st</sup>. This represents a (12.9)% year-over-year decline in initial claims, with the week ending February 3, 2024 seeing 3,726 initial claims.

According to OEO, there were a total of 22,706 **continued claims for unemployment insurance** in Arizona for the week ending January 25<sup>th</sup>. This is 0.6% greater than last year's total of 22,576 on the comparable date. Prior to the start of the pandemic, the average number of weekly continued claims was 22,613.

#### State Agency Data

As of February 1, 2025, the total **AHCCCS caseload** was 2.0 million members. Total monthly enrollment decreased (0.7)% from January and decreased (8.1)% compared to a year ago.

Parent and child enrollment in the Traditional population decreased by (0.9)% in February compared to January, or (3.6)% compared to a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 847,300 – a decrease of (0.5)% from January and (14.0)% lower than last year.

For February 2025, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.2%. At 72,492, this population is 4.6% higher than a year ago.

Based on information the **Department of Child Safety** provided for December 2024, reports of child maltreatment totaled 42,791 over the last 12 months, a decrease of (2.7)% from the prior year.

There were 8,783 children in out-of-home care as of December 2024, or (12.1)% less than in December 2023. Compared to the prior month, the out-of-home children population decreased by (0.2)%.

There were 9,139 individuals receiving **TANF Cash Assistance** in January 2025, representing a (4.9)% decline from December 2024. Year over year, the number of cash benefit recipients has decreased by (17.8)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. There were 925,386 individuals receiving SNAP benefits January 2025, representing a (0.7)% decline from December 2024. Year over year, the number of SNAP recipients has decreased by (1.8)%.

The Arizona Department of Correction's **Inmate Population** was 35,517 as of December 31, 2024. This was a (0.1)% decrease since November 30, 2024 and a 3.2% increase since December 2023.



<b>Table 6</b>				
<b>MONTHLY INDICATORS</b>				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	December	3.8%	0.1%	(0.5)%
- Total Unemployment Rate (discouraged/underemployed)	4 <sup>th</sup> Q 2024	7.0%	(0.2)%	(0.3)%
- Initial Unemployment Insurance Claims	Week Ending Feb 1	3,245	6.1%	(12.9)%
- Continued Unemployment Insurance Claims	Week Ending Jan 25	22,706	1.6%	0.6%
- Non-Farm Employment - Total	December	3,330,200	0.0%	1.7%
Manufacturing	December	193,900	(0.1)%	(0.5)%
Construction	December	215,100	(1.7)%	(1.4)%
- Average Hourly Earnings, Private Sector	December	\$34.37	3.0%	7.6%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	December	41,512	(1.0)%	20.9%
Multi-family		16,772	(5.9)%	(27.1)%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	January	3,737	(19.0)%	5.3%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	January	\$490,000	1.7%	5.9%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	December	4,671,808	5.7%	9.8%
- State Park Visitors	November	238,767	(3.8)%	6.9%
- Revenue Per Available Hotel Room	December	\$82.88	(22.6)%	0.5%
- Arizona Hotel Occupancy Rate	December	56.8%	(9.3)%	(1.3)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	3 <sup>rd</sup> Q 2024	\$490.7 billion	2.8%	5.0%
- 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	February 1st	1,969,782	(0.7)%	(8.1)%
Traditional Acute Care		1,049,990	(0.9)%	(3.6)%
Other Acute Care		847,300	(0.5)%	(14.0)%
Long-Term Care – Elderly & DD		72,492	0.2%	4.6%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	December	42,791	0.3%	(2.7)%
DCS Out-of-Home Children	December	8,783	(0.2)%	(12.1)%
Filled Caseworkers (1406 Budgeted)	December	1,243	(41)	(50)
- ADC Inmate Growth	December	35,517	(0.1)%	3.2%
- Department of Economic Security				
- TANF Cash Assistance Recipients	January	9,139	(4.9)%	(17.8)%
- SNAP (Food Stamps) Recipients	January	925,386	(0.7)%	(1.8)%
<b>United States</b>				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	4 <sup>th</sup> Q, 2024 (1 <sup>st</sup> Estimate)	\$23.5 trillion	2.3%	2.5%
- Consumer Confidence Index (1985 = 100)	January	104.1	(6.1)%	(4.9)%
- Leading Economic Index (2016 = 100)	December	101.6	(0.1)%	(1.5)%
- Consumer Price Index, (1982-84 = 100)	January	317.7	0.5%	3.0%



## JCCR Meeting Summary

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At its **January 21, 2025** meeting, the Joint Committee on Capital Review considered the following issues:

### Consent Agenda

**Adoption of Committee Rules and Regulations** – The Committee adopted rules and regulations identical to those of the previous Legislature, with two technical changes to conform with statutory language and update a reference.

**University of Arizona – Review of the Center for Applied Molecular and Immunological Therapies (CAMI) Building** - A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. The University of Arizona (UA) requested review of \$75.0 million in system revenue bond issuances to construct a new research facility for the CAMI building at UA's Phoenix Biomedical Core campus. The Committee gave a favorable review of the request with the expectation that UA will not seek JCCR review of any additional bond financing for the project. The review included the standard university financing provisions.

**University of Arizona – Approval of Deferred Maintenance Projects** - A.R.S. § 15-1671 requires Committee approval of any debt financed university projects paid for with funds from the university's Capital Infrastructure Fund (CIF). UA requested approval of \$45.0 million in bond issuances for deferred maintenance projects on its Main Campus.

## Summary of Recent Agency Reports

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**Arizona Department of Administration – Report on Repayment of State Debt and Obligations** – Pursuant to A.R.S. § 41-726, the Arizona Department of Administration (ADOA) is required to report on the amount of potential savings if the state repays the balance of any outstanding long-term General Fund financing obligations, under the following repayment scenarios: \$50 million, \$100 million, \$150 million, and \$200 million. Based on the state's remaining debt, ADOA provided the following 3 scenarios:

- Scenario 1: \$51 million in debt payoff would result in \$8.0 million in net lifetime savings.
- Scenario 2: \$98 million in debt payoff would result in \$12.0 million in net lifetime savings.
- Scenario 3: \$151 million in debt payoff would result in \$13.6 million in net lifetime savings.

The Committee approved the request with the standard university financing provisions.

**University of Arizona – Review of the UA Health Sciences Building 201 Renovation** - A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. UA requested Committee review of \$10.7 million in system revenue bond issuances to renovate the UA Health Sciences Building 201. The Committee gave a favorable review of the request with the standard university financing provisions.

**University of Arizona – Review of the Arizona Public Media Building** - A.R.S. § 15-1683 requires Committee review of any university projects financed with system revenue bonds. UA requested review of \$20.0 million in system revenue bond issuances to construct a new Arizona Public Media facility. The Committee gave a favorable review of the request with the expectation that the University of Arizona will not seek JCCR review of any additional bond financing for the project. The review included the standard university financing provisions.

ADOA's report only listed debt obligations that are eligible for early retirement (also known as "callable") before the debt's final maturity date. Under this limited standard, ADOA did not provide a \$200 million debt payoff scenario, as the state does not currently have that level of "callable" General Fund debt obligations.

For debt obligations that are not callable, the state may go through a process known as "cash defeasance." Under the defeasance process, the state deposits sufficient monies into an escrow account, so that the escrow account pays out all future required debt service payments. Once the defeasance process is completed, the associated debt is effectively removed from the state's list of outstanding obligations. ADOA did not include cash defeasance options in their report. (Gordon Robertson)





**Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports –**

Pursuant to an FY 2025 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its second quarterly update of FY 2025 on all current projects funded through the Automation Projects Fund (APF). ADOA's Strategic Enterprise Technology office (ASET) evaluates the health of each project on a quarterly basis and labels each as on track, at risk, or off track. Of the 15 projects included in the report, ADOA has labeled 12 as on track, 1 as not yet started, and 2 as off track. The 2 off track projects are:

**Department of Revenue (DOR) STARS Tax System Modernization**

ASET continues to consider the DOR STARS project as off track primarily due to significant delays in development and implementation of the first tax category: Liquor Luxury Tax (LLT). ASET reports that the STARS project has seen progress in areas such as discovery, planning, and the initial implementation of the Collections Optimization Analytic Model, but these advancements are overshadowed by the LLT delays. Under the original project timeline, LLT implementation was supposed to begin in February 2025. ASET expects DOR will be pushing the LLT delivery timeline back to December 2025.

**AHCCCS Medicaid Enterprise System Mainframe Modernization**

ASET has downgraded the AHCCCS Medicaid Enterprise System (MES) Modernization project from on track to off track beginning in Q2. ASET, citing a third-party IV&V report, notes that the project scope and requirements are unclear, a project timeline has not yet been finalized, and a staff management plan does not currently exist, among other concerns.

**Status of ITAC Projects**

In its report, ADOA continues to note that 1 non-APF project which was approved by ITAC is on hold. ADOA's Enterprise Email project remains on hold due to schedule delays with the Department of Child Safety (DCS), the Department of Public Safety (DPS), the Arizona Health Care Cost Containment System (AHCCCS), and the Department of Revenue (DOR). ADOA reported that 2 other non-APF projects are off track due to technical difficulties, poor project planning, or a lack of coordination between state agencies and private vendors.

These projects are the Unite Us Resources Platform (ADC) and the DERS Unemployment Insurance Benefits Modernization (DES). One project that was previously off track has been upgraded to on track: the DERS Rehabilitation Services Administration Modernization (DES).

**ITAC Third-Party Reports**

Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5.0 million must receive third-party analysis from an independent contracted vendor. The third-party vendor is required to review and provide guidance on the project and submit quarterly reports on project progress. Independent Verification and Validation (IVV) reports were submitted for the following: the STARS Tax System Modernization (DOR), the Crime Victim Notification System (ACJC), the ATLAS Replacement Project (DES), the Medicaid Enterprise System Modernization (AHCCCS), the MEDSIS Modernization (DHS), the DERS Unemployment Benefits Modernization (DES), and the Water Application Verification Enterprise System (DWR). The reports provided commentary on project progress that generally matched that of the quarterly APF report from ASET. (Destin Moss)

**Arizona Department of Administration/Arizona Department of Transportation – Progress Report on MvM Planned Expenditures**

– Pursuant to a footnote in the FY 2025 General Appropriation Act, the Arizona Department of Administration (ADOA) submitted a report on behalf of the Arizona Department of Transportation (ADOT) on the planned FY 2025 expenditures on the Motor Vehicle Modernization (MvM) project. The department reports a total of \$19.4 million in planned FY 2025 expenditures on the following categories: \$12.0 million on enhancements, \$5.9 million on operations and maintenance, \$662,100 on MvM strategic initiatives, \$493,200 on technology and cloud support, and \$332,300 on contract administration.

The department further reports that the planned MvM enhancements include the following projects: self-service portal expansion and enhancements, eTitles, quality assurance system, integrating dealer licensing and authorized third-party (ATP) into MvM, title and registration services automation, national registry of medical information for commercial drivers, and mobile driver license verifier app for Android. Strategic initiatives include information technology-related changes to field office operations. (Jordan Johnston)



**ADOA/School Facilities Division – Annual Report on Vacant and Partially Used Buildings – A.R.S. § 15-119** requires the ADOA School Facilities Division to annually report vacant square footage owned by the state or by school districts that may be suitable for the operation of a school, including for use as a charter school. In the Division's January 2025 report, 23 districts reported owning a total of 739,100 square feet of vacant space. (Gordon Robertson)

<b>District</b>	<b>Vacant Sq. Ft.</b>
Agua Fria High School District	10,785
Bullhead City Elementary District	4,380
Cartwright Elementary District	110,040
Creighton Elementary District	8,160
Deer Valley Unified District	14,749
Fountain Hills Unified District	116,127
Hayden-Winkelman Unified District	11,449
Kingman Unified District	43,700
Maine Consolidated District	2,680
Mammoth-San Manuel Unified District	54,608
Miami Unified District	59,976
Mohave Valley Elementary District	9,750
Morenci Unified District	960
Oracle Elementary District	8,527
Parker Unified School District	21,561
Red Rock Elementary District	17,602
Sanders Unified District	6,843
Scottsdale Unified District	44,395
Sedona-Oak Creed Joint Unified District	2,745
Sierra Vista Unified District	14,686
Tucson Unified District	100,505
Valley Union High School District	2,016
Winslow Unified District	72,840
<b>Total</b>	<b>739,084</b>

**Arizona Health Care Cost Containment System – Report on SMI Survey Feasibility – Pursuant to Laws 2024, Chapter 200**, the Arizona Health Care Cost Containment System (AHCCCS) is required to report on the development and implementation costs for AHCCCS to distribute a real-time automated survey to members with a serious mental illness (SMI). The survey would be used to identify quality of care issues and address the needs of members.

According to AHCCCS, the public comment period began December 16, 2024. The agency has not received any input from the public to date.



AHCCCS estimates the total costs of developing and implementing the survey and any subsequent quality-of-care investigations would be \$4.4 million General Fund (\$15.2 million Total Funds) on an ongoing basis, with a one-time General Fund cost of \$175,000 for survey development. AHCCCS's estimate assumes that 30% of encounter-based surveys would be completed, and of that amount, 1% (33,000 cases) would require quality-of-care (QOC) investigations. (Maggie Rocker)

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

In the second quarter of FY 2025, the AG deposited a total of \$10.6 million into various consumer accounts. Of that amount, \$1.9 million was deposited in the CPCF Revolving Fund, \$2.2 million was deposited into the Consumer Restitution Subaccount, \$8,500 was deposited into the General Fund, and \$6.5 million was deposited into the Consumer Remediation Subaccount, of which \$3.5 million was opioid claims-related revenue. The AG made no deposits into the Antitrust Enforcement Revolving Fund.

**Deposits to the Antitrust Enforcement Revolving Fund**  
The AG deposited no monies into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. As of December 31, 2024, the fund had an unencumbered balance of \$1.0 million.

**Deposits to the CPCF Revolving Fund**  
The AG deposited \$1.9 million into the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. This amount resulted from: a deposit of \$1.2 million from a settlement with Marriott International, Inc. resolving allegations that Marriott failed to protect the data of Arizona residents; a deposit of \$327,200 from a settlement with Endo International resolving allegations that the company deceptively advertised and sold prescription opioids; and various small legal settlements and other revenue. As of December 31, 2024, the fund had an unencumbered balance of \$27.3 million.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$2.2 million into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from: a deposit of \$2.0 million from residuals paid by Cox Communications as a result of a January 2024 Consent Decree; various small legal settlements; and interest income. As of December 31, 2024, the fund had an unencumbered balance of \$12.6 million.

Non-Opioid Deposits to the Consumer Remediation Subaccount

The AG deposited \$3.0 million of non-opioid related revenues into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. This amount from: a deposit of \$2.9 million from JUUL Labs as a result of a November 2021 Consent Decree; and \$108,900 of interest income derived from non-opioid balances in the fund. As of December 31, 2024, the Remediation Subaccount had an unencumbered balance of \$18.3 million, of which \$13.0 million is non-opioid related.

Opioid Claims-Related Deposits to the Consumer Remediation Subaccount

The AG deposited \$3.5 million of opioid revenues into the partially-appropriated Consumer Remediation Subaccount. This amount resulted from: \$135,000 of interest income derived from opioid balances in the fund; \$32,500 from opioid grant reversions; and \$3.3 million from a settlement with Endo International resolving allegations that the company deceptively advertised and sold prescription opioids. The AG made no expenditures from the opioid balances within the Remediation Subaccount during the second quarter of FY 2025. As of December 31, 2024, the Remediation Subaccount had an unencumbered balance of \$18.3 million, of which \$5.3 million is related to opioid claims.

Deposits to the General Fund

The AG deposited \$8,500 into the General Fund. This amount resulted from a small legal settlement. (Gordon Robertson)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures –

Pursuant to A.R.S. § 41-199, the Attorney General (AG) submitted its quarterly report on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals.

The ICAC Enforcement Fund receives an annual deposit of \$900,000 in revenues from lottery games that are sold from instant ticket lottery vending machines in age-restricted areas. Monies in the fund are utilized to support the ICAC Task Force, which is housed within the Phoenix Police Department and works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the second quarter of FY 2025, the AG received \$225,000 for deposit into the ICAC Enforcement Fund. A total of \$521,500 was expended from the fund balance through the second quarter of FY 2025 to help pay for the operating costs of the ICAC Task Force. As of December 31, 2024, the ICAC Enforcement Fund had an unencumbered fund balance of \$1,434,700. (Gordon Robertson)

Attorney General – Quarterly Report on Child and Family Advocacy Center Fund Expenditures –

Pursuant to A.R.S. § 41-191.11, the Attorney General (AG) submitted its quarterly report on expenditures from the Child and Family Advocacy Center Fund (CFAF), which funds nonprofit and government entities that serve victims of child abuse or investigate and prosecute their abusers. Through the second quarter of FY 2025, the AG received \$50,000 of its \$100,000 FY 2025 appropriation to the fund. A total of \$639,500 was expended from the fund (including prior year funds) through the second quarter of FY 2025. As of December 31, 2024, the CFAF had an unencumbered balance of \$50,400. (Gordon Robertson)

Arizona Commerce Authority – Report on Applied Research Centers and Institutes –

In FY 2023, the Legislature appropriated \$5.0 million from the State Web Portal Fund to the Arizona Commerce Authority (ACA) for grants to centers researching applied blockchain and wearable technologies. In FY 2024, the Legislature appropriated a further \$2.5 million to ACA from the General Fund for grants to centers researching wearable technology. Pursuant to an FY 2024 General Appropriation Act footnote, ACA submitted its report for applied research centers and institutes covering calendar year 2024. The 2024 spending amounts reported by the centers and institutes includes monies from the FY 2024 appropriation and monies allocated in prior budgets as well.

*Blockchain*

The Arizona Blockchain Applied Research Center (BARC) reported total CY 2024 expenditures of \$498,373 from three grants and matching monies to research the uses of blockchain for purposes such as cryptographic signature schemes and decentralized data markets.



*Wearable Technology*

The WearTech Applied Research Center (WARC) expended a total of \$3,983,870 in CY 2024 from 14 grants and matching monies for wearable technology projects such as knee and ankle braces marketed to patients recovering their mobility, medical devices to non-intrusively monitor newborns' vital signs, and automated surgeon performance assessment systems. Many of these projects have already seen preliminary product testing and/or proofs of concept, and some have begun selling finished products to customers. In addition, ACA awarded the WARC 4 grants for similar projects in September 2024, from which they have not yet expended any monies.

ACA also awarded 3 grants to other entities in September 2024 for the development of wearable technologies including a soft helmet which conducts brain scans and the development of a lightweight solid-state battery for use in wearable technologies generally. Through CY 2024, none of these entities have expended any grant monies. (Nate Belcher)

**Department of Corrections – Report on Correctional Officer Staffing** – Pursuant to an FY 2025 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) submitted its semi-annual report on correctional officer (CO) staffing. As of October 31, 2024, ADC reported that of the 5,951 total CO positions, 4,832.5 were filled and 1,118.5 were vacant, a vacancy rate of 18.8%. This was an increase since June 2024 when the vacancy rate was 17.8%. Total filled positions have decreased by (67.75) since June 2024. This decrease consists of 402.25 new hires, offset by 73.75 COs promoted to a new position and 396.25 COs leaving ADC.

ADC utilizes overtime to maintain inmate supervision levels despite CO vacancies. Year-to-date in FY 2025 through October, ADC reported a total of 481,893 overtime hours worked. ADC estimates the average CO will earn a total salary of \$62,100 in FY 2025, compared to \$63,800 in FY 2024. Of this amount, ADC estimates the average CO will earn about \$11,000 in overtime wages in FY 2025, the same amount as in FY 2024. (Geoffrey Paulsen)

**Department of Economic Security – Report on the Workforce Investment Act (WIA) Grant** – Pursuant to an FY 2025 General Appropriation Act footnote, the Department of Economic Security (DES) reported its plan to expend an additional \$15.2 million of federal WIA Grant monies received by the department in excess of its \$87.1 million appropriation for FY 2025.

Of this amount, DES would increase the operating budget by \$6.4 million, increase the spending of the Office of Governor's support by \$2.0 million to support statewide workforce projects by the Governor and ADC second chance centers, and increase Local Workforce Development Area (LWDA) allocations by \$6.8 million. (Grace Timpany)

**Arizona Board of Regents – Report on the Arizona Promise Program** – Pursuant to an FY 2025 General Appropriations Act footnote, the Arizona Board of Regents (ABOR) submitted a report detailing the total number of students receiving promise scholarships, the total number of students eligible to receive Pell grants, the average promise scholarship award amount, and the average grade point average (GPA) of recipients, the programs of study in which recipients are enrolled, and a geographic representation of recipients.

The promise program covers Arizona public university tuition and fees for Arizona residents graduating high school with a 2.5 GPA or higher and qualifying for a federal Pell grant. In FY 2024, the total number of students eligible to receive Pell grants was 10,676 at ASU, 3,186 at NAU, and 3,645 at UA. Of those, 5,573 (52%) ASU students, 1,663 (52%) NAU students, and 1,964 (54%) of UA students received promise program scholarships.

If a student qualifies, the promise scholarship is applied after all other aid, scholarships and grants are used. The average award amount in FY 2024 was \$4,160 at ASU, \$3,846 at NAU, and \$4,128 at UA. Across all three universities, 7,151 or 75.7% students receiving promise program scholarships graduated with a high school GPA between 2.75 and 3.75.

ABOR reports promise program students in FY 2024 were enrolled in 30 different instructional programs with 50% of students in STEM programs. Additionally, 64.1% of recipients graduated from Maricopa County, 14.4% from Pima County, and 21.5% from the remaining Arizona counties. (Grace Timpany)

