

Summary

August 2024 General Fund collections totaled \$1.12 billion, which is an increase of 13.8% above August 2023. This level of August collections resulted in a forecast gain of \$33 million above the enacted budget's revenue forecast. Growth in the Sales Tax and Insurance Premium Tax categories generated most of the forecast gains for the month.

Sales Tax

August Sales Tax collections (which represent July sales activity) grew by 8.4% compared to August 2023, and collections were \$28 million above forecast. This Sales Tax growth rate, however, is overstated due to certain technical corrections made by DOR – absent those corrections the August Sales Tax growth rate would have been 4.9%.

Individual Income Tax

Overall Individual Income Tax (IIT) collections were 2.3% above August 2023 and \$(14) million below forecast for the month. This August IIT forecast loss occurred due to lower-than-expected withholding revenue and payments, with those losses partially offset by the state paying out less refunds than projected.

Corporate Income Tax

August Corporate Income Tax (CIT) revenues were 0.9% above the prior year, which generated a minor forecast loss of \$(5) million. August is typically a smaller collection month for the tax category.

Insurance Premium Tax

Insurance Premium Tax (IPT) collections posted another month of robust growth, increasing by 27% during August compared to the prior year. This performance resulted in a forecast gain of \$16 million for the category. The IPT category's recent strong growth is likely the result of significant insurance premium increases across a variety of insurance types.

Year-to-Date Results

Year-to-date through August, excluding Urban Revenue Sharing, FY 2025 General Fund revenues are 10.9% above the prior year and are \$119 million above the enacted budget forecast.

FY 2024 Ending Balance Update

Our office previously reported that preliminary data indicated that FY 2024 state revenues were \$412 million above the enacted budget revenue forecast. Beyond this initial data, a more complete accounting of the final FY 2024 results (including any gain or loss from state spending) was expected to be available in September – the Executive Branch is required to provide a preliminary estimate of the FY 2024 ending balance by September 15, 2024. At the time of publication, the Executive has not yet released this preliminary estimate.

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August Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2025	Difference From	Difference
	Collections	Enacted Forecast	From FY 2024
August	\$ 1,116.8	\$ 33.0	\$ 135.5
Year-to-Date	\$ 2,396.9	\$ 119.1	\$ 305.6

Sales Tax collections of \$664.3 million in August were 8.4% above the same month in the prior year and \$27.6 million above the enacted budget forecast. Year to date through August, sales tax revenue is up by 5.4% compared to the same period in the prior year and \$18.8 million above the enacted budget forecast.

Last August, the Department of Revenue (DOR) informed our office that historical sales tax collections for an extended period of almost 4 years had been filed and remitted under the wrong sales tax categories, and as a result, total revenue for this period was overstated by almost \$21 million.

For this reason, in August 2023, DOR made the necessary technical adjustments to correct for the past misreporting of collections, which required DOR to shift monies from the Use Tax category to the Retail category. As a result, sales tax revenue last August was reduced by \$(21) million, which means that the August 2023 tax base was artificially lowered by the same amount.

Absent this technical adjustment, the "real" sales tax growth in August 2024 would have been 4.9% and the adjusted year-to-date growth rate would have been 3.7%. *Table 2* shows the August growth rate for the 5 major sales tax categories, after adjusting for the DOR technical corrections.

Table 2		
August Sales Tax Growth Rates		
Compared to Prior Year		
	August	YTD
Retail/Remote Seller	3.8%	2.4%
Contracting	4.2%	0.0%
Use Tax	10.8	16.4%
Restaurant & Bar	(3.9)%	(0.1)%
Utilities	19.5%	12.9%

After adjusting for the correction of historical data discussed above, the combined Retail/Remote Seller category grew (year-over-year) by 3.8% in August. Year to date through August, this category is up by 2.4% compared to the same period in the prior year.

Sales tax collections from the Restaurant and Bar classification declined by (3.9)% in August, the first year-over-year decrease since July 2023. Year to date, tax revenue from this category is down by (0.1)%. The slowing trend observed over the last year is consistent with some surveys that suggest that consumers are eating out less frequently than previously or choosing less expensive menu items.

Sales tax revenue from the Utilities category increased by 19.5% in August and is up by 12.9% year to date. More detailed data from DOR indicates that almost 90% of this increase is attributable to household and business spending on electricity. Tax collections from the sale of electricity reached an all-time high in August 2024 (August tax collections reflect sales that occurred in July).

Individual Income Tax (IIT) net revenue was \$404.5 million in August, 2.3% greater than August 2023 but \$(13.9) million below the enacted budget forecast. Year-to-date (YTD) through August, IIT has increased 6.3% compared to the same time period in FY 2024, and IIT is \$5.0 million above the forecast.

Withholding collections in August were \$396.3 million, an decrease of (0.2)% relative to last year and \$(15.8) million under the enacted budget forecast. Most of the decline in withholding is attributable to an unusually high level of withholding refunds. In a typical month, between \$1-\$2 million in withholding refunds are issued. In August, there were more than \$14 million worth of refunds as the result of overpayment in a prior month. YTD, withholding is 3.1% greater than last year at this point but \$(3.4) million under the forecast.



Total (estimated plus final) tax payments were \$40.3 million in August, (17.0)% less than the previous August and a forecast loss of \$(7.4) million. Income tax payments in August typically make up approximately 2% of the fiscal year total. YTD through August, payments are down (6.6)% compared to last year and \$(3.2) million below the forecast.

August refunds were \$32.1 million, a (36.4)% decline compared to last year. Like tax payments, the refund level in August tends to represent about 2% of the fiscal year total. Since the enacted budget forecast assumed a higher refund level of \$41.4 million, the forecast gain for this category was \$9.3 million in August. YTD, refunds have decreased (29.4)% relative to the same time period in FY 2024, representing a forecast gain of \$11.7 million.

	<u>August</u>	<u>YTD</u>
Withholding	(0.2)%	3.1%
Estimated/Final Payments	(17.0)%	(6.6)%
Refunds	(36.4)%	(29.4)%

Net **Corporate Income Tax (CIT)** collections in August were \$18.2 million, an increase of 0.9% from last year but \$(4.6) million below the enacted budget forecast. This was a typical level of collections for August, which typically makes up about 2% of the fiscal year total. YTD, net CIT has grown 63.1% and has exceeded the forecast by \$50.8 million.

Insurance Premium Tax (IPT) revenue was \$87.0 million in August, an increase of 26.9% compared to the same month in the prior year. IPT revenue in August was \$15.6 million above the enacted budget forecast.

Any insurer with a tax liability of at least \$50,000 annually is required to make 6 monthly installment (or advance) tax payments from March to August of each calendar year. These tax payments, which reflect 15% of the actual IPT liability in the prior calendar year, can vary from month to month depending on when the payments are deposited into the General Fund. Beginning next month through the end of the fiscal year, IPT revenue will mostly consist of quarterly AHCCCS contractor taxes for estimated capitation payments. IPT revenue from these payments may be more in line with the enacted budget's expectations.

Fiscal year to date, IPT revenue is up by 24.6% and is \$27.2 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in August was \$1.6 million, which is 1.5% above August 2023 collections and less than \$50,000 above the enacted budget forecast. Year to date, General Fund tobacco tax revenues total \$2.8 million, (17.2)% below collections over the comparable period in FY 2024, and \$(0.4) million under forecast.

Liquor Tax revenue deposited into the General Fund in August was \$4.8 million. This is 51.2% greater than the amount deposited in August 2023 and \$1.6 million above the enacted budget forecast. Year to date, General Fund deposits from liquor tax collections total \$8.8 million, a 32.1% increase over the comparable period in FY 2024, and \$1.7 million above forecast.

Highway User Revenue Fund (HURF) collections of \$142.2 million in August were 2.5% above the amount collected in August 2023 and \$0.6 million above forecast. Year to date, HURF collections are \$286.4 million, 2.0% above the prior year and \$(0.3) million less than forecast.

The state collected \$12.8 million in dedicated **Marijuana Excise Taxes** in August, which represents a (12.9)% decrease from August 2023 collections. Monies from this excise tax are deposited into dedicated non-General Fund accounts. The total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) was \$4.7 million in August. Of this amount, the General Fund received \$3.5 million. (*Table 4* details collections for August 2024).

	<u>August</u>	<u>YTD</u>
Marijuana Excise Tax	\$12.8	\$25.9
Medical Marijuana TPT	\$0.9	\$2.4
<u>Distribution:</u>		
General Fund	\$0.7	\$1.8
Counties	\$0.1	\$0.4
Cities	\$0.1	\$0.2
Recreational Marijuana TPT	\$3.8	\$9.0
<u>Distribution:</u>		
General Fund	\$2.8	\$6.6
Counties	\$0.6	\$1.5
Cities	\$0.4	\$0.9
Total State Marijuana Tax Collections	\$17.5	\$37.2

* Amounts may not add to total due to rounding



Table 5

General Fund Revenue: Change from Previous Year and Enacted Forecast August 2024

	Current Month					FY 2025 YTD (Two Months)				
	Actual August 2024	Change From August 2023		Enacted Forecast		Actual August 2024	Change from August 2023		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$664,291,676	\$51,586,190	8.4 %	\$27,578,411	4.3 %	\$1,332,583,470	\$68,238,917	5.4 %	\$18,794,944	1.4 %
Income - Individual	404,523,432	9,267,167	2.3	(13,889,488)	(3.3)	882,828,341	52,148,332	6.3	4,995,754	0.6
- Corporate	18,203,874	160,974	0.9	(4,550,448)	(20.0)	162,092,510	62,713,304	63.1	50,829,776	45.7
Property	483,259	419,666	659.9	243,442	101.5	884,322	279,957	46.3	99,963	12.7
Luxury - Tobacco	1,591,574	24,084	1.5	48,526	3.1	2,800,859	(580,278)	(17.2)	(443,074)	(13.7)
- Liquor	4,818,753	1,632,697	51.2	1,605,319	50.0	8,756,152	2,127,714	32.1	1,738,275	24.8
Insurance Premium	86,957,033	18,436,882	26.9	15,572,050	21.8	156,669,565	30,906,804	24.6	27,198,495	21.0
Other Taxes	1,093,107	97,794	9.8	159,370	17.1	3,995,636	1,968,238	97.1	2,108,632	111.7
Sub-Total Taxes	\$1,181,962,706	\$81,625,453	7.4 %	\$26,767,183	2.3 %	\$2,550,610,855	\$217,802,989	9.3 %	\$105,322,764	4.3 %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
Gaming	2,901,330	2,901,330	--	763,217	35.7	2,901,330	1,269,866	77.8	(902,688)	(23.7)
License, Fees and Permits	5,272,139	(280,178)	(5.0)	9,420	0.2	9,160,216	443,795	5.1	(200,430)	(2.1)
Interest	27,706,105	27,699,717	--	4,560,537	19.7	27,647,645	27,634,897	--	4,497,790	19.4
Sales and Services	2,288,030	(1,043,309)	(31.3)	(83,719)	(3.5)	3,594,903	(823,017)	(18.6)	(497,716)	(12.2)
Other Miscellaneous	1,311,963	1,491,994	--	882,729	205.7	12,375,517	12,620,154	--	11,832,681	--
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,060,687	(1,615,230)	(60.4)	129,402	13.9	1,949,067	(2,741,912)	(58.5)	(941,409)	(32.6)
Sub-Total Other Revenue	\$40,540,254	\$29,154,324	256.1 %	\$6,261,586	18.3 %	\$57,628,679	\$38,403,784	199.8 %	\$13,788,228	31.5 %
TOTAL BASE REVENUE	\$1,222,502,961	\$110,779,778	10.0 %	\$33,028,768	2.8 %	\$2,608,239,533	\$256,206,773	10.9 %	\$119,110,993	4.8 %
Other Adjustments										
Urban Revenue Sharing	(105,688,149)	24,713,501	(19.0)	(0)	0.0	(211,376,298)	49,427,001	(19.0)	(0)	0.0
One-Time Transfers	0	0	--	0	--	0	0	--	0	--
Income Tax Rebate	(1,350)	(1,350)	--	(1,350)	--	(7,500)	(7,500)	--	(7,500)	--
Sub-Total Other Adjustments	(105,689,499)	24,712,151	(19.0) %	(1,350)	0.0 %	(211,383,798)	49,419,501	(18.9) %	(7,500)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,116,813,462	\$135,491,928	13.8 %	\$33,027,418	3.0 %	\$2,396,855,736	\$305,626,274	14.6 %	\$119,103,493	5.2 %
Non-General Funds										
Highway User Revenue Fund	142,235,766	3,526,433	2.5 %	632,812	0.4 %	286,381,361	5,517,020	2.0 %	(277,429)	(0.1) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) second estimate of U.S. **Real Gross Domestic Product (GDP)** in the 2nd quarter of 2024 is a seasonally adjusted annualized growth rate of 3.0%. This is an upward revision from the advance estimate of 2.8%.

The Conference Board's **Consumer Confidence Index** increased by 1.7 points to 103.3 in August. Future expectations and views on the present situation both improved during the month, but consumers remain concerned about inflation. Only 4.1% of respondents reporting planning to purchase a home in the next six months, which is the lowest level since 2013. Despite these concerns, this is the 3rd consecutive month of growth in consumer confidence, which is at its highest level since February 2024.

The **U.S. Leading Economic Index (LEI)**, published by the Conference Board, decreased (0.2) points to 100.2 in August. The largest factor in the decline was fewer new orders, which is at its lowest level since May 2023. Interest rates, pessimism regarding future business conditions, and declining stock prices in the month of August also contributed to the continued decrease in the index. Over the 6-month period ending in August, the LEI fell by (2.3)%, a smaller rate of decline than the (2.7)% decrease over the 6-month period between August 2023 and February 2024. According to the Conference Board's press release, "the LEI continued to signal headwinds to economic growth ahead."

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** in August increased by 0.2% from the previous month on a seasonally adjusted basis. Compared to the same month last year, consumer prices are up by 2.5% before seasonal adjustment, the smallest year-over-year increase since February 2021. The Core CPI, which excludes food and energy, is up by 3.2% from a year ago.

ARIZONA

Housing

In July, Arizona reached a 12-month total of 41,604 **single-family building permits** issued. This marks an increase of 1.0% above June's rolling total and an increase of 44.5% over the previous July's 12-month total.

Arizona's 12-month total of 20,710 **multi-family building permits** in July is (3.7)% below the prior month and (10.2)% below the 12-month period ending in July 2023.

The **median home price** in Maricopa County rose slightly to \$474,990 in August, a 0.4% increase from the median sale price in July and a 2.1% increase over the median home price a year prior.

Tourism

Phoenix Sky Harbor Airport Ridership remained around 4.2 million in July, marking a 0.6% increase over the prior month and a 9.5% increase over July 2023 ridership.

Hotel occupancy was 58.8% in July, which is (3.9)% below June's rate and (2.1)% below the rate 12 months prior.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state gained 43,600 **nonfarm jobs** in August compared to July. In the 10-year period prior to the pandemic (2010-2019), the state saw an average net gain of 54,000 jobs in August. Compared to a year prior, the state added 66,100 jobs in August, an increase of 2.1%.

The state's seasonally adjusted **unemployment rate** remained at 3.4% in August, the second lowest recorded jobless rate for the state since January 1976 (historical data prior to January 1976 is not available). The U.S. seasonally adjusted unemployment rate decreased to 4.2% in August from 4.3% in July.

OEO reported that a total of 3,445 **initial claims for unemployment insurance** were filed in Arizona in the week ending on September 7th. This represents a 13.5% year-over-year increase in initial claims, with the week ending September 9, 2023 seeing 3,034 initial claims.

According to OEO, there were a total of 31,399 **continued claims for unemployment insurance** in Arizona for the week ending August 31st. This is 8.8% greater than last year's total of 28,870 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 September 1, 2024, the total **AHCCCS caseload** was 2.10 million members. Total monthly enrollment decreased (0.6)% from August and decreased (4.5)% compared to a year ago.



Parent and child enrollment in the Traditional population decreased by (0.4)% in September compared to August, or (4.0)% compared to a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 943,351 – a decrease of (0.9)% from August and (5.7)% lower than last year.

For September 2024, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.4%. At 71,154, this population is 3.5% higher than a year ago.

Based on information the **Department of Child Safety** provided for July 2024, reports of child maltreatment totaled 42,646 over the last 12 months, a decrease of (2.4)% from the prior year.

There were 9,131 children in out-of-home care as of July 2024, or (15.2)% less than in July 2023. Compared to the prior month, the out-of-home children population declined by (1.0)%.

There were 10,215 individuals receiving **TANF Cash Assistance** in August 2024, representing a (0.2)% decline from July 2024. Year over year, the number of cash benefit recipients has decreased by (9.0)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. There were 956,251 individuals receiving SNAP benefits in August 2024, representing a (0.2)% decline from July 2024. Year over year, the number of SNAP recipients has decreased by (0.7)%.

The Arizona Department of Correction's **Inmate Population** was 35,271 as of August 31, 2024. This was a 0.4% increase since July 31, 2024 and a 2.9% increase since August 2023.



Table 6				
MONTHLY INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	August	3.4%	0.0%	(0.7)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2024	7.0%	(0.2)%	0.2%
- Initial Unemployment Insurance Claims	Week Ending Sep 7	3,445	(8.5)%	13.5%
- Continued Unemployment Insurance Claims	Week Ending Aug 31	31,399	(2.0)%	8.8%
- Non-Farm Employment - Total	August	3,242,600	1.4%	2.1%
Manufacturing	August	192,100	(0.9)%	(1.3)%
Construction	August	217,800	(0.1)%	2.7%
- Average Hourly Earnings, Private Sector	August	\$33.51	1.1%	5.1%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	July	41,604	1.0%	44.5%
Multi-family		20,710	(3.7)%	(10.2)%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	August	4,677	(7.7)%	(5.6)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	August	\$474,990	0.4%	2.1%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	July	4,248,303	0.6%	9.5%
- State Park Visitors	June	281,145	(3.8)%	(1.0)%
- Revenue Per Available Hotel Room	July	\$69.34	(12.6)%	(5.6)%
- Arizona Hotel Occupancy Rate	July	58.8%	(3.9)%	(2.1)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	1 st Q 2024	\$471.8 billion	8.4%	4.6%
- Arizona Population	July 2023	7,431,344	N/A	0.9%
- 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	September 1st	2,098,502	(0.6)%	(4.5)%
Traditional Acute Care		1,083,997	(0.4)%	(4.0)%
Other Acute Care		943,351	(0.9)%	(5.7)%
Long-Term Care – Elderly & DD		71,154	0.4%	3.5%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	July	42,646	0.2%	(2.4)%
DCS Out-of-Home Children	July	9,131	(1.0)%	(15.2)%
Filled Caseworkers (1406 Budgeted)	July	1,299	12	(57)
- ADC Inmate Growth	August	35,271	0.4%	2.9%
- Department of Economic Security				
- TANF Cash Assistance Recipients	August	10,215	(0.2)%	(9.0)%
- SNAP (Food Stamps) Recipients	August	956,251	(0.2)%	(0.7)%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	2 nd Q, 2024 (2 nd Estimate)	\$22.9 trillion	3.0%	3.1%
- Consumer Confidence Index (1985 = 100)	August	103.3	1.4%	(5.0)%
- Leading Economic Index (2016 = 100)	August	100.2	(0.2)%	(4.9)%
- Consumer Price Index, (1982-84 = 100)	August	314.8	0.2%	2.5%



Summary of Recent Agency Reports

Arizona Department of Administration – Report on FY 2025 Rent Exemptions – Pursuant to A.R.S. § 41-792.01, the Arizona Department of Administration (ADOA) is required to report to the JLBC Staff each proposed partial or whole Capital Outlay Stabilization Fund (COSF) rental exemption. ADOA is authorizing a partial FY 2025 rent exemption of \$(6,500) for the Department of Economic Security. The Office of Economic Opportunity will backfill the 362 square foot space at 1400 W Washington and pay the corresponding rent amount. (Destin Moss)

Arizona Department of Administration – Report on Financial Status and Performance Standards for Special Employee Health Insurance Trust Fund – Pursuant to A.R.S. § 38-654F, the Arizona Department of Administration (ADOA) submitted their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF) for Plan Year (PY) 2023 through PY 2025 and the performance standards for its health plans during PY 2023.

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

If a vendor fails to meet any of the measures within the specified performance range, a percentage of the vendor's annual payment, or a previously agreed upon amount, is then withheld by ADOA as a performance penalty. ADOA estimates that performance penalties paid to Benefit Services Division related to PY 2023 will total approximately \$1.1 million. In comparison, ADOA collected \$3.1 million from PY 2022 penalties. ADOA attributes the decline to vendor improvements to their processes and services. (Chandler Coiner)

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2024 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its final quarterly update of FY 2024 on all current projects funded through the Automation Projects Fund (APF). ADOA 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 10 as on track, 1 as completed, 1 as not yet started, 1 as at risk of becoming off track, and 2 as off track (the lowest category). The at risk project is:

Department of Revenue (DOR) STARS Tax System Modernization

ASET downgraded the DOR STARS project to at risk, citing DOR's inability to access the core software product on which the STARS system will be based and concerns that the current functionality of this software may not be sufficient to meet DOR's needs. The project budget is not currently expected to change, but the project is behind schedule and the timeline will need to be extended.

The 2 off track projects are:

ADOA Human Resources Information System (HRIS) Replacement

The Arizona Strategic Enterprise Technology (ASET) Office continues to list the ADOA HRIS Replacement as off track. In its third quarter report, ASET identified risks related to data conversion, resource management, and project oversight. At the May Information Technology Authorization Committee (ITAC) meeting, ITAC approved a change request that increased the total project budget from \$44.2 million to \$62.3 million and pushed the estimated project completion date from July 2025 to April 2026. Despite the approval of this change request, ASET still has significant concerns regarding the project's health and the current accuracy of project status reporting.

Department of Water Resources (DWR) Application Modernization

ASET continues to list the DWR Application Modernization as off track. ASET previously noted many risks faced by the project, including a vague scope and timeline, problematic contract terms, and poorly defined goals. ASET reports it has since worked with DWR to resolve each of these issues. ASET noted that the project outlook has improved, but still considers this project as off track due to the complexity of data conversion tasks.

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 4 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 DCSS ATLAS Replacement (DES), the DERS UI Benefits Modernization (DES), the DERS RSA Modernization (DES), and the Child Nutrition Program Web Replacement (ADE). Two projects that were previously off track have been upgraded to at risk or on track: the State Parks Broadband (ADOA) and the Educator Licensure/Certification Replacement System (ADE).

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 State Parks Broadband project (ADOA), the Health and Nutrition Delivery System 2.0 project (DHS), the Medicaid Enterprise System Mainframe Refactor (AHCCCS), the Business One Stop project (ADOA). The reports provided commentary on project progress that generally matched that of the quarterly APF report from ASET. (Destin Moss)

Department of Child Safety – Guardian Expense Report –

Pursuant to an FY 2025 General Appropriation Act footnote, the Department of Child Safety (DCS) reported on actual operating expenses for the Guardian case management system in SFY 2024 and the proposed operating expenses for SFY 2025.

In SFY 2024, DCS reported spending \$18.2 million on the Guardian case management system, including \$7.3 million for maintenance and operations, \$5.6 million for business analytics and reporting, and \$5.3 million for major enhancements. Business analytics includes data and reporting enhancements necessary to meet federal reporting requirements. Major enhancements pertain to system improvements required to meet federal requirements of the Comprehensive Child Welfare Information System.

In SFY 2025, the agency anticipates spending \$15.7 million on its case management system, or (13.7)% below SFY 2024 spending. This amount includes \$6.0 million for maintenance and operations, \$5.3 million for business analytics and reporting, and \$4.4 million for major enhancements. (Maggie Rocker)

County Treasurers’ Report – Report on the Government Property Lease Excise Tax – Laws 2015, Chapter 10, Section 8 requires each county treasurer to report to the Joint Legislative Budget Committee (JLBC) by February 15 of each year the amount of Government Property Lease Excise Tax (GPLET) collected in the preceding calendar year.

GPLET was enacted in 1996 (Laws 1996, Chapter 349) to allow cities, towns, counties, and county stadium districts ("government lessors") to lease property that they own to private parties ("prime lessees") for commercial, residential rental, or industrial purposes for at least 30 days.

Because the Arizona Constitution exempts federal, state, county, and municipal property from taxation, government lessors do not have to pay any property taxes. Instead, the prime lessees are required to pay a GPLET on the building ("government property improvement") that they lease from the government lessor. Unlike the property tax, GPLET is based on factors other than a property’s assessed value, such as a building’s square footage and usage.

Table 7 below shows the reported GPLET collections by county in Calendar Year (CY) 2023.

County	Total GPLET Collections
Apache	*
Cochise	\$0
Coconino	1,158,854
Gila	0
Graham	0
Greenlee	0
La Paz	0
Maricopa	12,343,322
Mohave	212,437
Navajo	3,830
Pima	525,743
Pinal	33,212
Santa Cruz	0
Yavapai	35,171
Yuma	133,964
Statewide Total	\$14,446,533

*Did not provide a report for CY 2023.



As shown in the table, based on the reports from 14 of the state's 15 counties the total amount of GPLET collections in Arizona in CY 2023 was \$14.4 million, which is (4.0)%, or \$(598,428) less than the total amount collected in CY 2022. Apache did not provide a GPLET report for CY 2023.

Slightly more than 85% of statewide GPLET revenue in CY 2023 was collected in Maricopa County. Several counties, including Cochise, Gila, Graham, Greenlee, La Paz, and Santa Cruz, reported that no GPLET revenue was collected in CY 2023. (Hans Olofsson)

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

In the third quarter of FY 2024, the ARRF received revenues totaling \$6.2 million and had expenditures totaling \$4.8 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru account of the Arizona Attorney General at \$2.6 million. Agencies participating in Arizona Attorney General cases accounted for the highest expenditure total in the quarter with \$1.4 million in ARRF monies spent.

In the third quarter of FY 2024, participating agencies received \$2.2 million in net collections from seized assets originally valued at \$3.6 million. Net collections increased by \$1.5 million, or 216.5% from the previous quarter. Net collections were highest in the Attorney General's Office at \$1.6 million, which derived from forfeitures valued at \$2.4 million. Some assets and properties were released back to the owner, but most were retained or sold by law enforcement.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the involved state and local investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited into the fund and used in accordance with state and federal guidelines. Monies in ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (James Martinez-Burney)

Department of Economic Security – Report on Arizona Training Program at Coolidge (ATP-C) Campus Total Costs – An FY 2024 General Appropriation Act footnote requires the Department of Economic Security (DES) to report on total costs associated with the ATP-C for FY 2024. DES reported \$23.7 million in total costs. This is a (4.0)% decrease from the \$24.7 million spent in FY 2023. The total number of ATP-C clients decreased from 55 in FY 2023 to 51 in FY 2024. Due to the closure of the remaining State Operated Group Homes (SOGH) at ATP-C in FY 2023, the residents of the SOGHs have now successfully transferred to several of the on-campus Intermediate Care Facilities (ICF). (Chandler Coiner)

Department of Economic Security - Notification of Use of Budget Stabilization Fund for Reimbursement Grants - Pursuant to an FY 2024 General Appropriation Act provision, the Department of Economic Security (DES) notified the Committee of its intent to use \$25 million from the Budget Stabilization Fund for reimbursement grants on June 4, 2024. DES reimbursed the \$25 million to the Budget Stabilization Fund in full on August 30, 2024, as part of the closing process for FY 2024. (Chandler Coiner)

Department of Economic Security – Report on Federal COVID Child Care Monies – Pursuant to an FY 2025 General Appropriations Act footnote, the Department of Economic Security (DES) reported on the status of federal Child Care and Development Block Grant (CCDBG) monies provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Consolidated Appropriations Act (CAA); and the American Rescue Plan Act of 2021 (ARPA). The footnote also requires that DES report on the number of children supported by these federal COVID monies, the average monthly child care reimbursement rates, and the number of child care settings with a quality rating.

DES reports having spent the entirety of the \$88.0 million for discretionary CCDBG funding from the CARES Act for programs and initiatives. Of the \$621.5 million in discretionary CCDBG funding from the CAA and ARPA, DES reports year-to-date expenditures of \$612.8 million. As a result, \$8.7 million is available for expenditure for the remainder of FY 2025. These funds must be fully expended by September 30, 2024.

The ARPA also provided an additional \$596.4 million in CCDBG stabilization funding. DES reports to have spent the entire CCDBG stabilization funding.

DES provided updated information on several programs and initiatives funded from COVID child care initiatives:



- The Arizona Education Workforce Scholarship Program has served an average of 2,175 children each month at an average monthly reimbursement rate of \$1,101.83.
- Continued child care waitlist suspension supported by COVID funding served an average of 21,587 children each month at an average monthly reimbursement rate of \$1,054.44. The child care waitlist was reinstated in August 2024.

DES reports that as of July 2024, 954 providers enrolled in the Quality First Program achieved a high quality rating, defined as a setting that has a three, four, or five star FTF rating. (Grace Timpany)

Department of Economic Security – Report on Temporary Assistance for Needy Families (TANF) Grant Diversion Program – Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) provided the FY 2024 annual report on the TANF Grant Diversion Program. The program’s purpose is to divert applicants from long-term TANF cash assistance by offering immediate, one-time assistance to resolve a financial crisis. In FY 2024, 3,216 applicant households chose the grant diversion option and were diverted from long-term assistance, an increase of 111 from FY 2023. A total of 2,187 households obtained employment within 90 days of receiving assistance under the diversion program during the 12-month period of April 2023 through March 2024. Through January 2024, the most recent month for which complete data is available, 122 of 1,865 households, or 6.5%, reapplied for long-term assistance within 180 days of their participation in the diversion program. Complete data for FY 2023 indicates 215 of the total 3,105 households receiving diversion payments, or 6.9%, reapplied within 180 days, a decrease from the FY 2022 rate of 7.3%. (Chandler Coiner)

Arizona Department of Education – Report on Failing Schools Tutoring Fund Planned Expenditures – Pursuant to a provision in the FY 2025 K-12 Education BRB, the Arizona Department of Education (ADE) reported on proposed expenditures of its \$1,500,000 appropriation from Education Sales Tax revenues to the Failing Schools Tutoring Fund, which may be used to purchase materials to assist students in meeting Arizona academic standards and to achieve passing scores on statewide assessments. ADE plans to use \$1,113,900 from the fund for assistance to districts and charter schools for approved tutoring providers, Project Momentum grants, and other school improvement grants. The department intends to allocate the remaining \$356,100 for operating costs, including 4.3 FTE Positions. (Patrick Moran)

Arizona State Parks Board – Report on Reallocation of Capital Appropriations – Pursuant to a provision in the FY 2025 Capital Outlay Bill, the Arizona State Parks Board (ASPB) submitted a report to JLBC staff detailing their plan to reallocate monies across the projects listed in sections 6, 19, and 20 of the FY 2023 Capital Outlay Bill (Laws 2022, Chapter 309) after \$38.2 million was transferred from the State Parks Revenue Fund to the General Fund in FY 2024.

Of the 26 projects originally appropriated in FY 2023, ASPB canceled 10 projects totaling \$22.7 million. In lieu of cancelling additional projects to make up for the full \$38.2 million fund transfer, the Board plans to complete the remaining projects as additional monies become available in the State Parks Revenue Fund. (Nate Belcher)

State Treasurer – Report on Expenditures of Interest Earnings – Pursuant to a General Appropriation Act footnote, the State Treasurer submitted a report on expenditures of interest earnings for services pursuant to A.R.S. § 35-315 and 35-318. Expenditures totaled \$3.2 million in FY 2023, \$3.2 million in FY 2024, and they are projected to total \$9.5 million in FY 2025. These costs are paid from General Fund interest earnings. Expenditure categories include: banking service contracts, custodial banking services, administration and information technology (including general ledger replacement), payment card industry compliance, external investment management services and investment advisory and support services. (Destin Moss)

State Treasurer – Report on Smart and Safe Arizona Fund Expenditures – Pursuant to A.R.S. § 36-148, the State Treasurer submitted a report detailing actual distributions made in FY 2024 and estimated distributions for FY 2025 from the Smart and Safe Arizona Fund (SSAF) to the Department of Health Services (DHS), the Department of Revenue (DOR), the Supreme Court, the Department of Public Safety (DPS) and the State Treasurer for the actual reasonable costs incurred by these entities to implement and enforce the provisions of the Smart and Safe Arizona Act (Proposition 207).

In FY 2024, the Treasurer distributed a total of \$13.5 million to these entities from SSAF. Of this amount, \$12.7 million was distributed to DHS, \$660,400 was distributed to DOR, \$192,700 was distributed to the Supreme Court, \$4,100 was distributed to DPS, and \$1,300 was retained by the Treasurer for administrative purposes. In FY 2025, the Treasurer expects to distribute \$12.5 million in SSAF monies to DHS, \$524,000 to DOR, \$200,000 to the Supreme Court, \$22,000 to DPS, and expects to retain \$2,000 to administer the fund. (Destin Moss)



Arizona Board of Regents – Report on College Credit by Exam Incentive Program – Pursuant to A.R.S. § 15-249.06, the Arizona Board of Regents (ABOR) submitted a list of qualifying examinations that a high school student may take to receive collect credit in mathematics, English language arts, social studies, or science at the state's public universities. For the 2024-2025 academic year, ABOR added 1 new Advanced Placement exam in Precalculus to the list of qualifying examinations. (Grace Timpany)

Arizona Board of Regents – Report on Cost Containment – A.R.S. § 15-1650.03B requires the Arizona Board of Regents (ABOR) to annually provide the following information for each of Arizona's 3 universities:

Historical Increases in Tuition and Fees, Housing, and Meal Plans

From FY 2014 to FY 2024, costs of tuition, fees, housing, and meal plans increased by approximately 27.8% at ASU and 36% at NAU. Meal plans were not previously required for UA students but as of FY 2024, are required at a cost of \$5,659. Costs increased 30.7% at UA, excluding meal plans and 63.7% including meal plans.

Increases and Faculty and Staff FTE Counts and Total Salaries

From FY 2014 to FY 2024, total salaries for university employees across all classifications increased by 101.7% at ASU, 48.6% at NAU, and 45% at UA. These increases compare to a 53.7% increase in the number of faculty at ASU (5,931 FTE Positions), 15.9% at NAU (468 FTE Positions), and 24.3% at UA (2,978 FTE Positions).

Changes in Credit Hour Requirements

From FY 2014 to FY 2024, NAU reports a 1 credit hour increase for Civil Engineering. In the same time period, UA reports 11 programs increased credit hour requirements by up to 9 credit hours. ASU reports no changes in credit hour requirements.

Faculty Time Allocations

At all 3 universities, 20% of faculty and resources are dedicated to administrative duties, professional development, and service. ASU and UA faculty dedicate 40% of their remaining time to teaching and 40% to research, while NAU faculty dedicates 50% to teaching and 30% to research.

Non-Traditional or Low-Cost Degree Options

All Universities offer accelerated graduate degree programs. Alternative degree earning programs and community college pathway programs are also available at all 3 universities.

Cost Containment Actions

All universities report utilizing contract renegotiations, staffing initiatives, and reducing travel and transportation expenses to contain costs in FY 2024. Additional examples of actions taken over the last year include:

- ASU: Modified EdPlus outreach strategies, enrollment processes, and service providers.
- NAU: Changed procurement processes and third-party partnerships, increased energy efficiency, and business process improvements.
- UA: Centralized financial operations including staffing and payroll system changes, reorganized administrative services, and reduction of unit budgets.

(Grace Timpany)

Universities – Report on One-Time Operating Funding –

Pursuant to footnotes in the FY 2025 General Appropriation Act, the universities are required to report the intended use of \$46 million appropriated from the General Fund in FY 2025 for one-time funding:

Of the \$21.2 million appropriated to ASU, \$8 million will be used for the development of the School of Medicine and Advanced Medical Engineering, \$4 million will be used for the School of Technology for Public Health, \$3.5 million will be used on expanding Arizona's nursing workforce, \$3.2 million will be used for the Health Observatory, and \$2.5 million will be used to develop digital outreach initiatives and content on health literacy.

The \$10.1 million appropriated to NAU will be used to expand Nursing, Allied, and Behavioral Health programs across the state. All of the funding will be used on staffing and operations to add healthcare programs including Doctor of Physical Therapy, Interdisciplinary Health PhD, MS in Medical Science, Physician Assistant program expansion, and an accelerated BS in Pre-Health and Medicine.

Of the \$14.7 million appropriated to UA, \$7.3 million will be used to expand Arizona Cooperative Extension programs, \$3.7 million will expand the Cancer Engineering research and workforce training programs, and \$3.7 million will support the university's One Health research initiatives. (Grace Timpany)

