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"September collections were \$299 million above the enacted budget forecast."

Summary

September 2021 General Fund revenues totaled \$1.42 billion, which is a 21.4% increase above September 2020. September collections were \$299 million above the enacted budget forecast. The state continues to see forecast gains across all major revenue categories.

Sales Tax

Sales Tax collections had another month of strong double-digit growth in September, increasing by 13.4% during the month. This performance led to a forecast gain of \$54 million for the revenue category.

The retail and remote online sales classifications continue to see healthy growth and the service-based sectors (restaurant/bar, lodging and amusements) are still posting significant growth rates above 2020 as they recover from their low points of revenue collections during the pandemic. (See the Sales Tax section below for more information on the revenue category).

Individual Income Tax

The state's total Individual Income Tax (IIT) collections increased by 20.8%, and were \$150 million above the enacted budget forecast. The September IIT growth was driven by double-digit gains in withholding tax collections (17.2% increase) and payment revenue (28.9% increase).

The high payment growth is notable because September is a significant month for payment activity – quarterly estimated payments for many taxpayers are due on September 15th of each year. September 2021 overall payment activity was the highest payment total of any September in Arizona history.

Corporate Income Tax

Corporate Income Tax (CIT) collections during September grew by a remarkable 72.8% above the prior year, resulting in a forecast gain of \$69 million for the month. This level of CIT collections is the second highest on record for September. Recent national data suggests there has been significant increases in corporate profitability over the last year.

Year-to-Date Results

Year-to-date through September, excluding Urban Revenue Sharing and fund transfers, FY 2022 General Fund revenues are 1.9% above the prior year and \$639 million above the enacted budget forecast.

The low percentage growth in year-to-date revenues is due to the state's 2020 income tax deferral from April 15 to July 15, which caused the July 2020 revenue base (in early FY 2021) to be artificially higher. After adjusting for the deferral, FY 2022 year-to-date revenues are 19.3% above the prior year.

Given the significant forecast gains after only 3 months of FY 2022 revenue results, the upcoming 4-sector forecast will likely include a significant upward revision to the revenue projections. The 4-sector revenue forecast will be released at the next meeting of the Finance Advisory Committee (FAC) scheduled for October 28th.

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September Revenues

	General Fund Revenues (\$ in Millions)		
	<u>FY 2022 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2021</u>
September	\$ 1,422.4	\$ 298.7	\$ 250.7
Year-to-Date	\$ 3,680.6	\$ 638.7	\$ 86.6

Sales Tax collections of \$556.9 million were 13.4% above September of last year and \$53.6 million above the enacted budget forecast. Through the first 3 months of FY 2022, sales tax revenue is up by 15.6% and is \$190.1 million above forecast. September marked the 7th consecutive month with double-digit growth.

Table 2 provides more details on the 5 major sales tax categories as well as the smaller transient (hotel/motel) lodging and amusements classification. Those industries that were most adversely affected by the pandemic are now recovering at the fastest rate.

In September, sales tax collections from Restaurants and Bars were 30.4% above the amount in September 2020 and 13.6% higher than in September 2019. Hotel/Motel sales tax revenue was 53.3% above the prior year and 4.1% above September 2019. Both of these sales tax classifications have now exceeded their pre-pandemic level.

While amusement tax revenue (such as movie theaters and concerts) has grown more than 100% in each of the last 5 months, September collections were (25.6)% below the amount in September 2019.

	Sales Tax Growth Rates Compared to Prior Year	
	<u>Sep</u>	<u>YTD</u>
Retail/Remote Seller	13.9%	15.4%
Contracting	0.1%	(3.4)%
Use	19.3%	14.5%
Restaurant & Bar	30.4%	35.2%
Utilities	(5.8)%	5.2%
Hotel/Motel Lodging	53.3%	68.8%
Amusements	126.7%	256.3%

Individual Income Tax (IIT) net collections in September were \$636.2 million, 20.8% above September 2020 and \$149.6 million above the enacted budget forecast. Strong growth in both payments and withholding collections drove this forecast gain. Year-to-date (YTD) IIT net collections are down (15.8)%, but after accounting for the impact of the 2020 tax filing deferral, IIT is up by 18.1% YTD.

	Individual Income Tax Growth Rates Compared to Prior Year	
	<u>September</u>	<u>YTD</u>
Withholding	17.2%	11.9%
Estimated/Final Payments	28.9%	(60.1)%
Refunds	24.1%	(55.8)%

September 2021 withholding revenue was 17.2% above the previous September and \$89.6 million higher than the enacted budget forecast. One reason for the continued high withholding collections is that wage and salary disbursements have continued to rise. While Arizona wage and salary disbursements for the first quarter FY 2022 will not be released until December, national data for July and August shows 9.9% growth over the same months in FY 2021.

Payments in September increased by 28.9% over September 2020, and were \$62.8 million over the enacted budget forecast. The month of September often has a high level of payment collections as quarterly estimated payments for many taxpayers are due on September 15th of each year. At \$223.1 million in total payments, this was the highest payment total of any September in Arizona history, 24.3% more than the next highest September total, which was in 2019. YTD, payments are (60.1)% below FY 2021, but after accounting for the impact of the tax-filing deferral, payments are up by 50.3% YTD.

Refunds were \$24.5 million in September, 24.1% more than last year and \$3.0 million greater than under the enacted budget forecast. As a result, this yields a forecast loss of \$(3.0) million in September. YTD refunds are (55.8)% below FY 2021. Taking the deferral into account, YTD refunds are up 25.8%.

Corporate Income Tax net revenue was \$183.7 million in September, which was 72.8% above the September 2020 level and \$68.8 million above the enacted budget forecast. September is an important month for corporate income tax, as net collections for this month typically represent close to 20% of the fiscal year total. The level of net collections in September is the second highest on record for this month.

September Revenues (Continued)

Year to date, net collections through September are \$259.1 million, an increase of 23.5% over the same period in the prior year and \$77.0 million above the enacted forecast.

Insurance Premium Tax (IPT) revenue was \$81.7 million in September, which was (14.6)% below last year and \$15.9 million above the enacted budget forecast. September's collections were more than double the average collections for the month of September. September typically represents roughly 8% of total yearly collections.

Year to date, IPT collections through September are \$185.1 million, which is an increase of 29.7% above the prior year and \$31.8 million above the enacted forecast.

As noted in previous months, the significant year to date growth in IPT collections is likely related to premium taxes levied on the state's Medicaid program.

The **Lottery Commission** reported that total ticket sales in September were \$107.0 million. This amount is \$0.3 million, or 0.2%, above September 2020. Year to date, ticket sales are \$323.9 million, which is (5.6)% below the prior year.

Highway User Revenue Fund (HURF) collections of \$140.6 million in September were 4.0% above the amount collected in September 2020 and \$(0.3) million below forecast. Year to date, HURF collections have increased by 6.4% compared to the same period in the prior year and are \$10.3 million above forecast.

Due to a delay in receiving September **tobacco** and **liquor** tax revenue data, September collections are reported at forecast.

The state receives **marijuana tax** revenues from three different sources: 1) the 16% Recreational Marijuana Excise Tax; 2) Sales Tax applied to Recreational Marijuana purchases; and 3) Sales Tax applied to Medical Marijuana purchases. The excise tax is distributed according to the Proposition 207 formula, while the sales tax revenues are allocated to both the state General Fund and local governments under the existing distribution formula for the retail classification (see Table 4).

The state collected \$9.6 million in dedicated marijuana excise taxes in September and \$30.0 million year-to-date.

The General Fund share of both medical and recreational TPT was \$4.3 million in September and \$13.5 million year-to-date.

	<u>September</u>	<u>YTD</u>
Marijuana Excise Tax	\$9.6	\$30.0
Medical Marijuana TPT	\$3.3	\$10.4
<u>Distribution:</u>		
General Fund	\$2.5	\$7.7
Counties	\$0.5	\$1.7
Cities	\$0.3	\$1.0
Recreational Marijuana TPT	\$2.5	\$7.9
<u>Distribution:</u>		
General Fund	\$1.8	\$5.8
Counties	\$0.4	\$1.3
Cities	\$0.3	\$0.8
Total State Marijuana Tax Collections	\$15.4	\$48.3

Due to delays in reporting final August revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For August, DOR has increased the amount of prior General Fund revenue collections by \$3.5 million, and the adjustment has been included in the reported year-to-date results.

Table 5

General Fund Revenue: Change from Previous Year and Enacted Budget Forecast September 2021

	Current Month					FY 2022 YTD (Three Months)				
	Actual September 2021	Change From September 2020		Enacted Budget Forecast		Actual September 2021	Change from September 2020		Enacted Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$556,934,236	\$65,871,018	13.4 %	\$53,593,573	10.6 %	\$1,692,280,540	\$228,635,440	15.6 %	\$190,129,918	12.7 %
Income - Individual	636,170,040	109,364,714	20.8	149,612,552	30.7	1,622,488,938	(304,063,119)	(15.8)	316,611,502	24.2
- Corporate	183,658,637	77,401,157	72.8	68,781,772	59.9	259,093,426	49,324,201	23.5	77,030,019	42.3
Property	921,588	20,259	2.2	731,806	385.6	1,723,006	448,676	35.2	807,785	88.3
Luxury - Tobacco	1,779,845	(239,248)	(11.8)	0	--	5,219,043	(482,923)	(8.5)	(293,756)	(5.3)
- Liquor	3,804,534	(1,203,324)	(24.0)	0	--	10,940,128	952,958	9.5	1,014,420	10.2
Insurance Premium	81,736,467	(13,969,616)	(14.6)	15,884,318	24.1	185,087,169	42,381,061	29.7	31,821,769	20.8
Other Taxes	820,488	47,823	6.2	(41,509)	(4.8)	2,417,836	(942,862)	(28.1)	(610,492)	(20.2)
Sub-Total Taxes	\$1,465,825,835	\$237,292,784	19.3 %	\$288,562,512	24.5 %	\$3,779,250,085	\$16,253,432	0.4 %	\$616,511,165	19.5 %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	40,000,000	40,000,000	--	(2,560,500)	(6.0)
License, Fees and Permits	2,537,842	(749,050)	(22.8)	(638,743)	(20.1)	9,347,720	(800,940)	(7.9)	(1,833,580)	(16.4)
Interest	1,192	(49)	(4.0)	(871)	(42.2)	16,915,700	16,912,325	--	16,909,949	--
Sales and Services	2,479,543	1,051,915	73.7	243,289	10.9	6,507,016	963,176	17.4	1,249,240	23.8
Other Miscellaneous	6,664,028	3,440,059	106.7	4,111,035	161.0	9,211,611	4,048,959	78.4	5,286,504	134.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	8,017,166	5,934,394	284.9	6,563,935	451.7	8,617,567	(4,470,050)	(34.2)	3,321,428	62.7
Sub-Total Other Revenue	\$19,699,772	\$9,677,270	96.6 %	\$10,278,645	109.1 %	\$90,599,613	\$56,653,470	166.9 %	\$22,373,041	32.8 %
TOTAL BASE REVENUE	\$1,485,525,607	\$246,970,054	19.9 %	\$298,841,157	25.2 %	\$3,869,849,698	\$72,906,902	1.9 %	\$638,884,206	19.8 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(63,169,516)	5,871,555	(8.5)	(137,159)	0.2	(189,234,231)	17,888,983	(8.6)	(137,159)	0.1
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Public Safety Transfers	0	(2,122,109)	--	0	--	0	(4,244,218)	--	0	--
Sub-Total Other Adjustments	(63,169,516)	3,749,446	(5.6) %	(137,159)	0.2 %	(189,234,231)	13,644,765	(6.7) %	(137,159)	0.1 %
TOTAL GENERAL FUND REVENUE	\$1,422,356,090	\$250,719,500	21.4 %	\$298,703,998	26.6 %	\$3,680,615,467	\$86,551,667	2.4 %	\$638,747,047	21.0 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	140,640,826	5,463,812	4.0 %	(315,400)	(0.2) %	427,571,532	25,573,410	6.4 %	10,263,493	2.5 %

Monthly Indicators

NATIONAL

The U.S. Bureau of Economic Analysis' third estimate of 2nd quarter **U.S. Real Gross Domestic Product (GDP)** was revised upward to 6.8% from 6.6%.

The Conference Board's **Consumer Confidence Index** decreased (5.1)% in September. Consumers' assessment of both the present and future worsened during the month. Purchasing plans fell in tandem with diminished income expectations for the next six months. IHS Markit attributes the recent decline in consumer confidence primarily to increased COVID cases over the past few months. They anticipate that consumer confidence will begin rising over the next several months as COVID cases decrease.

The **U.S. Leading Economic Index (LEI)**, published by the Conference Board, rose 0.9% in August, marking the 18th consecutive month of growth for the indicator. Most of the elements that make up the index improved; only consumer expectations declined. Over the past six months, the LEI increased 6.4%.

The U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)** rose by 0.4% in September. After seasonal adjustment, prices are 5.4% higher than in September 2020. The last time inflation increased by more than 5.4% was in July 2008. More than half of the increase can be attributed to changes in the indexes for food and shelter. The energy index grew by 1.3% this month. Core inflation (all items less food and energy) was 0.2% in September. Core CPI is 4.0% higher than in September 2020.

ARIZONA

Single-family housing growth is slowing. In August, Arizona's 12-month total of **single-family building permits** was 48,704. This was essentially unchanged from the prior month but 33.5% above August 2020's 12-month total. August was the 15th consecutive month of double-digit year-over-year growth.

In August, Arizona's 12-month total of 16,274 **multi-family building permits** was 5.2% more than for the same 12-month period in 2020. Multi-family building permits increased by 10.2% for the same 12-month period for the nation.

Tourism and Restaurants

In August, **Revenue per available room** rose to \$73.36, an increase of 2.2% over July's number and an increase of 30.0% over August 2020.

Hotel occupancy was 57.6% in August, which represents a (7.4)% decrease in the rate reported for July. This figure is 9.7% higher than in August 2020, indicating that the hospitality industry has at least partially recovered from the COVID-19 pandemic.

Phoenix Sky Harbor Airport Ridership fell to around 3.4 million in August, a decrease of (11.0)% from the prior month. August 2021 ridership was almost two and a half times the ridership of August 2020, indicating a significant recovery from the COVID-19 pandemic.

According to data reported by OpenTable, on October 9, **daily restaurant reservations** were 25.9% above 2019 reservations on the comparable date. Despite the apparent recovery of restaurant sector demand, employment data suggests the restaurant industry is still struggling to fill job openings.

State park visitation reached nearly 207,000 visitors in August, a (26.7)% decrease from the June figure and a (6.3)% decrease from August 2020 visitation.

Employment

OEO reported that a total of 3,276 **initial claims for unemployment insurance** were filed in Arizona in the week ending on October 2nd. (This figure excludes the claims under the Pandemic Unemployment Assistance (PUA) program). For the same week in the prior year, 7,966 initial claims were filed. Initial Claims peaked at 132,428 on April 4th, 2020 as a result of the Covid-19 Pandemic and began to decrease throughout the year. The average number of weekly initial claims in 2019 was 3,912.

According to OEO, for the week ending on September 25th, there were a total of 24,250 **continued claims for unemployment insurance** in Arizona. A year ago this time, the continued claims were 168,948. In comparison to initial claims, continued claims did not peak until August 1, 2020 at 232,497 continued claims. The average number of weekly continued claims in 2019 was 22,613.

State Personal Income

In September, the federal Bureau of Economic Analysis (BEA) released its state personal income estimates for the 2nd quarter of 2021. Per the BEA, Arizona 2nd quarter personal income was \$379.5 billion. This is (1.5)% below the 2nd quarter of 2020 and (7.4)% below the prior quarter. This decline can almost entirely be attributed to reduced government transfer payments, which fell, year over year, by (35.5)% in Arizona. In contrast, net earnings rose 8.4% during the quarter.

Monthly Indicators (Continued)

State Agency Data

As of October 1, 2021, the total **AHCCCS caseload** was 2.22 million members. Total monthly enrollment increased 0.6% in October over September and increased 10.4% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.8% in October or 6.3% higher than a year ago.

Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 992,389 in October – an increase of 0.5% over September and 16.5% above last year. For October 2021, Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population growth remained flat. At 65,295, this population is (0.8)% lower than a year ago.

There were 13,507 **TANF Cash Assistance recipients** in the state in August, representing a (5.1)% monthly caseload decrease from July. The year-over-year number of TANF Cash Assistance recipients has decreased by (25.3)%. This data does not include Tribal recipient exclusions. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In August, 872,330 people received food stamp assistance in the state, representing a (2.3)% decrease from July caseloads. Compared to August 2020, the level of food stamp participation has decreased by (6.9)%.

The Arizona Department of Correction's **inmate population** was 35,454 as of September 30, 2021. This was a decrease of (0.4)% since August 31, 2021 and a (8.8)% decrease since September 2020.

Based on information the Department of Child Safety provided for August 2021, **reports of child maltreatment** totaled 44,858 over the last 12 months, an increase of 2.6% over the prior year. There were 15,169 **children in out-of-home care** as of August 2021, or 8.0% more than in August 2020. Compared to the prior month, the number of out-of-home children decreased by (2.0)%.

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	6.2%	(0.4)%	(0.8)%
- Total Unemployment Rate (discouraged/underemployed)	2nd Q 2021	11.7%	1.8%	0.4%
- Initial Unemployment Insurance Claims	Week Ending Oct. 2	3,276	(18.9)%	(58.9)%
- Continued Unemployment Insurance Claims	Week Ending Sep. 25	24,250	(8.0)%	(85.6)%
- Non-Farm Employment - Total	Aug	2,965,900	1.8%	5.8%
Manufacturing	Aug	180,400	0.0%	2.9%
Construction	Aug	176,100	0.5%	2.0%
- Average Hourly Earnings, Private Sector	Aug	\$28.26	(0.6)%	2.2%
<u>Building</u>				
- Single-Family Building Permits (12 months rolling sum)	August	48,704	0.0%	33.5%
Multi-family	August	16,274	1.8%	5.2%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	August	7,075	21.0%	(7.1)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	August	\$425,000	3.7%	26.5%
- Maricopa Pending Foreclosures	August	837	2.4%	(36.9)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	August	3,397,608	(11.0)%	141.0%
- State Park Visitors	August	206,821	(26.7)%	(6.3)%
- Revenue Per Available Hotel Room	August	\$73.36	2.2%	30.0%
- Arizona Hotel Occupancy Rate	August	57.6%	(7.4)%	9.7%
- Arizona OpenTable Reservations – % Change from 2019	October 9	N/A	N/A	25.9%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	2nd Q 2021	\$379.5 billion	(7.4)%	(1.5)%
- Arizona Population	April 2020	7,151,502	N/A	N/A
- 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	Negative/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	October 1st	2,238,500	0.6%	10.4%
Traditional Acute Care		1,180,800	0.8%	6.3%
Other Acute Care		992,400	0.5%	16.5%
Long-Term Care – Elderly & DD		65,300	0.0%	(0.8)%
- Department of Child Safety (DCS) Annual Reports of Child Maltreatment (12-month total)	August	44,858	1.1%	2.6%
DCS Out-of-Home Children	August	15,169	(2.0)%	8.0%
Filled Caseworkers (1406 Budgeted)	August	1,222	(6)	(129)
- ADC Inmate Growth	September	35,454	(0.4)%	(8.8)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	August	13,507	(5.1)%	(25.3)%
- SNAP (Food Stamps) Recipients	August	872,330	(2.3)%	(6.9)%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	2nd Q, 2021 (3rd Estimate)	\$19.4 trillion	6.8%	12.2%
- Consumer Confidence Index (1985 = 100)	September	109.3	(5.1)%	7.4%
- Leading Economic Index (2016 = 100)	August	117.1	0.9%	10.0%
- Consumer Price Index, SA (1982-84 = 100)	September	274.1	0.4%	5.4%

JLBC Meeting Summary

At its October 2021 meeting, the Joint Legislative Budget Committee considered the following issues:

Executive Session

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

Consent Agenda

AHCCCS/Department of Economic Security – Review of Capitation Rate Changes for Plan Year 2022 – An FY 2022 General Appropriation Act footnote requires the state's Medicaid agencies to submit to the Committee for review their plans prior to implementing any changes in capitation rates. The Committee gave a favorable review of the CYE 2022 capitation rates (October 2021 - September 2022) for AHCCCS and the Department of Economic Security's (DES) Arizona Long Term Care System (ALTCs) program. The favorable review required AHCCCS to report on the impact of federal American Rescue Plan Act funding for home and community-based services on long term care provider rates.

Arizona Department of Education – Review of AzSCI Science Contract Renewal – A.R.S. § 15-741.03 requires ADE to submit to the Committee for review its contract renewal for any portion of the statewide assessment in science (AzSCI). The Committee gave a favorable review of ADE's proposed contract renewal.

Arizona Department of Education – Review of Basic State Aid Recalculation – A.R.S. § 15-915 (B) requires ADE to submit to the Committee for review its recalculation of Basic State Aid for school districts with revised property values as a result of a court judgment, a state or county board of equalization decision, or the correction of a property tax error. The Committee gave a favorable review of ADE's proposed recalculation of \$311,800 of state aid for Hyder Elementary and Antelope Union High School Districts associated with the State Board of Equalization decision concerning Agua Caliente Solar.

Administrative Office of the Courts and Arizona Department of Water Resources – Review of General Adjudication Personnel and Support Fund FY 2022 Expenditure Plan – A.R.S. § 12-177.01 requires the Administrative Office of the Courts and the Arizona Department of Water Resources to submit to the Committee for review an expenditure plan prior to

spending monies from the General Adjudication Personnel and Support Fund in FY 2022 and FY 2023. The Committee gave a favorable review of the plan to spend \$1,734,300 of the \$2,000,000 FY 2022 appropriation.

Department of Public Safety – Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GILTEM) Border Security and Law Enforcement Subaccount – A.R.S. § 41-1724 (G) and A.R.S. § 41-1724 (H) require the Department of Public Safety to submit to the Committee for review the FY 2022 expenditure plan for the GILTEM Border Security and Law Enforcement Subaccount prior to expenditure. The Committee gave a favorable review to the expenditure plan of \$1,034,800 of the FY 2022 appropriation from the Subaccount to fund the Border Security Law Enforcement Grants program. The favorable review required a reporting provision should DPS propose changes to the allocation.

JCCR Meeting Summary

At its October 2021 meeting, the Joint Committee on Capital Review considered the following issues:

Regular Agenda

Arizona Department of Administration – Review of Arizona Department of Corrections Building Relocation and Renovation – The Committee gave a favorable review of \$9.3 million to renovate the AHCCCS building at 701 E. Jefferson for occupancy by ADC. This amount includes \$5.1 million in ADOA FY 2022 building renewal funding and \$4.2 million from the Department of Corrections operating budget.

Consent Agenda

Arizona Game and Fish Department – Review of Patagonia Lake State Park Floating Restrooms and Pump Boat – The Committee gave a favorable review of \$454,600 to build 3 floating restrooms and 1 pumpout boat at Lake Patagonia State Park funded through Federal Funds and State Parks Board matching funds

Arizona Department of Transportation – Review of FY 2022 Building Renewal Allocation Plan – The Committee gave a favorable review of the department's \$15.7

million FY 2022 building renewal allocation plan. This includes \$15.4 million from the State Highway Fund for 130 projects and \$140,000 in contingency and project management support funding. Additionally, the department has allocated \$310,400 from the State Aviation Fund for 16 projects.

Arizona Department of Transportation – Review of Wickenburg Project – The Committee gave a favorable review of \$7.8 million to replace the maintenance facility located in Wickenburg. This includes \$4.6 million from the State Highway Fund appropriated in the FY 2020 Capital Outlay Bill and \$3.2 million from the State Highway Fund appropriated in the FY 2022 Capital Outlay Bill. The favorable review included a provision requiring additional project information.

Arizona State University – Review of New Academic Building and Campus Renovation Projects – The Committee gave a favorable review of \$198.9 million in system revenue bond issuances. This amount includes \$107.1 million to construct a new classroom office building and replace a utility tunnel network along with \$91.8 million for renovations to existing campus buildings. The favorable review included the standard university financing provisions.

Summary of Recent Agency Reports

Arizona Department of Administration – Report on the Financial Status of the Special Employee Health Insurance Trust Fund – Pursuant to A.R.S. § 38-654G, the Arizona Department of Administration (ADOA) submitted their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF). The actuarial assumptions used to develop HITF projections include healthcare trends (cost, utilization, and severity of services), enrollment trends, and revenue projections including employer premium increases. ADOA reported that the plan was not considered actuarially sound for Plan Year (PY) 2020 and is projected to not be actuarially sound in PY 2021 even with changes to the plan structure changes in PY 2021, including increasing employee premiums and deductibles.

ADOA's projections include the ongoing employer premium increase appropriated in the FY 2022 budget and assume no changes to employee premiums and deductibles in PY 2022. The preliminary estimates for PY 2022 for insurance benefits are not actuarially sound, as ADOA projects a negative fund balance for the end of PY 2022. ADOA reports uncertainty due to member behavior, COVID-19, and changes to medical trends in the market.

For PY 2021, ADOA assumes a combined medical and pharmaceutical trend of 0.6%, which consists of medical costs decreasing by (2.5)% and pharmaceutical costs increasing by 10.4%. For PY 2022, ADOA assumes a combined medical and pharmaceutical trend of 6.4% which consists of medical costs increasing by 3.2% and pharmaceutical costs increasing by 16.5%. ADOA expects medical enrollment to increase by 0.7% for PY 2021 and decrease by (0.4)% for PY 2022. (Rebecca Perrera)

Arizona Department of Administration – Report on Performance Standards for Health and Dental Plans – Pursuant to A.R.S. § 38-658B, the Arizona Department of Administration (ADOA) submitted its report on performance standards for health and dental plans during Plan Year (PY) 2020. If a vendor fails to meet any of the measures within the specified performance range, the vendor is required to submit a Corrective Action Plan detailing why the measure was missed and any actions taken to address the issue and improve performance to meet the standard. 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

Summary of Recent Agency Reports (Continued)

performance penalties paid to Benefit Services Division related to PY 2020 will total \$291,700. In comparison, ADOA collected \$228,700 from PY 2019 penalties. (Rebecca Perrera)

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, 2019 to September 30, 2020 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 decreased from 74.2% in October 2019 to 72.9% in September 2020. Monthly utilization also decreased, with total encounters costing \$10.8 million in October 2019 as compared to \$9.8 million in September 2020. The services accounting for the largest share of costs in September 2020 were Support Services (\$3.5 million), Inpatient Services (\$2.1 million), and treatment services (\$1.6 million). New monthly enrollment increased by 96 persons, from 836 to 932.

AHCCCS is currently unable to determine how many grievances reported by Regional Behavioral Health Authorities can be attributed to the DCS CHP population since it only receives the total number of grievances across all populations. AHCCCS reported it will work to provide the relevant data now that the statewide integration of behavioral health services within DCS CHP is complete, as of April 1, 2021. (Maggie Rocker)

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) 2020. 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 20.5% in HFY 2020.

The report included the following findings:

- Total uncompensated care costs increased by \$18.2 million, from \$441.8 million to \$460.0 million. As

a share of overall hospital expenses, however, uncompensated care remained unchanged at 2.5%.

- Total net operating profitability increased by \$392.7 million in 2020 for a total of \$1.5 billion. In addition, the average hospital operating margin increased by 1.6%, from 5.8% to 7.4%, and the share of hospitals with a positive operating margin increased from 69.9% to 74.1%.
- 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)

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

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

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

For FY 2021, the department took \$14.4 million in credits. The department paid \$2.1 million for the state match, and received \$12.3 million in net savings. Of the net savings, \$9,200 was for services rendered in FY 2019, \$3.2 million was for services rendered in FY 2020, and \$9.1 million was for services rendered in FY 2021. ADC utilizes the net savings to augment funding for the inmate health care contracted services. (Geoffrey Paulsen)

Office of Economic Opportunity – Arizona Industrial Development Authority – FY 2021 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 2021 were \$67.2 million, the majority of which (\$61.7 million) came from single

Summary of Recent Agency Reports (Continued)

family mortgage lending fees. The organization paid \$44.9 million in down payment assistance to Arizona homebuyers. Expenses for the year were \$8.5 million, leaving a net operating income of \$13.7 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 7,427 such loans for a total of \$1.8 billion in FY 2021.

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 2021, AZIDA closed 25 such bonds for a total of \$2.1 billion. These bonds financed 11 education projects, 7 multifamily affordable housing projects, 3 healthcare projects, and 4 commercial projects. (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 2021 report shows that the average number of children served decreased to 33,676, or (12.2)% below FY 2020; the number of families served decreased by (9.9)%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) decreased by (16.4)%, child welfare-related placements decreased by (13.8)%, the number of Temporary Assistance for Needy Families-related children decreased by (40.5)%, and the number of children receiving transitional child care decreased by (32.6)%. FY 2021 data includes a new category for children started in late FY 2020 -- the Essential Workers programs, which served 4,928 children in FY 2021. The wait list for child care subsidies remains at zero at the end of FY 2021. Currently, all eligible families are able to receive child care services immediately.

The amount spent by DES on child care subsidies decreased to \$180.8 million, a decrease of (18.3)% from FY 2020. DES reports the average monthly subsidy paid per child is \$447.48; this number is not comparable to prior years. The total amount of co-payments collected decreased by (12.0)% from FY 2020 to \$9.6 million. (Alexis Pagel)

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 service providers increased from 575 in FY 2020 to 658 in FY 2021, a 14.4% increase.
- The average number of service units per user increased by 30.4% between FY 2020 and 2021.
- Total payments to providers increased by approximately 37.8% between FY 2020 and FY 2021.
- The average number of units per user decreased by (28.7)% for employment services between FY 2020 and FY 2021.
- The consultant also noted that the percent of units paid using a standard fee on the fee schedule for nursing services was significant. They state that while it could be indicative of the lower usage and difficulty in attracting providers in some regions, their findings still suggest that clients are receiving the services for which they are authorized. (Alexis Pagel)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2021 – Pursuant to an annual General Appropriation Act footnote, the Department of Environmental Quality (DEQ) submitted its September 1 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 2021 expenditures of \$17.0 million. Revenues totaled \$17.9 million, including \$15.0 million in appropriations, \$2.4 million in fees, \$337,200 in other revenues, and \$137,200 recovered from responsible parties.

In FY 2022, DEQ plans to spend \$18.1 million on the WQARF Program for 36 sites, including \$10.0 million for registry sites and preliminary investigations, \$8.0 million for administration, and \$130,000 for the Department of Water Resources.

Pursuant to an annual General Appropriation Act footnote, DEQ also reported on the progress of each site listed on the WQARF registry. There are 12 potential steps in the WQARF process. At the end of FY 2021, DEQ reported 36 WQARF sites, one more than in FY 2020 as 1 site was added to the registry in FY 2021. In FY 2021, DEQ completed 3 remedial investigations, 1 feasibility study, 5 proposed remedial action plans, and 2 records of decisions. In FY 2021, 1.8 billion gallons of groundwater were treated, 1.3 million pounds of metals and other hazardous materials were removed, and

Summary of Recent Agency Reports (Continued)

2,738 pounds of volatile organic compounds were removed. (Ryan Fleischman)

Department of Health Services – Report on Public Health Emergencies Fund Spending – Pursuant to A.R.S. § 36-122 the Arizona Department of Health Services (DHS) is required to report to JLBC by September 1 annually any expenditures from the Public Health Emergencies Fund. Monies in the fund are spent on responses to public health emergencies in the state as declared by the Governor. In FY 2021, DHS reports spending \$55.5 million from the fund for the state's response to COVID-19 (see Table 7). DHS expects reimbursements from the Federal Emergency Management Agency (FEMA) public assistance program to cover a portion of the fund's expenses. (Morgan Dorcheus)

Table 7

Public Health Emergencies Fund COVID-19 Expenditures – FY 2021

COVID-19 Testing	15,089,400
Traveling Nurses	12,111,300
PPE Supplies	8,328,400
Post-Acute Bed Reserve	7,863,400
Communications	6,966,300
Arizona Surge Line	3,574,500
Warehousing	1,220,000
Contract Services	160,600
St. Luke's Hospital Build-Out	142,700
Other	7,600
Total ^{1/}	\$55,464,200

^{1/} Excludes \$36.2 million in expenditures that were initially charged to the Public Health Emergencies Fund and subsequently shifted to the Coronavirus Relief Fund.

Arizona Department of Homeland Security – Report on Homeland Security Funding – Pursuant to A.R.S. § 41-4255, the Arizona Department of Homeland Security submitted its annual report detailing grant allocations and expenditures for Homeland Security grants from Federal Fiscal Year (FFY) 2018 through FFY 2020. The report indicates that 16.3% of the FFY 2020 allocation has been expended. Information for FFY 2018 - FFY 2020 is included in Table 8 below.

The state was allocated and the Arizona Department of Homeland Security was awarded \$26.4 million in Homeland Security grants for FFY 2020. The department reported total expenditures of \$4.3 million, leaving \$22.1 million unexpended. State agencies were awarded \$3.1 million, of which \$950,400 has been expended. Local governments were awarded \$23.2 million, of which \$3.3 million has been expended. The largest local grantee was the Yuma County Sheriff's Office (\$2.2 million). State grantees were the Department of Public Safety (\$2.7 million), the Secretary of State (\$44,500), Northern Arizona University (\$18,000), and the Arizona Department of Administration (\$322,600). The largest individual grant of \$1.8 million went to the Yuma County Sheriff's Office for overtime and mileage under Operation Stonegarden.

Total combined state and local awards for FFY 2020 represented an increase from the amount received in FFY 2019. Arizona received \$26.2 million in total combined state and local awards in FFY 2018 and \$24.5 million in FFY 2019. Of the funds received, 92.9% have been expended for FFY 2018 and 77.1% have been expended for FFY 2019. (Alexis Pagel)

Department of Public Safety – Report on Border Strike Task Force Expenditures – Pursuant to a footnote in the FY 2022 General Appropriation Act, DPS is required to

Table 8

Awards and Expenditures by Homeland Security Grant Recipients

	FFY 2018	FFY 2019	FFY 2020
State Awards	\$3,124,900	\$3,949,500	\$3,125,500
Local Government Awards	<u>23,077,000</u>	<u>20,570,600</u>	<u>23,224,900</u>
Total Awards	\$26,201,900	\$24,520,100	\$26,350,400
State Expenditures	\$3,099,000	\$3,664,500	\$950,400
Local Government Expenditures	<u>21,234,200</u>	<u>15,232,800</u>	<u>3,345,300</u>
Total Expenditures	\$24,333,200	\$18,897,300	\$4,295,700
Percentage of Total Awards			
Currently Expended	92.9%	77.1%	16.3%

Summary of Recent Agency Reports (Continued)

submit an expenditure plan for the Border Strike Task Force Local Support line item. The FY 2022 budget appropriated \$1,261,700 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 and \$500,000 for grants to local governments for prosecutorial and jail costs associated with border-related crimes. The FY 2022 expenditure plan is similar to the FY 2021 DPS allocations. 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. (Jordan Johnston)

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 of each year 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 2021 the State Fleet Operations Fund has a cash balance of \$146,700 and the State Vehicle Replacement Fund has a cash balance of \$102,600. In FY 2021, 59 vehicles were replaced. The department further reports that the state fleet consists of 1,253 vehicles across 37 agencies.

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 159 vehicles currently in need of replacement.

ADOT also reports that due to the recent transition of the state fleet from the Arizona Department of Administration (ADOA) to ADOT, the number of vehicles not requiring replacement is unknown at this time. (Jordan Johnston)

Universities – Report on University Research Infrastructure Income – Pursuant to A.R.S. § 15-1670, Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) are required to submit an annual report on the amount of the previous year's income from licensure and royalty payments and the sale or transfer of intellectual property developed by the university. The universities transfer 20% of cumulative net income exceeding \$1.0 million to the Arizona Financial Aid Trust (AFAT). Net income is defined as total income from individual agreements, less expenses including costs such as revenue sharing to inventors and investors.

For FY 2021, ASU did not report total income, NAU reported \$80,100 in total income, and UA reported \$8.6 million in total income. ASU and NAU had no cumulative net income exceeding \$1.0 million, and UA had \$2.8 million in cumulative net income exceeding \$1.0 million. Pursuant to A.R.S. § 15-1670, UA will deposit \$568,100 into the AFAT. (Lydia Chew)

Arizona Economic Trends

October 2021

Appendix A

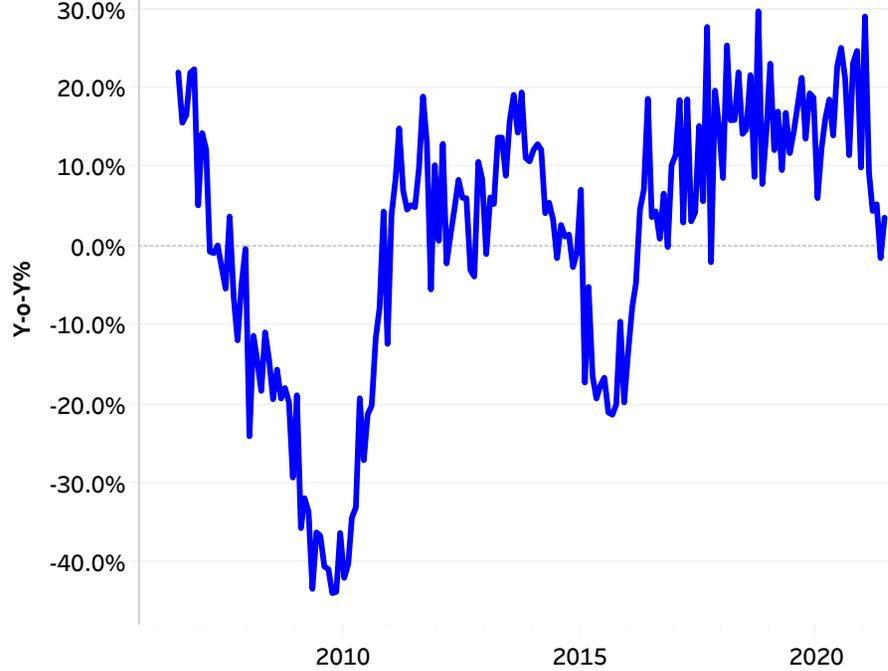
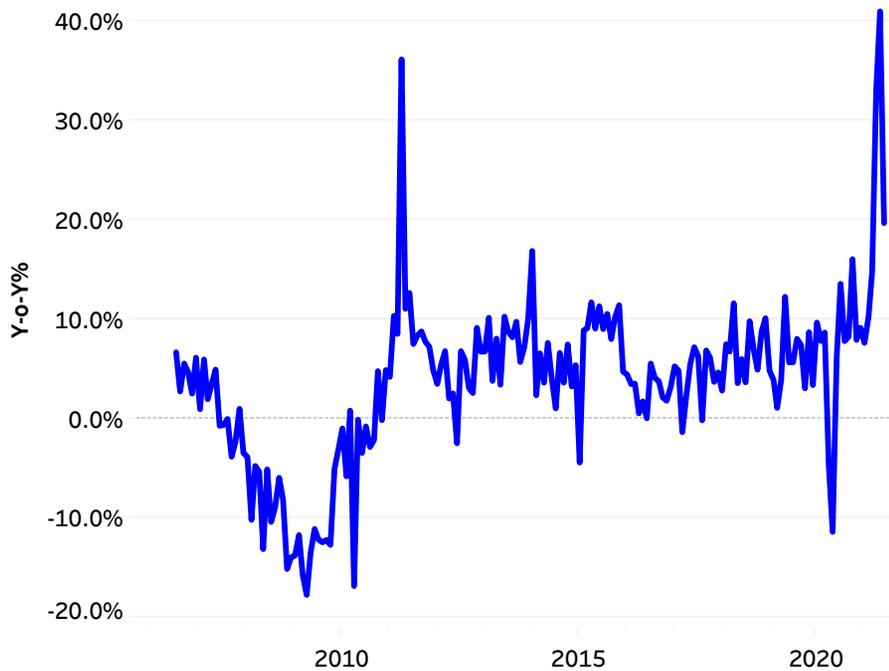
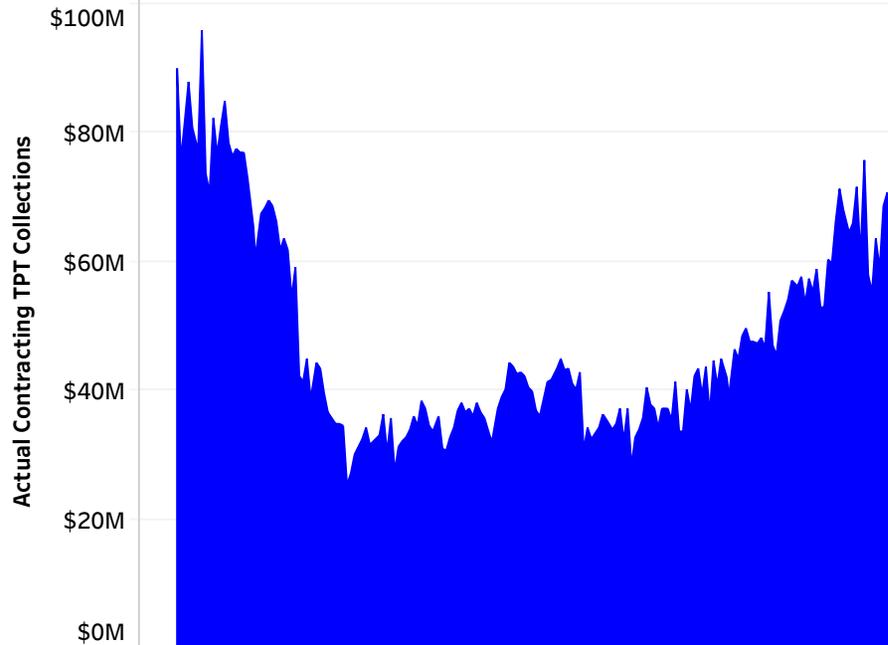
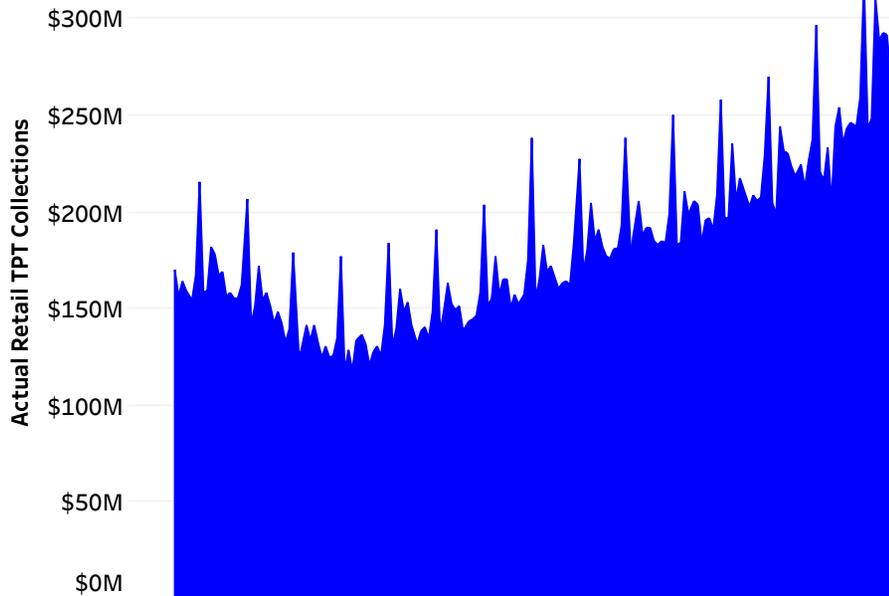
Page:

- 2.....State Sales Tax Collections – Retail Category
 - State Sales Tax Collections – Contracting Category
- 3.....Average Hourly Earnings – Private Sector
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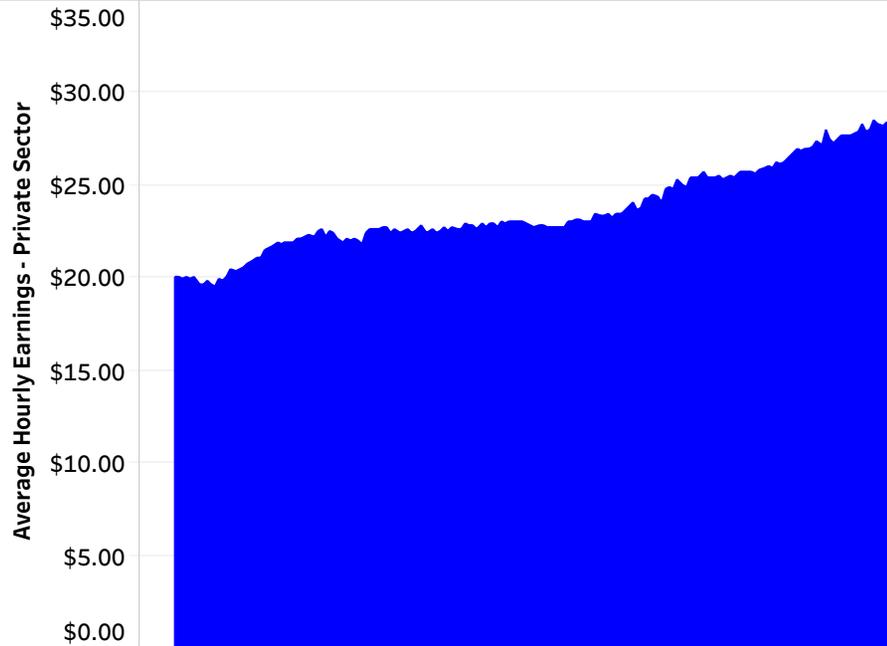
[Link to Most Recent Arizona Economic Trends Tableau Dashboard](#)

State Sales Tax Collections - Retail Category

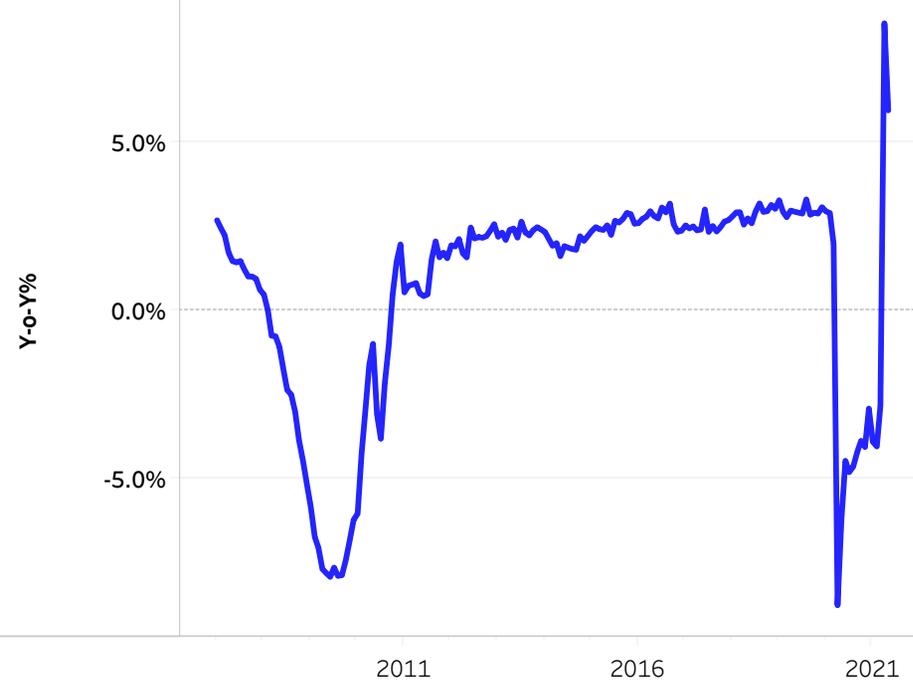
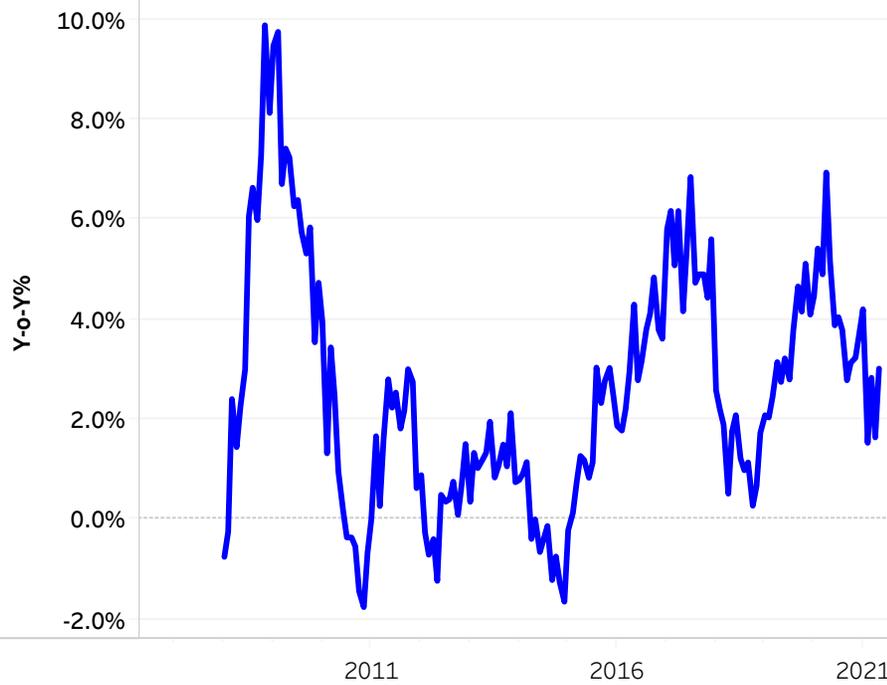
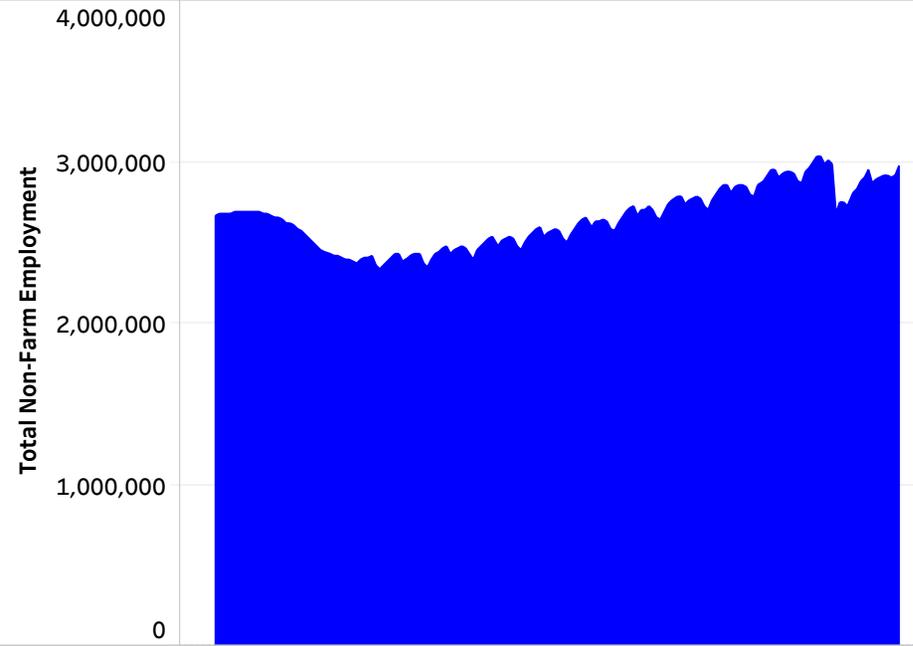
State Sales Tax Collections - Contracting Category



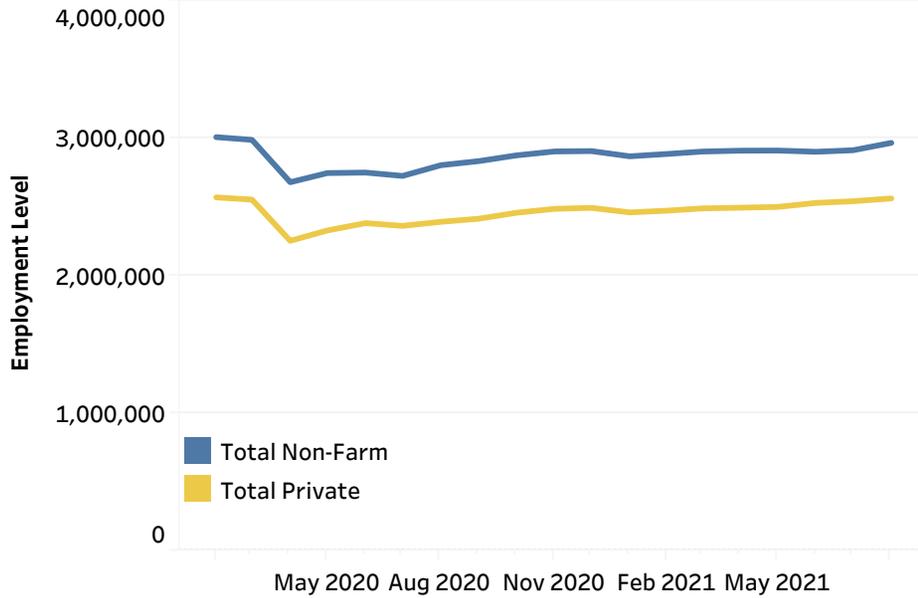
Average Hourly Earnings - Private Sector



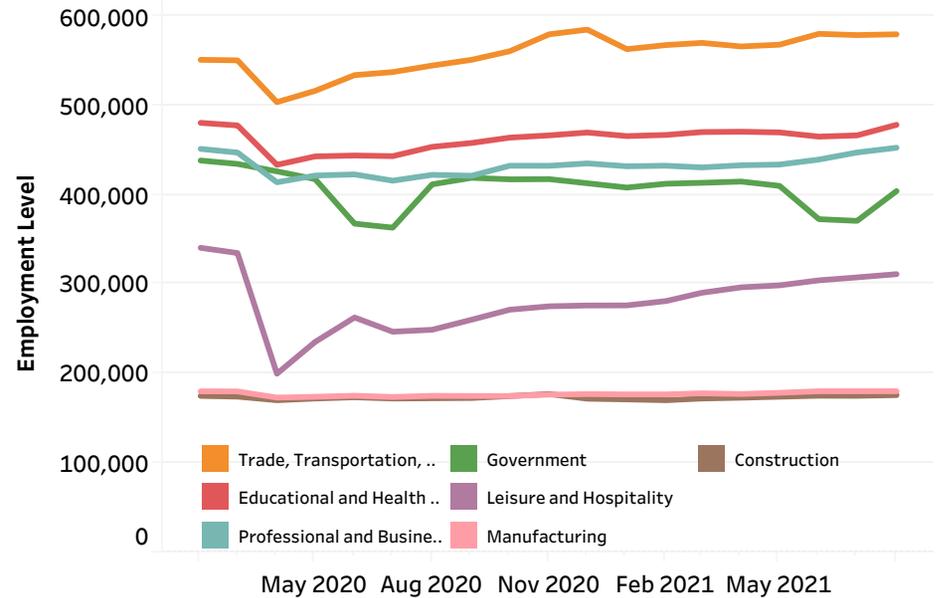
Total Non-Farm Employment



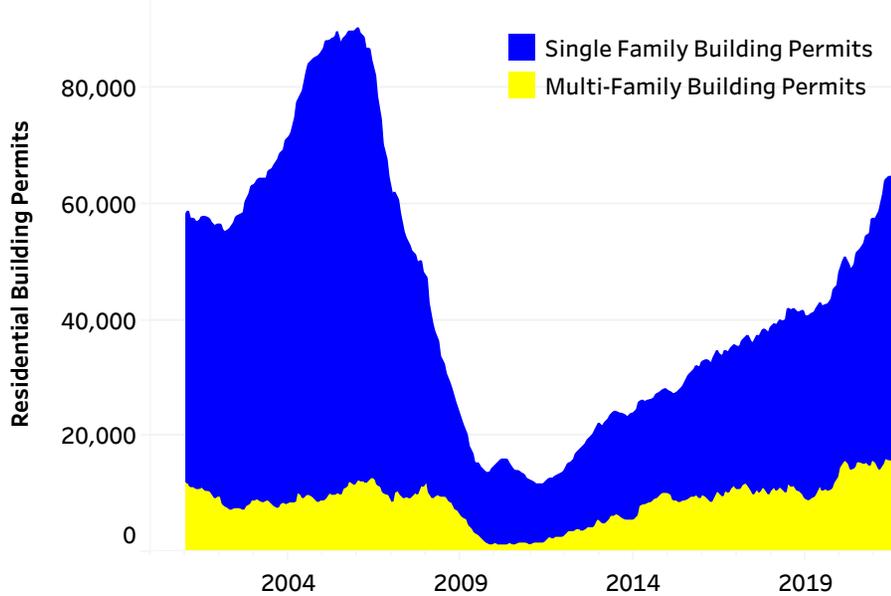
Arizona Total Non-Farm vs Total Private Employment



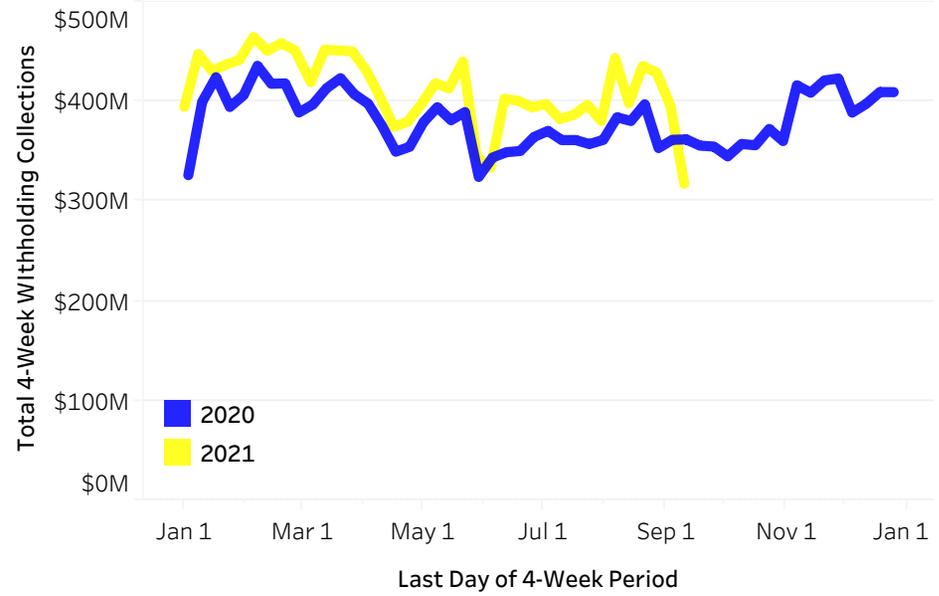
Arizona Employment by Category



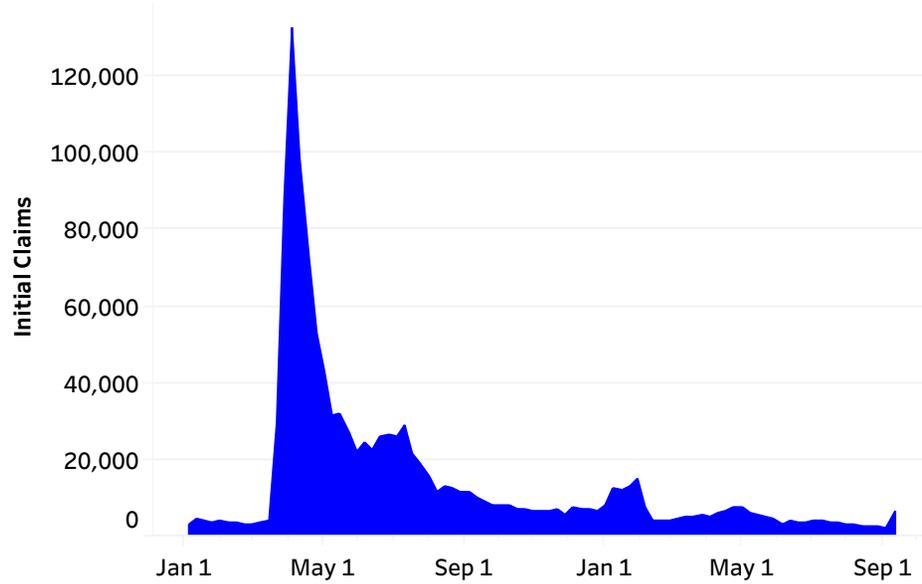
Residential Building Permits



Rolling 4-Week Withholding Total

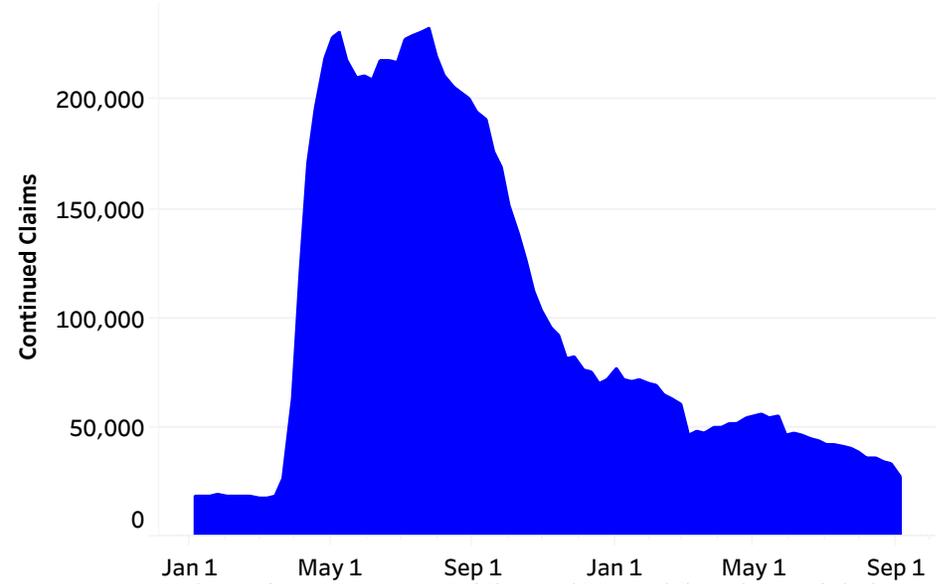


Initial Unemployment Insurance Weekly Claims



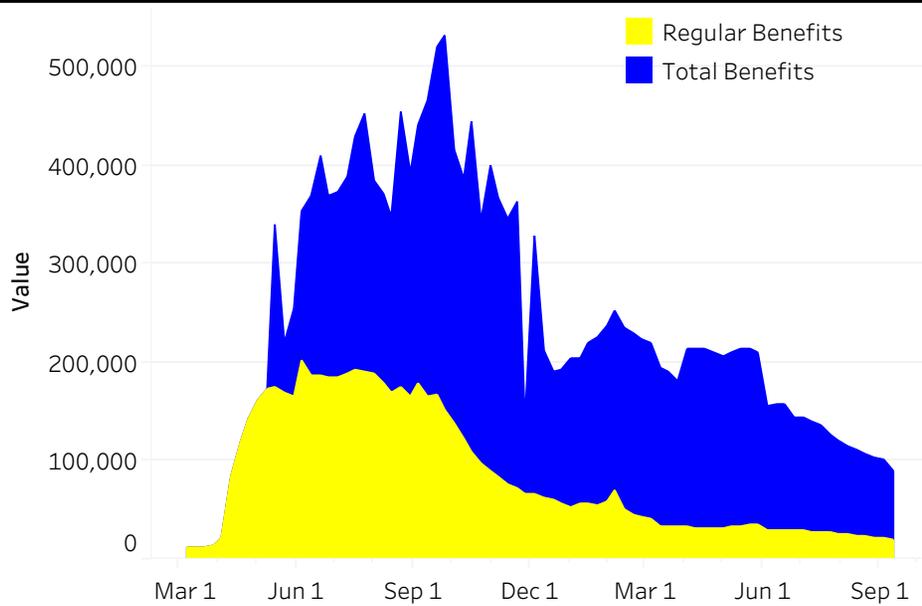
Reported Unemployment Insurance Initial Claims and Continued Claims do not include claims associated with the federally funded Pandemic Unemployment Assistance (PUA) program.

Continued Unemployment Insurance Weekly Claims

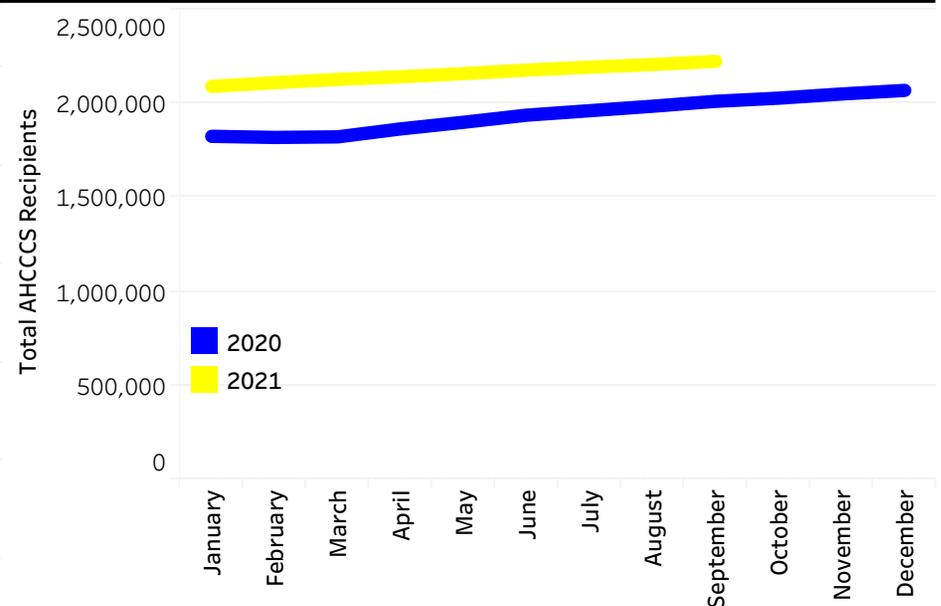


Reported Unemployment Insurance Initial Claims and Continued Claims do not include claims associated with the federally funded Pandemic Unemployment Assistance (PUA) program.

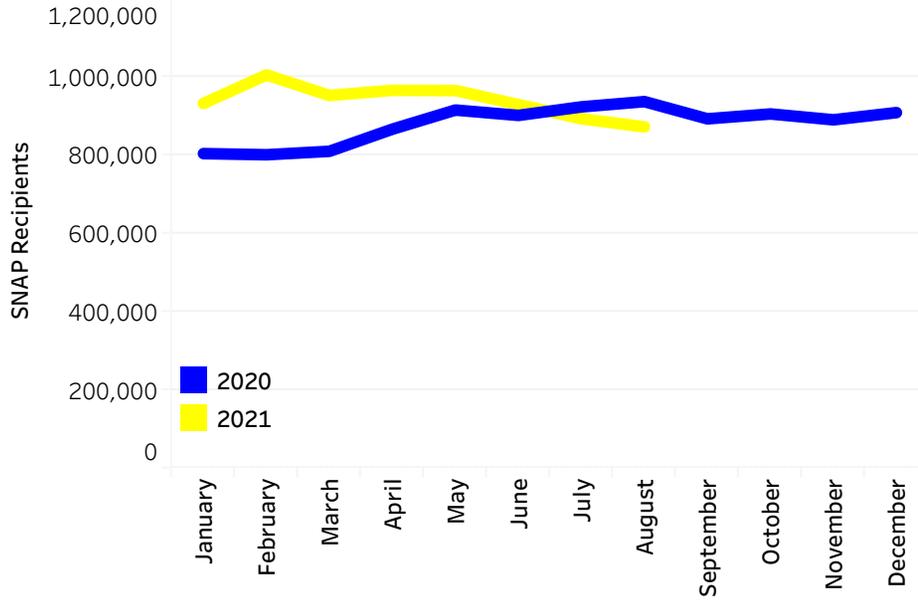
Unduplicated Unemployment Insurance Claimants



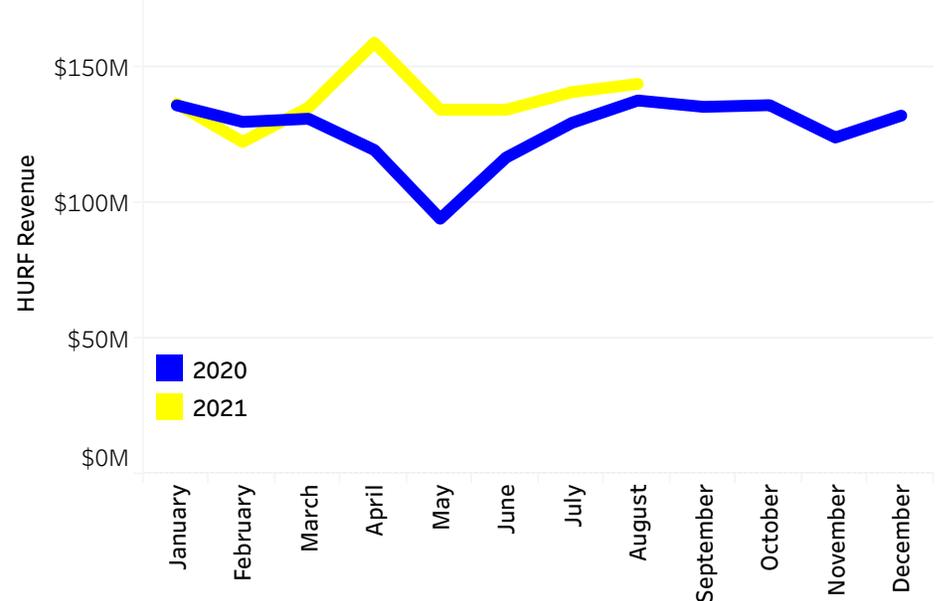
AHCCCS Recipients



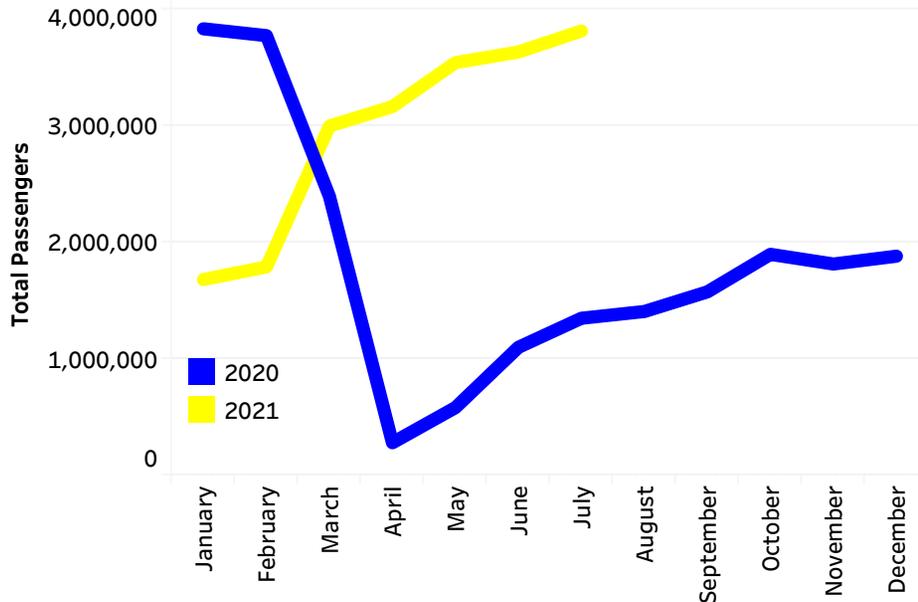
SNAP Recipients



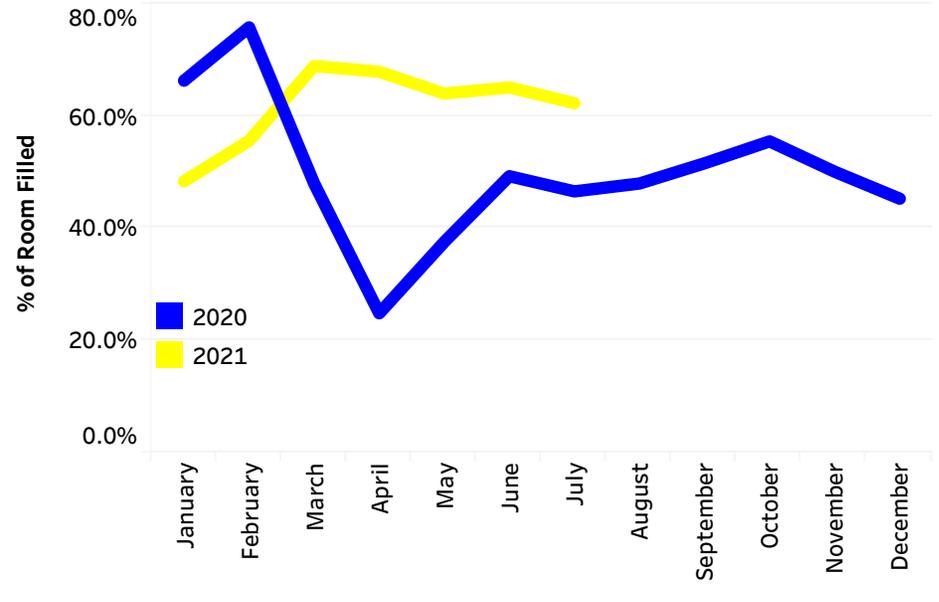
HURF Revenue



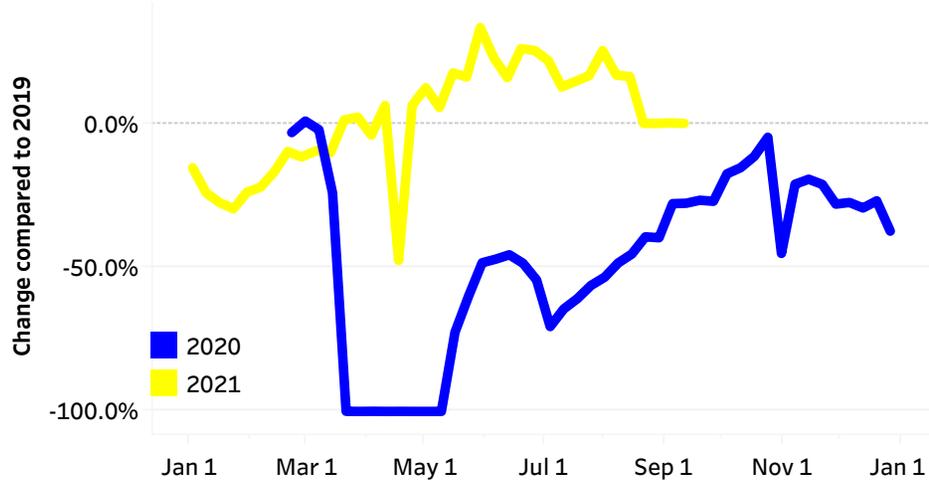
Sky Harbor Total Passengers



Arizona Hotel Occupancy



Arizona OpenTable Saturday Reservations



The 2021 OpenTable data displays the change in seated diners from 2019, rather than the year-over-year change from 2020.