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**"August
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enacted
budget
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Summary

August 2021 General Fund revenues totaled \$1.07 billion, which is 20.5% above August 2020. August revenues were \$192 million above the enacted budget forecast. Continuing a trend from the prior month, the state's very strong revenue gains occurred mostly in the Sales Tax and Individual Income Tax categories.

Sales Tax

August Sales Tax collections grew by 15.6%, marking the sixth consecutive month of double-digit growth. The revenue category posted a forecast gain of \$62 million during August. Sales Tax collections continue to see broad-based growth across a variety of tax classifications, including significant gains in retail and remote online sales.

In addition, revenue collections for the service-based sectors now well exceed their pre-pandemic levels from August 2019: restaurant/bar (23% increase), hotel/motel/online lodging marketplace (29% increase) and amusements (34% increase). The one notable exception to Sales Tax growth is the contracting classification, which has been generally declining from its recent peak in January 2021. (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 20.6%, ending up \$104 million above the enacted budget forecast. The IIT growth was driven by gains in withholding tax collections, which increased by 22.2% above August 2020. The withholding

growth is likely related to 2 issues: 1) A technical timing issue where a large deposit appears to have shifted from the end of July to early August; and 2) Strong growth in wage/salary payments, which have recently grown by approximately 10% according to national data.

Year-to-Date Results/Operating Balance

Year-to-date through August, excluding Urban Revenue Sharing and fund transfers, FY 2022 General Fund revenues are (6.9)% below the prior year and \$337 million above the enacted budget forecast. The percentage decline 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 by including a significant amount of final income tax payments.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-September 2021 is \$5.66 billion.

Preliminary FY 2021 Ending Balance Report

The Executive Branch was required to provide a preliminary estimate of the FY 2021 ending balance by September 15, 2021. The state's General Accounting Office (GAO) is currently reporting the FY 2021 ending balance to be \$894 million. GAO reports there may be additional adjustments as the state continues its book closing process over the next several months. This preliminary figure is \$452 million above the enacted budget projection of \$442 million.

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August Revenues

Table 1

General Fund Revenues (\$ in Millions)			
	FY 2022 Collections	Difference From Budget Forecast	Difference From FY 2021
August	\$ 1,069.8	\$ 191.9	\$ 181.7
Year-to-Date	\$ 2,254.8	\$ 336.6	\$ (167.6)

Sales Tax collections of \$554.5 million were 15.6% above August of last year and \$61.7 million above the enacted budget forecast. On a year-over-year basis, sales tax collections have increased for 15 consecutive months.

As shown in *Table 2*, all sales tax categories performed well in August compared to the same month in the prior year except for Contracting, which decreased by (9.5%). After historically high growth in the past 3 years, Contracting revenue began slowing in February this year and has declined in 3 of the last 4 months. Prior to the slowdown in February, contracting tax revenue grew at double-digit rates for 12 consecutive months.

Detailed taxable sales data by construction sector indicates that 87% of the decline in prime contracting tax revenue in August was attributable to Heavy and Civil Engineering Construction, which includes activities such as highway, street, and bridge construction. In the 12 months leading up to February 2021, the amount of contracting tax collections from this sector was 3 to 4 times above the historical average. Since this time, heavy construction activity has started to revert to more normal levels.

The Restaurants and Bar category posted its fifth consecutive month of double-digit growth in August. The large percentage increase is due to the low level of sales that occurred in the industry during the early stage of the pandemic at the same time last year. Compared to August 2019, before the pandemic, tax collections from sales in restaurants and bars are up by 23%.

Retail sales (excluding remote sales) recorded a 15.2% increase year over year in August, which marked the 15th consecutive month of growth. A little more than 32% of the retail sales tax increase in August was attributable to auto sales. The sales of clothing and accessories accounted for 18% of the gain. Compared to August 2019, the Retail category is up by 24%.

Amusements, one of the categories most adversely affected by the Covid-19 pandemic, recorded its fourth consecutive month of triple digit growth in August.

Compared to August 2019, sales in this category have grown by 34%.

After 14 consecutive months of year-over-year declines, growth in the Hotel/Motel category turned positive for the first time in April 2021. Since April 2021, sales tax revenue from this category has increased by 113%. The amount of collections in August was the highest on record for that month.

Table 2

Sales Tax Growth Rates Compared to Prior Year

	<u>Aug</u>	<u>YTD</u>
Retail/Remote Seller	15.4%	16.1%
Contracting	(9.5)%	(5.1)%
Use	15.3%	12.0%
Restaurant & Bar	44.0%	37.7%
Utilities	4.6%	11.9%
Hotel/Motel Lodging	80.6%	76.5%
Amusements	301.6%	321.4%

Table 3 below lists taxable sales by retail subcategory in August, excluding remote sales. Retail growth occurred in all subcategories except for Food and Liquor Sales, with the strongest growth in Clothing and Accessories.

Table 3

August Retail Taxable Sales By Subcategories

	<u>Aug. %</u>	<u>% Share of Retail Sales</u>
Auto Sales/Other Automotive	24.7%	21.4%
Building Materials, Lawn/Garden	7.0%	8.6%
Clothing and Accessories	78.7%	5.4%
Food and Liquor Sales	(3.9)%	5.3%
Furniture/Home Finishing	12.7%	7.0%
General Merchandise	11.8%	12.0%
Miscellaneous Retail	3.2%	16.0%
Wholesale	8.2%	6.1%
All Other	24.7%	18.2%
Total – Retail Classification	15.2%	100.0%

All contracting subcategories decreased during August, except for Specialty Trade, as shown in *Table 4*. As noted earlier, most of the overall Contracting decline was attributable to Heavy Construction.

August Revenues (Continued)

Table 4 Aug. Growth Rates – Contracting Subcategories Compared to Prior Year	
Heavy Construction	(57.9)%
Nonresidential Construction	(2.0)%
Residential Construction	(0.8)%
Specialty Trade	0.1%
All Other	(3.7)%
Total – Contracting Classification	(9.4)%

Individual Income Tax (IIT) net collections in August were \$474.8 million, 20.6% above August 2020 and \$103.9 million above the enacted budget forecast. This forecast gain is primarily attributable to strong withholding growth. Year to date (YTD) through August, IIT collections are down by (29.7)% compared to the same period last year. However, after adjusting for the impact of last year's tax filing deferral, which shifted an estimated \$550 million from FY 2020 to FY 2021, IIT revenue is up by 16.2% YTD.

Table 5
Individual Income Tax Growth Rates Compared to Prior Year

	<u>August</u>	<u>YTD</u>
Withholding	22.2%	9.5%
Estimated/Final Payments	(25.2)%	(80.4)%
Refunds	(15.5)%	(63.6)%

Withholding revenue in August grew by 22.2% compared to the same month in the prior year and was \$111.1 million above the enacted budget forecast. This followed July's year-over-year decline of (1.8)%. There are at least 2 possible explanations for the stronger-than-projected growth rate in August. First, there was one more processing day in the month of August compared last year. As a result, there was an unusually large deposit on the first day of August for which a significant portion likely would have been credited to July if not for the difference in processing days. Second, due to the strong economic recovery, there has been a significant acceleration in wage growth in recent months. According to national data, wage and salary disbursements in June and July combined increased, year over year, by 10.2%. This is close to the 9.5% YTD growth in withholding through August.

Estimated and final payments in August were \$32.1 million, (25.2)% below last year but \$6.5 million above the forecast. Through August, payments are down by (80.4)%. However, after accounting for the impact of last year's deferral, YTD payments are up by 95.1%. The YTD forecast gain through August is \$68.7 million. Historically, payments in July and August combined make up less than 5% of the fiscal year total. For this reason, it is too early to interpret these results.

Refunds were \$31.8 million in August, (15.5)% below last year. YTD refunds are down by (63.6)% compared to the same period in the prior year. Taking the deferral into account, YTD refunds are up 26.5%. Actual refunds through August are \$31.3 million higher than projected, resulting in a forecast gain of the same amount.

Corporate Income Tax net revenue was \$17.9 million in August, which was (21.9)% below the August 2020 level and \$(1.0) million below the enacted budget forecast. August collections typically represent around 2.1% of the fiscal year total.

Year to date, net collections through August are \$75.4 million, a decrease of (27.2)% over the same period in the prior year and \$8.2 million above the enacted forecast.

Insurance Premium Tax (IPT) revenue was \$55.9 million in August, which was 19.6% above last year and \$11.6 million above the enacted budget forecast. This is the largest amount collected for August since 2017.

As noted in previous months, the significant growth in IPT collections may be related to premium taxes levied on the state's Medicaid program.

The **Lottery Commission** reported that total ticket sales in August were \$106.8 million. This amount is (\$9.6) million, or (9.0)%, below August 2020. Year to date, ticket sales are \$216.9 million, which is (8.4)% below the prior year.

Highway User Revenue Fund (HURF) collections of \$145.4 million in August were 5.7% above the amount collected in August 2020 and \$2.8 million above forecast. Year to date, HURF collections have increased by 7.5% compared to the same period in the prior year and are \$10.6 million above forecast.

Due to a delay in receiving August **tobacco** and **liquor** tax revenue data, August 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. August state marijuana tax collections for all 3 sources totaled \$16.0 million (see Table 6). Of that amount, \$4.8 million was deposited to the state General Fund.

August Revenues (Continued)

Table 6 Marijuana State Tax Collections and Distributions (\$ in Millions)		
	<u>August</u>	<u>YTD</u>
Marijuana Excise Tax	\$9.5	\$20.4
Medical Marijuana TPT Distribution:	\$3.8	\$7.1
General Fund	\$2.8	\$5.2
Counties	\$0.6	\$1.2
Cities	\$0.4	\$0.7
Recreational Marijuana TPT Distribution:	\$2.7	\$5.3
General Fund	\$2.0	\$3.9
Counties	\$0.4	\$0.9
Cities	\$0.3	\$0.5
Total State Marijuana Tax Collections	\$16.0	\$32.8

Due to delays in reporting final July 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 \$34,000, and the adjustment has been included in the reported year-to-date results.

Table 7

General Fund Revenue:

Change from Previous Year and Enacted Budget Forecast

August 2021

	Current Month					FY 2022 YTD (Two Months)					
	Actual	Change From				Actual	Change from				
		August 2021	Amount	Percent	Enacted Budget Forecast		August 2020	Amount	Percent	Enacted Budget Forecast	
Taxes											
Sales and Use	\$554,472,896	\$74,665,424	15.6 %		\$61,710,112	12.5 %	\$1,135,346,304	\$162,764,422	16.7 %	\$136,536,346	13.7 %
Income - Individual	474,768,370	81,120,761	20.6		103,905,052	28.0	983,615,984	(416,130,747)	(29.7)	164,296,037	20.1
- Corporate	17,874,893	(5,016,156)	(21.9)		(989,978)	(5.2)	75,366,930	(28,144,816)	(27.2)	8,180,388	12.2
Property	270,363	117,392	76.7		80,913	42.7	801,418	428,418	114.9	75,979	10.5
Luxury - Tobacco	1,798,404	(43,146)	(2.3)		0	--	3,377,004	(305,869)	(8.3)	(355,950)	(9.5)
- Liquor	2,607,973	352,881	15.6		0	--	6,509,587	1,530,275	30.7	388,413	6.3
Insurance Premium	55,907,936	9,173,611	19.6		11,563,183	26.1	103,350,701	56,350,677	119.9	15,937,450	18.2
Other Taxes	706,907	(883,851)	(55.6)		(462,508)	(39.6)	1,597,349	(990,685)	(38.3)	(568,983)	(26.3)
Sub-Total Taxes	\$1,108,407,742	\$159,486,916	16.8 %		\$175,806,774	18.9 %	\$2,309,965,277	(\$224,498,325)	(8.9) %	\$324,489,679	16.3 %
Other Revenue											
Lottery	0	0	--		0	--	40,000,000	40,000,000	--	(2,560,500)	(6.0)
License, Fees and Permits	4,056,780	267,054	7.0		288,365	7.7	6,809,878	(51,890)	(0.8)	(1,194,837)	(14.9)
Interest	16,913,938	16,913,821	--		16,912,328	--	16,914,507	16,912,374	--	16,910,820	--
Sales and Services	2,643,456	1,380,675	109.3		1,319,526	99.7	4,027,472	(88,739)	(2.2)	1,005,951	33.3
Other Miscellaneous	580,288	(1,063,629)	(64.7)		(621,079)	(51.7)	2,547,583	608,899	31.4	1,175,469	85.7
Disproportionate Share	0	0	--		0	--	0	0	--	0	--
Transfers and Reimbursements	253,615	817,026	--		(1,812,716)	(87.7)	600,401	(10,404,444)	(94.5)	(3,242,507)	(84.4)
Sub-Total Other Revenue	\$24,448,075	\$18,314,947	298.6 %		\$16,086,424	192.4 %	\$70,899,841	\$46,976,200	196.4 %	\$12,094,396	20.6 %
TOTAL BASE REVENUE	\$1,132,855,818	\$177,801,863	18.6 %		\$191,893,198	20.4 %	\$2,380,865,118	(\$177,522,125)	(6.9) %	\$336,584,076	16.5 %
Other Adjustments											
Urban Revenue Sharing	(63,032,358)	6,008,714	(8.7)		(0)	0.0	(126,064,715)	12,017,428	(8.7)	(0)	0.0
One-Time Transfers	0	0	--		0	--	0	0	--	0	--
Public Safety Transfers	0	(2,122,109)	--		0	--	0	(2,122,109)	--	0	--
Sub-Total Other Adjustments	(63,032,358)	3,886,605	(5.8) %		(0)	0.0 %	(126,064,715)	9,895,319	(7.3) %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,069,823,460	\$181,688,467	20.5 %		\$191,893,198	21.9 %	\$2,254,800,403	(\$167,626,806)	(6.9) %	\$336,584,076	17.5 %
Non-General Funds											
Highway User Revenue Fund	145,381,652	7,858,153	5.7 %		2,777,203	1.9 %	286,930,706	20,109,598	7.5 %	10,578,893	3.8 %

Monthly Indicators

NATIONAL

The U.S. Bureau of Economic Analysis' second estimate of the growth of the **U.S. Real Gross Domestic Product (GDP)** in the second quarter of 2021 was 6.6%, revised upward from the advance estimate of 6.5%.

The **Consumer Confidence Index**, published by the Conference Board, declined by (9.0)% in August. This decrease follows a downward revision of the July total, bringing the index level to 113.8. This is the lowest reading since March. Consumers' economic outlook with respect to both present and future conditions worsened during the month.

The Conference Board's **U.S. Leading Economic Index (LEI)** increased 0.9% in July. All 10 components of the index improved in the month, indicating a continuation of the economic growth experienced in recent months. Over the past 6 months, the LEI has increased 5.4%.

The U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)** rose by 0.3% in August. After seasonal adjustment, prices are 5.2% higher than in August 2020. The energy index increased by 2.0% this month, driven by the 2.8% rise in the gasoline index. The food index also grew by 0.4% this month. Core inflation (all items less food and energy) was 0.1% in August, its smallest increase since February 2021. Core CPI is 4.0% higher than in August 2020.

ARIZONA

Single-family housing construction is slowing. In July, Arizona's 12-month total of **single-family building permits** was 48,725. This is down by (0.2)% from the prior month and 36.3% above July 2020. July was the 14th consecutive month of double-digit year-over-year growth.

In July, Arizona's 12-month total of 15,983 **multi-family building permits** was 2.7% more than for the same 12-month period in 2020. Multi-family building permits increased by 2.1% for the same 12-month period.

Tourism and Restaurants

In July, **Revenue per available room** fell to \$71.77, a decrease of (6.2)% from June, but an increase of 73.9% over July 2020.

Hotel occupancy was 62.2% in July, which is (4.3)% less than the rate reported for the prior month, but 32.1% higher than in July 2020. This large year-over-year increase indicates that the hospitality industry in Arizona has recovered significantly since the start of the pandemic.

Phoenix Sky Harbor Airport Ridership increased to over 3.8 million in July, a gain of 5.0% over the prior month. July 2021 ridership was nearly three times the ridership of July 2020.

According to data reported by OpenTable, on September 11, **daily restaurant reservations** were 20.3% above 2019 reservations on the comparable date. Despite the apparent restaurant sector recovery, employment data suggests the restaurant industry is still below full pre-pandemic employment levels.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state gained 53,600 **nonfarm jobs** in August compared to the prior month. Historically, nonfarm employment has averaged a gain of 58,700 jobs in August (2011-2020). Over the month, the private sector added 20,300 jobs and the government sector gained 33,300 jobs. Gains in the government sector were largely due to the start of a new school year for public schools.

Compared to the same month in the prior year, the state added 162,400 jobs, or 5.8%, in August. Over the year, gains were recorded in every sector except for Government. The largest gains were recorded in the Leisure and Hospitality sector (+62,100) and the Trade Transportation and Utilities sector (+34,900). The Leisure and Hospitality incurred the largest job losses at the start of the pandemic in the spring of 2020.

Arizona's Leisure and Hospitality industry remains the sector most adversely affected by the pandemic with 83% of job losses recovered since April 2020. The U.S. Leisure and Hospitality industry has regained 79% of the jobs lost.

The state's seasonally adjusted **unemployment rate** decreased from 6.6% in July to 6.2% in August. The U.S. seasonally adjusted unemployment rate decreased from 5.4% in July 5.2% in August.

OEO reported that a total of 2,759 **initial claims for unemployment insurance** were filed in Arizona in the week ending on September 4th. (This figure excludes the claims under the Pandemic Unemployment Assistance (PUA) program). For the same week in the prior year, 11,343 initial claims were filed. Initial Claims peaked at 132,428 on April 4th, 2020 as a result of the

According to OEO, for the week ending on August 28th, there were a total of 32,903 **continued claims for unemployment insurance** in Arizona. A year ago this time, the continued claims were 200,185. In

Monthly Indicators (Continued)

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.

For the week ending on September 11th, the federal Department of Labor (DOL) reported that 55 initial PUA claims were filed in Arizona. For the week ending on August 28th, DOL reported that 42,584 continued PUA claims were filed in the state. Both of these figures are advance estimates subject to change. (See the *October 2020 Monthly Fiscal Highlights for more information on Pandemic Unemployment Assistance*)

State Agency Data

As of September 1, 2021, the total **AHCCCS caseload** was 2.22 million members. Total monthly enrollment increased 0.8% in September over August and increased 10.6% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.5% in September or 5.8% higher than a year ago.

Enrollment in Other Acute Care populations, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 987,324 in September – an increase of 1.1% over August and 19.0% above last year. For September 2021, Long-Term Care EPD and DD population growth increased by 0.3%. At 65,325, this population is (0.7)% lower than a year ago.

There were 14,229 **TANF Cash Assistance recipients** in the state in July, representing a (2.2)% monthly caseload decrease from June. The year-over-year number of TANF Cash Assistance recipients has decreased by (22.5)%. 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 July, 893,310 people received food stamp assistance in the state, representing a (4.0)% decrease from June caseloads. Compared to July 2020, the level of food stamp participation has decreased by (3.3)%.

The Arizona Department of Correction's **inmate population** was 35,592 as of August 31, 2021. This was a decrease of (0.4)% since July 31, 2021 and a (9.1)% decrease since August 2020.

Based on information the Department of Child Safety provided for July 2021, **reports of child maltreatment** totaled 44,363 over the last 12 months, an increase of 0.2% over the prior year. There were 14,875 **children in**

out-of-home care as of July 2021, or 5.2% more than in July 2020. Compared to the prior month, the number of out-of-home children decreased by (0.4)%.

Table 8

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 Sept 4	2,759	(6.7)%	(75.7)%
- Continued Unemployment Insurance Claims	Week Ending Aug 28	32,903	(3.9)%	(83.6)%
- Non-Farm Employment - Total Manufacturing Construction	Aug Aug Aug	2,965,900 180,400 176,100	1.8% 0.0% 0.5%	5.8% 2.9% 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) Multi-family	July July	48,725 15,983	(0.2)% 1.6%	46.3% 2.7%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	July	5,845	(11.5)%	(19.2)%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	July	\$410,000	0.0%	24.2%
- Maricopa Pending Foreclosures	July	817	(6.4)%	(43.5)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	July	3,819,607	5.0%	182.6%
- State Park Visitors	June	282,059	(14.7)%	5.6%
- Revenue Per Available Hotel Room	July	\$71.77	(6.2)%	73.9%
- Arizona Hotel Occupancy Rate	July	62.2%	(4.3)%	32.1%
- Arizona OpenTable Reservations – % Change from 2019	September 11	N/A	N/A	20.3%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	1st Q 2021	\$418.1 billion	68.5%	21.5%
- Arizona Population	April 2020	7,151,502	N/A	N/A
- State Debt Rating Standards & Poor's/Moody's Rating Standards & Poor's/Moody's Outlook	May 2015/Nov 2019 May 2015/Nov 2019	AA / Aa1 Negative/Stable	N/A N/A	N/A N/A
<u>Agency Measures</u>				
- AHCCCS Recipients Traditional Acute Care Other Acute Care Long-Term Care – Elderly & DD	September 1st	2,224,300 1,171,500 987,300 65,300	0.8% 0.5% 1.1% 0.3%	10.6% 5.8% 17.8% (0.7)%
- Department of Child Safety (DCS) Annual Reports of Child Maltreatment (12-month total) DCS Out-of-Home Children Filled Caseworkers (1406 Budgeted)	July July	44,363 14,875 1,228	0.4% (0.4)% (6)	0.2% 5.2% (113)
- ADC Inmate Growth	August	35,592	(0.4)%	(9.1)%
- Department of Economic Security - TANF Cash Assistance Recipients - SNAP (Food Stamps) Recipients	July July	14,229 893,310	(2.2)% (4.0)%	(22.5)% (3.3)%
<u>United States</u>				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	2nd Q, 2021 (2nd Estimate)	\$19.4 trillion	6.6%	12.2%
- Consumer Confidence Index (1985 = 100)	August	113.8	(9.0)%	34.2%
- Leading Economic Index (2016 = 100)	July	116.0	0.9%	11.1%
- Consumer Price Index, SA (1982-84 = 100)	August	273.0	0.3%	5.2%

Summary of Recent Agency Reports

Arizona Health Care Cost Containment System –

Annual Report on Behavioral Health Services – Pursuant to A.R.S. § 36-3415, the Arizona Health Care Cost Containment System (AHCCCS) reported SFY 2020 Medicaid and non-Medicaid behavioral health expenditures. AHCCCS expended \$2.32 billion Total Funds on behavioral health services for Medicaid-eligible clients, including:

- \$1.04 billion for Traditional Medicaid Services.
- \$992.9 million for Proposition 204 Services.
- \$68.1 million for Affordable Care Act Adult Expansion Services.
- \$142.7 million for foster children enrolled in Comprehensive Medical and Dental Program.

The agency expended \$256.1 million Total Funds for non-Medicaid clients in SFY 2020, including:

- \$157.5 million for non-Medicaid seriously mentally ill services.
- \$63.0 million for adults with substance abuse and general mental health issues.
- \$16.4 million for Crisis Services.
- \$9.7 million for children with serious emotional disturbances. (Maggie Rocker)

AHCCCS – Report on Systematic Alien Verification for Entitlements Program – Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) provided its latest report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program.

AHCCCS, in conjunction with the Department of Economic Security (DES), performed 7,108 verifications of immigration status in FY 2021. During this period, AHCCCS and DES referred 27 individuals (26 citizens, 1 non-citizen) for prosecution for fraudulent schemes, prohibited acts, theft, or forgery. (Maggie Rocker)

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

In the fourth quarter of FY 2021, the ARRF received revenues totaling \$11.8 million and had expenditures totaling \$6.1 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru

account of the Attorney General at \$5.7 million. Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with \$1.8 million in ARRF monies spent.

In the fourth quarter of FY 2021, participating agencies received \$8.6 million in net collections from seized assets originally valued at \$14.9 million. Net collections increased by \$3.5 million, or about 68.6%, from the previous quarter. Net collections were highest in the Attorney General's Office at \$4.7 million, which derived from forfeitures valued at \$9.8 million and represents an increase of \$3.1 million in net collections from the previous quarter. Some assets and properties were released back to the owner, but most were retained or sold by law enforcement.

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

Economic Estimates Commission – Report on the Budget Stabilization Fund - Pursuant to A.R.S. § 35-144F, the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn from the Budget Stabilization Fund (BSF). The EEC estimate is calculated based on a statutory formula that compares the growth rate of Arizona real adjusted personal income in the most recent calendar year to the average in the last 7 calendar years (hereafter referred to as the "trend" growth rate).

Under the statutory formula, an appropriation from the General Fund to the BSF is recommended when the annual growth rate of Arizona real adjusted personal income exceeds the trend growth. The formula recommends that an appropriation is made from the BSF to the General Fund when the annual growth rate is both less than the trend growth rate and 2.0%.

In calendar year 2020, Arizona real adjusted personal income increased by 1.19%, with a trend growth rate of 3.54%. Since the calendar year 2020 growth rate was both below the trend growth rate and below 2.0%, the EEC reported on May 26, 2021 that the formula recommended a withdrawal of \$(255.7) million from the BSF in FY 2021. However, the Legislature did not authorize the withdrawal.

Summary of Recent Agency Reports (Continued)

EEC calculations under the formula do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal. The current BSF balance is approximately \$950 million. (Hans Olofsson)

Department of Economic Security – Report on Arizona Training Program at Coolidge (ATP-C) Campus Total Costs – An FY 2021 General Appropriation Act footnote requires the Department of Economic Security (DES) to report on total costs associated with the ATP-C for FY 2021. DES reports \$25.3 million in total costs. This is a 14% increase from the \$22.2 million spent in FY 2020. DES attributed the significant increase to the additional staffing required to safely support the population during the COVID-19 pandemic. The total number of ATP-C Intermediate Care Facility (ICF) clients decreased from 56 in FY 2020 to 50 in FY 2021 while the number of clients in State Operated Group Homes (SOGHs) decreased from 16 to 12. DES is working towards closing SOGHs by conducting person-centered planning for the remaining clients. If medically necessary, these clients will be offered a transfer placement in an ICF at ATP-C. (Alexis Pagel)

Department of Education – Report on Estimated Cost of Empowerment Scholarship Accounts for FY 2022 – Pursuant to A.R.S. § 15-2403G the Arizona Department of Education (ADE) recently reported that it will cost an estimated \$235 million to fund Empowerment Scholarship Accounts (ESAs) for FY 2022. This assumes that 13,915 students will receive ESA funding for FY 2022. For the prior year (FY 2021) ADE reports that 10,702 students received \$167.9 million in ESA funding. (Patrick Moran)

Arizona Department of Forestry and Fire Management – Report on Nonnative Vegetation Species Eradication Grant Expenditures – Pursuant to A.R.S. § 37-1309C, the Arizona Department of Forestry and Fire Management (DFFM) reported on the total expenditures of grant-funded nonnative vegetation species eradication (NVSE) projects in FY 2021.

In FY 2020, the Legislature appropriated \$2.0 million for NVSE projects, of which \$168,500 was expended in FY 2020 and \$747,700 was expended in FY 2021. Two of these projects were completed in FY 2021. Please see Table 9 for more details.

In FY 2021, the Legislature appropriated \$1.0 million for NVSE projects, of which \$204,400 has been expended through August 31 for grant reimbursements. DFFM

Table 9

**DFFM Nonnative Vegetation Species Eradication Grant FY 2021 Expenditures
For 2019 Grant Cycle**

Grantee	Project Title	Grant Amount	Estimated Expenditures in FY 21	Expected Completion Date
Arboretum at Flagstaff	Post-Museum Fire Invasive Plant Treatment	\$ 320,000	\$ 61,900	December '21
Arizona Department of Transportation	Interstate 17 Invasive Plant Treatment	100,000	26,800	March '22
Arizona Game and Fish Department	Lower San Pedro River Wildlife Area	375,000	152,100	March '22
Arizona Wilderness Coalition	Arnett Creek and Telegraph Canyon	80,000	50,600	December '21
Arizona-Sonoran Desert Museum	Eliminating Buffelgrass from Tumamoc Hill	105,000	40,800	March '22
Borderlands Restoration Network	Johnson Grass Eradication	92,000	36,300	December '21
Gila Watershed Partnership	Upper Gila River Restoration	405,000	240,300	December '22
Landsward Foundation	Little Colorado River Valley Restoration	60,000	9,700	Completed
National Audubon Society	Yellow Bluestem Eradication	23,000	11,300	December '21
Pima County	Pima County Invasive Plant Program	340,000	67,000	March '22
Yuma Crossing National Heritage Area	Yuma East Wetlands Habitat Restoration	70,000	50,900	Completed
Total		\$1,970,000	\$747,700	

Table 10

**DFFM Nonnative Vegetation Species Eradication Grant FY 2021 Expenditures
For 2020 Grant Cycle**

Grantee	Project Title	Grant Amount	Expenditures as of August 31	Expected Completion Date
Arizona Game and Fish Department	Robbins Butte Wildlife Area	\$190,000	\$ 0	March '24
Friends of Saguaro National Park	Controlling Fountain Grass in Saguaro NP	83,000	36,300	June '22
Friends of the Verde River	Verde River Habitat Improvement	197,000	0	June '23
Graham County	Gila River Corridor Fire Mitigation	193,000	165,600	September '22
Maricopa County Parks and Recreation Department	Spur Cross Ranch Restoration	87,000	0	October '22
Northern Arizona University	Lower Salt River Restoration	200,000	0	March '23
Sky Island Alliance	Vinca Management in Aravaipa Canyon	20,000	2,600	December '21
Total		\$970,000	\$204,400	

Summary of Recent Agency Reports (Continued)

selected 7 projects to receive NVSE grant funding out of 32 applicants. Five of the selected projects have begun, and all projects are projected to be completed within 3 years of beginning. While NVSE grants do not have a matching requirement, DFFM has reported various private, local, state, and federal matching funding for the selected projects. Please see Table 10 for more information. (Nate Belcher)

Supreme Court – Report on Current and Future Automation Projects – Pursuant to an FY 2022 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) provided its FY 2022 report on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2022 will be approximately \$28.2 million. Of this amount, approximately \$2.7 million, or 10%, will be spent on 8 new or continuing projects as listed below; \$17.8 million, or 63%, will be spent on shared infrastructure; and \$7.6 million, or 27%, will be spent on ongoing automation support.

New Projects:

- Provide digital cloud repository for digital evidence (\$400,000 in FY 2022, FY 2023, and FY 2024).
- Replace Adult Probation Enterprise Tracking System (APETS) with new probation digital Case Management System (CMS) (\$147,900 in FY 2022, \$2,647,900 in FY 2023, and \$647,900 in FY 2024).
- Transfer rural water rights cases to Water Master housed in Maricopa County Superior Court (\$133,900 in FY 2022, FY 2023, and FY 2024).

Continuing Projects:

- Replace legacy appellate-court Case Management System (\$967,500 in FY 2022).
- Continue development of redesigned Fines, Fees and Restitution Enforcement (FARE) data warehouse (\$585,100 in FY 2022).
- Expand new e-filing capabilities for the limited jurisdiction courts in rural counties and expand functionality to new case and filing types (\$384,500 in FY 2022, \$291,300 in FY 2023, and \$295,300 in FY 2024).
- Convert the Dependent Children's Activity Tracking System (DCATS) from its legacy system to operate as a module on the Juvenile On-Line Tracking System (JOLTSaz) (\$76,300 in FY 2022 and \$380,700 in FY 2023 and FY 2024).
- Continue to develop an automated process for answering public safety assessment questions as part of the pretrial risk assessment report (\$20,000 in FY 2022).

The top 3 funding sources for automation projects included in this plan are the Judicial Collection Enhancement Fund (\$10.6 million), the Grants & Other Special Revenues Fund (\$7.5 million), and the General Fund (\$4.5 million). Together these 3 funds comprise 80% of the proposed funding in FY 2022. (Ryan Fleischman)

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 \$5.9 million in FY 2020 and \$7.6 million in FY 2021 and are projected to be \$8.5 million in FY 2022. These costs are paid from General Fund interest earnings. Expenditure categories include: banking service contracts (which make up the bulk of total expenditures), custodial banking services, administration and information technology, payment card industry compliance, external investment management services and investment advisory and support services. [David Hoffer]

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 2021-2022 academic year, ABOR added 5 new qualifying exams to the list, including 2 Cambridge International exams in Geography and 3 International Baccalaureate exams in Mathematics. (Morgan Dorcheus)

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 2009 to FY 2021, costs of tuition, fees, housing, and meal plans increased by approximately 83.4% at ASU, 87.9% at NAU, and 93.5% at UA.

Increases and Faculty and Staff FTE Counts and Total Salaries

From FY 2009 to FY 2021, total salaries for university employees across all classifications increased by 76.8% at ASU, 46.2% at NAU, and 25.6% at UA. These increases compare to a 31.9% increase in the number of faculty at ASU (1,429 FTE Positions), 20.6% at NAU (161 FTE Positions), and 5.1% at UA (190 FTE Positions).

Summary of Recent Agency Reports (Continued)

Changes in Credit Hour Requirements

From FY 2004 to FY 2021, NAU reports a 1 credit hour increase for Civil Engineering. In the same time period, UA reports 10 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

Both NAU and UA offer tuition guarantees that freeze tuition for incoming freshmen for 8 consecutive semesters. Alternative degree earning programs and community college pathway programs are also available at all 3 universities. Examples include:

- ASU: 3-year bachelor's degrees and accelerated graduate degree programs
- NAU: Online competency-based programs and accelerated graduate degree programs
- UA: Accelerated graduate degree programs

Cost Containment Actions

All universities report utilizing contract renegotiations, staffing initiatives, and reducing travel expenses to contain costs in FY 2021. Additional examples of actions taken over the last year include:

- ASU: Adjusting campus services based on lower demand, automating manual processes, repurposing equipment, and utilizing student internships.
- NAU: Reviewing electronic library subscription costs, refinancing debt, and business process improvements.
- UA: Technology upgrades, energy efficiency programs, implementing shared services between programs, refinancing debt, and delaying capital projects.

(Morgan Dorcheus)

Arizona Board of Regents – Report on Arizona

Teachers Academy – Pursuant A.R.S. § 15-1655, the Arizona Board of Regents (ABOR) submitted its annual report on the Arizona Teachers Academy. In FY 2021, ABOR reports 3,051 students received Arizona Teachers Academy scholarships and 949 students completed a program of study.

The FY 2021 budget included \$15.0 million from the General Fund for academy scholarships and administrative expenses. In addition, ABOR received

a \$6.0 million discretionary allocation from the Governor's Emergency Education Relief Fund and a one-time transfer of \$15.0 million from the Medical Marijuana Fund, for a total of \$36.0 million in available funds. ABOR reports FY 2021 expenditures of \$20.5 million. The remaining \$15.5 million balance will be applied to future academy scholarships. (Morgan Dorcheus)

Arizona Economic Trends

September 2021

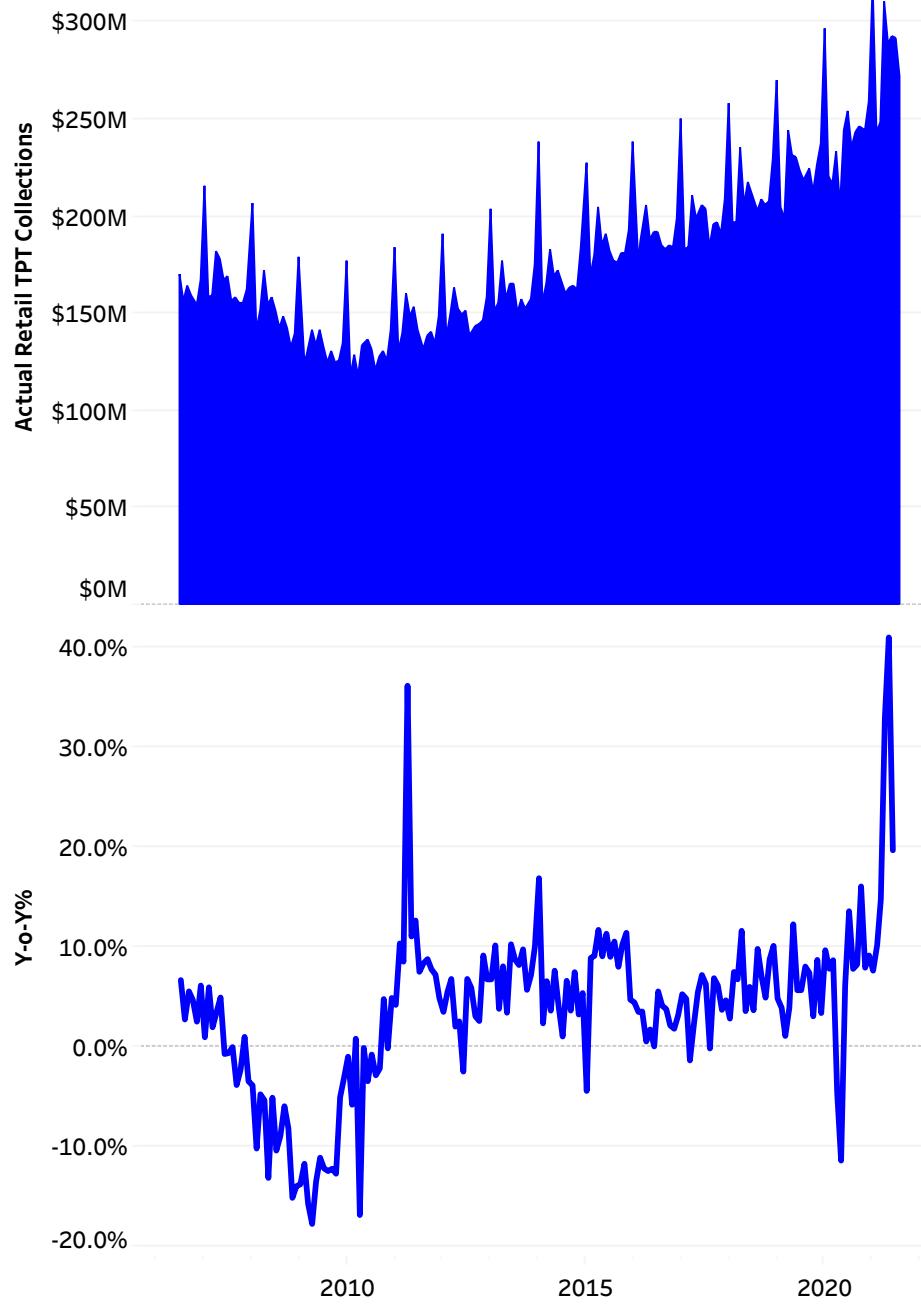
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Appendix A

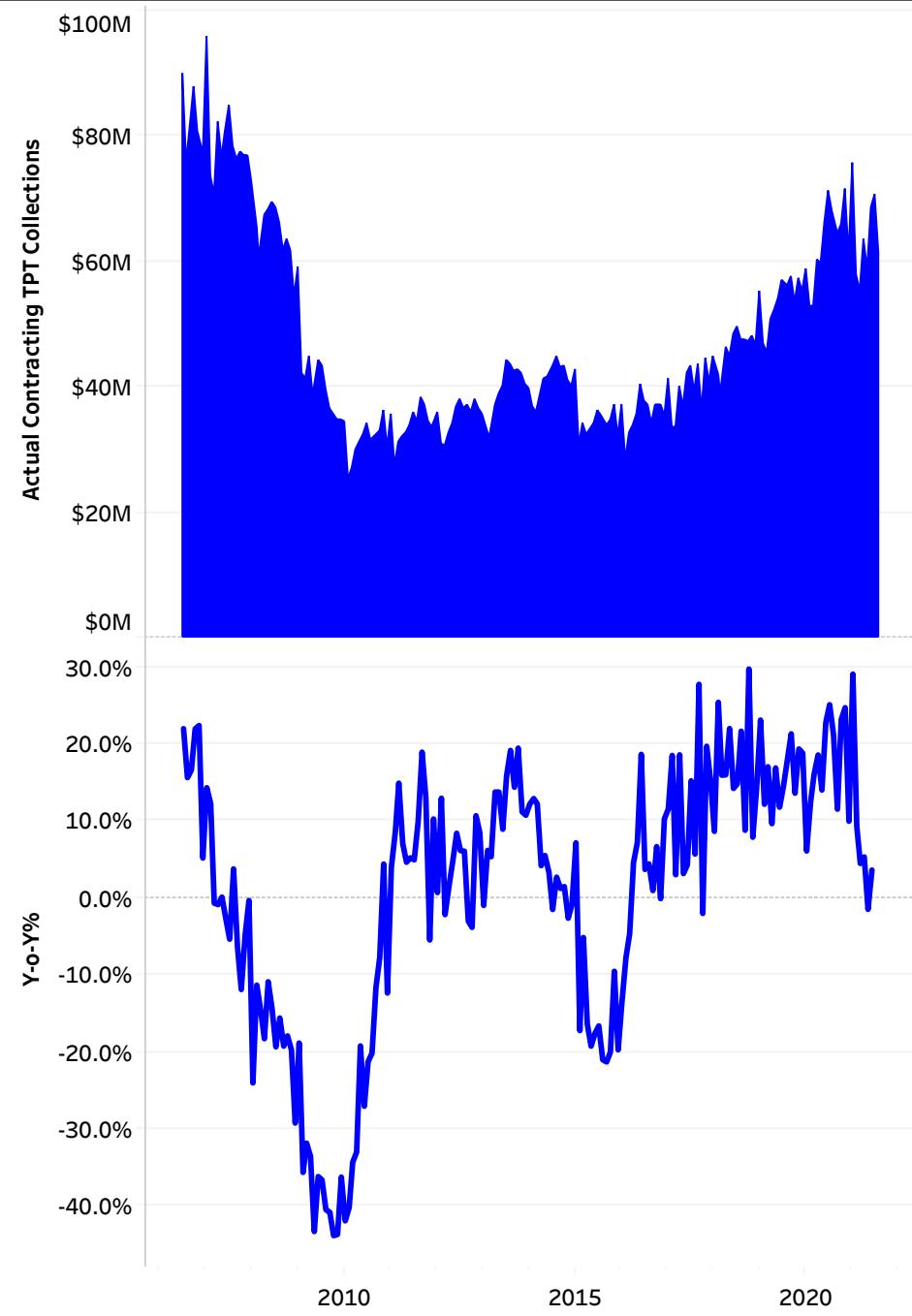
- 2.....State Sales Tax Collections – Retail Category**
 - State Sales Tax Collections – Contracting Category
- 3.....Average Hourly Earnings – Private Sector**
 - Total Non-Farm Employment
- 4..... Total Non-Farm vs Total Private Employment**
 - Arizona Employment by Category
 - Residential Building Permits
 - Rolling 4-Week Withholding Total
- 5..... Initial Unemployment Insurance Weekly Claims**
 - Continued Unemployment Insurance Weekly Claims
 - Unduplicated Unemployment Insurance Claimants
 - AHCCCS Recipients
- 6..... SNAP Recipients**
 - HURF Revenue
 - Sky Harbor Total Passengers
 - Arizona Hotel Occupancy
- 7..... Arizona OpenTable Daily Reservations**

[Link to Most Recent Arizona Economic Trends Tableau Dashboard](#)

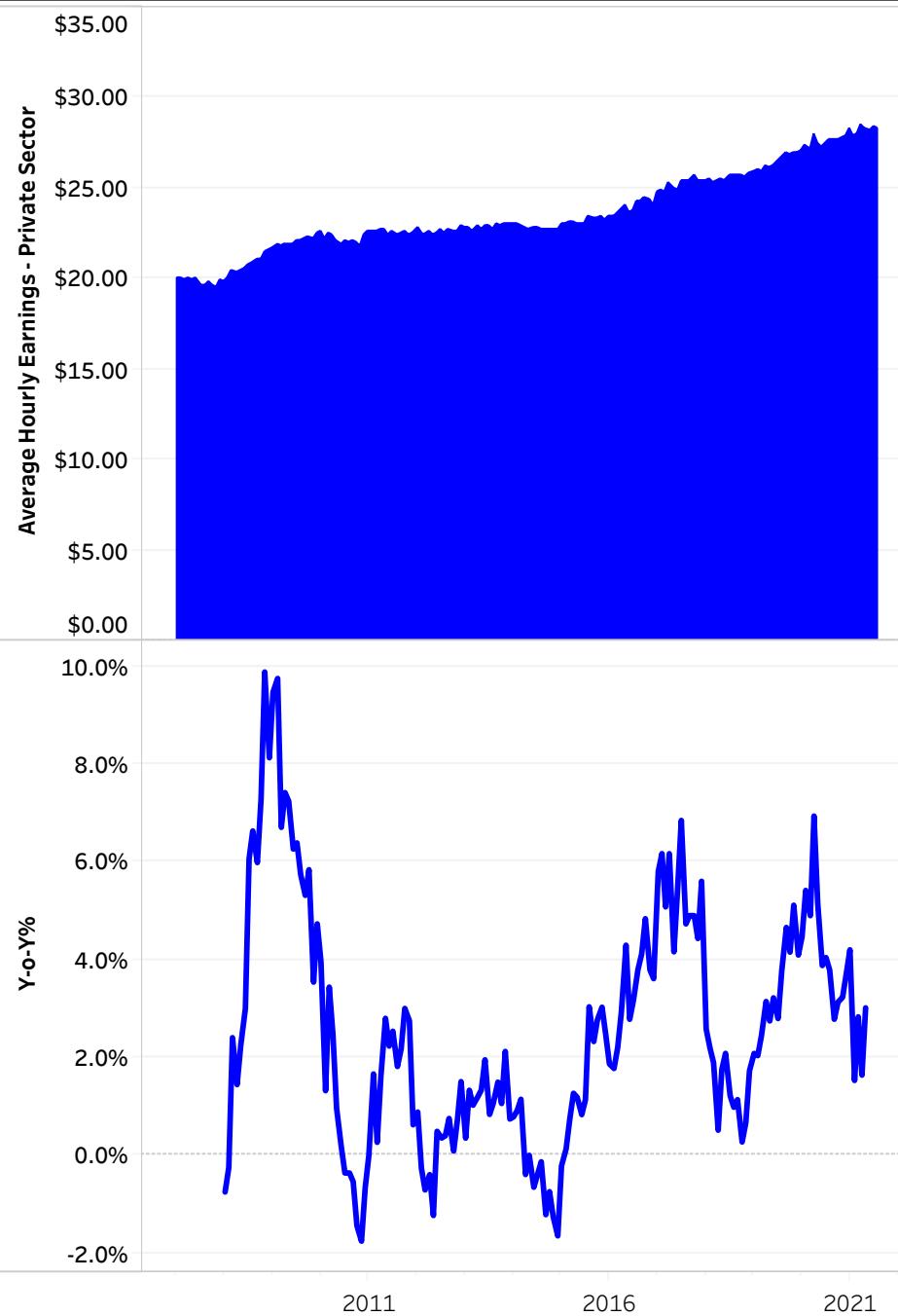
State Sales Tax Collections - Retail Category



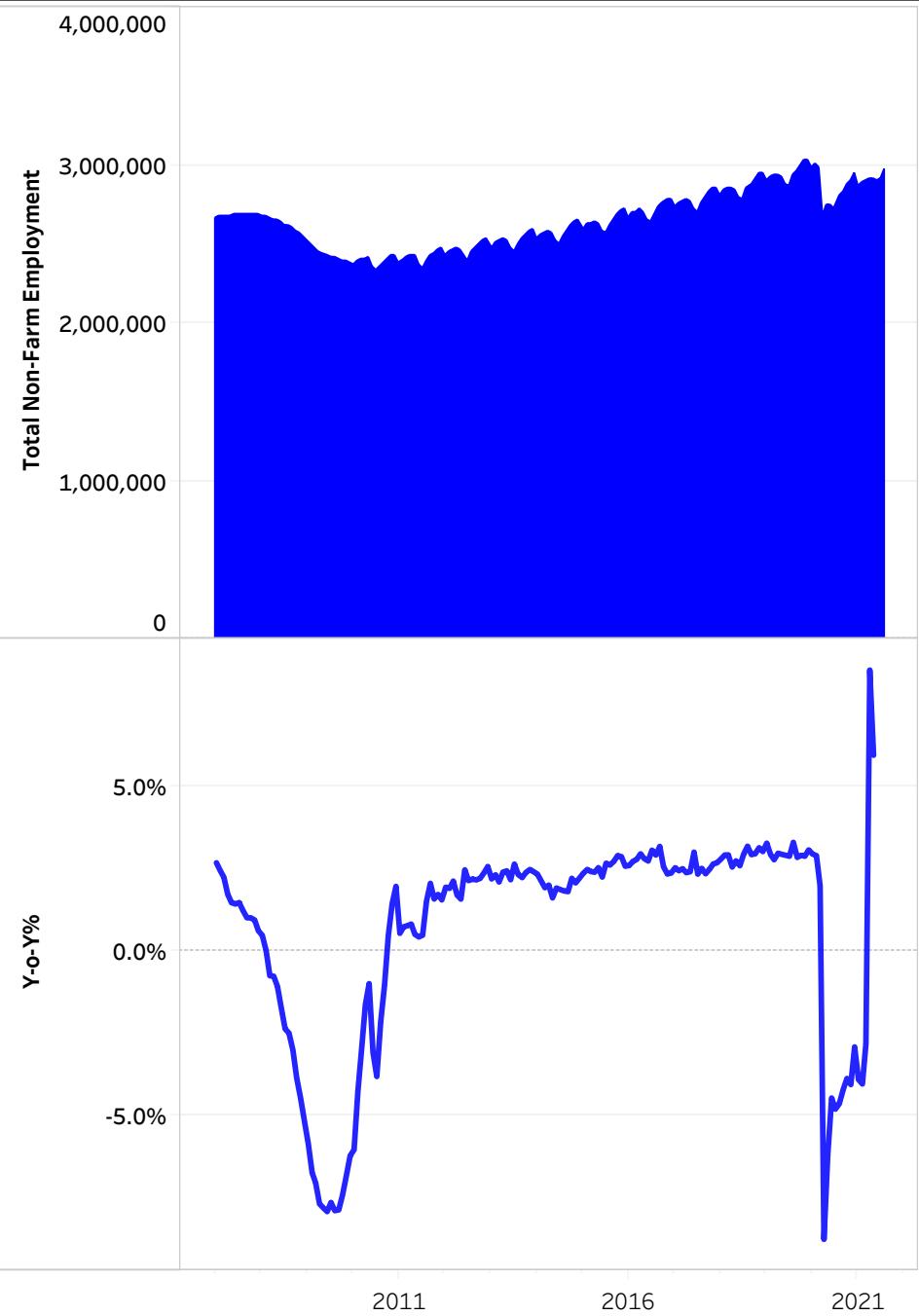
State Sales Tax Collections - Contracting Category



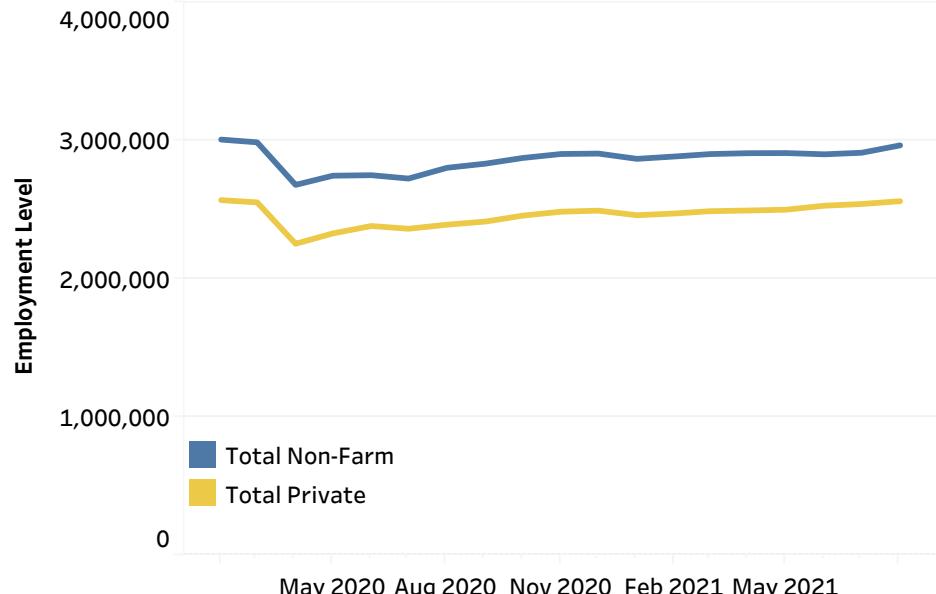
Average Hourly Earnings - Private Sector



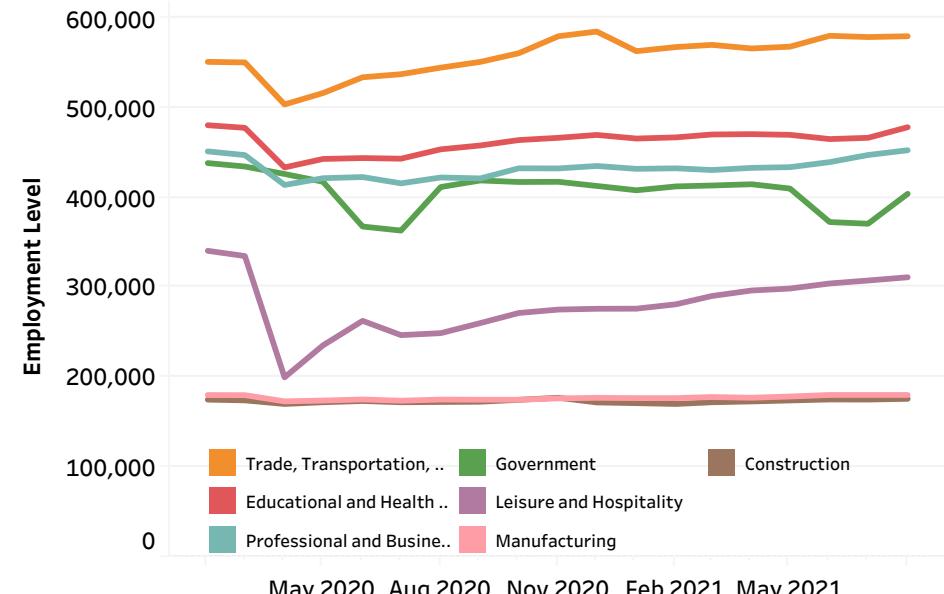
Total Non-Farm Employment



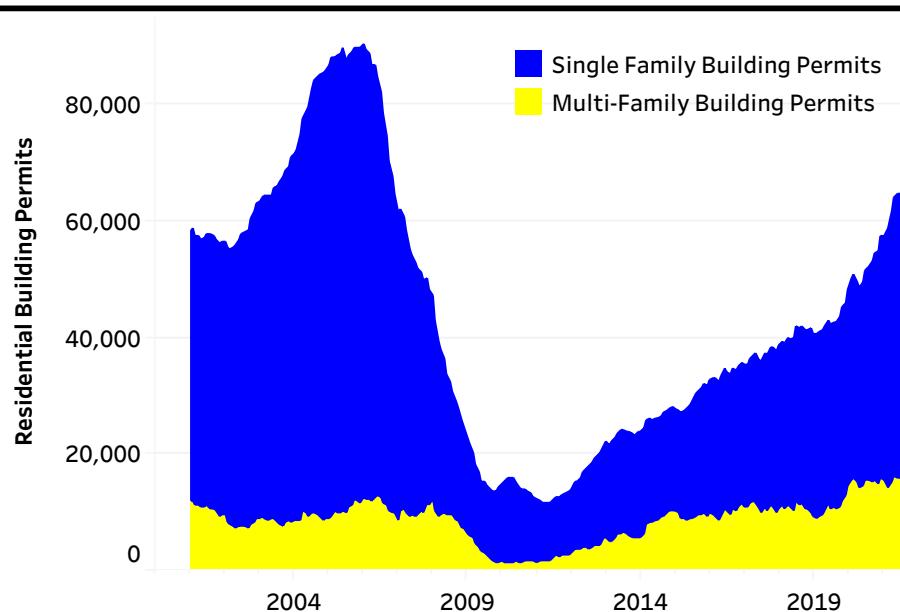
Arizona Total Non-Farm vs Total Private Employment



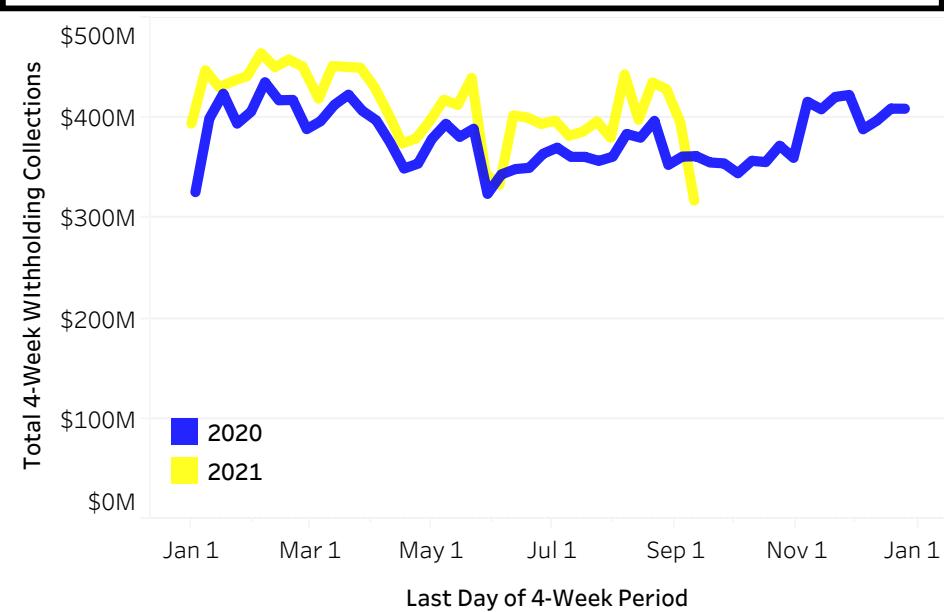
Arizona Employment by Category



Residential Building Permits

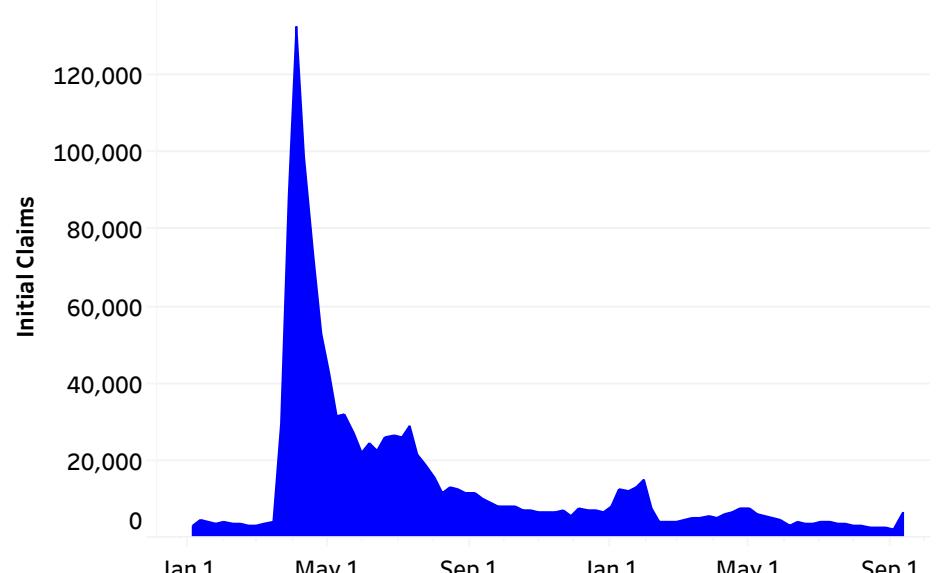


Rolling 4-Week Withholding Total

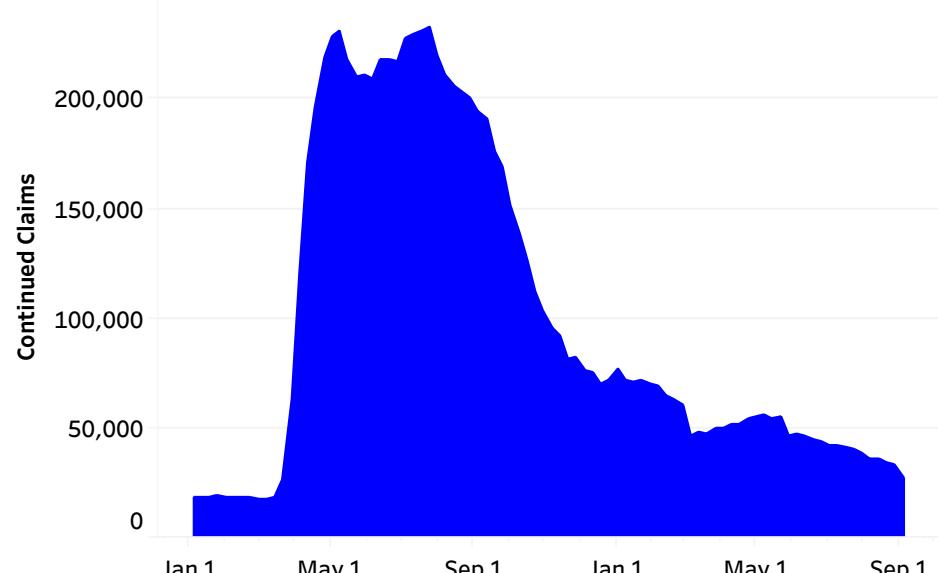


Initial Unemployment Insurance Weekly Claims

Continued Unemployment Insurance Weekly Claims



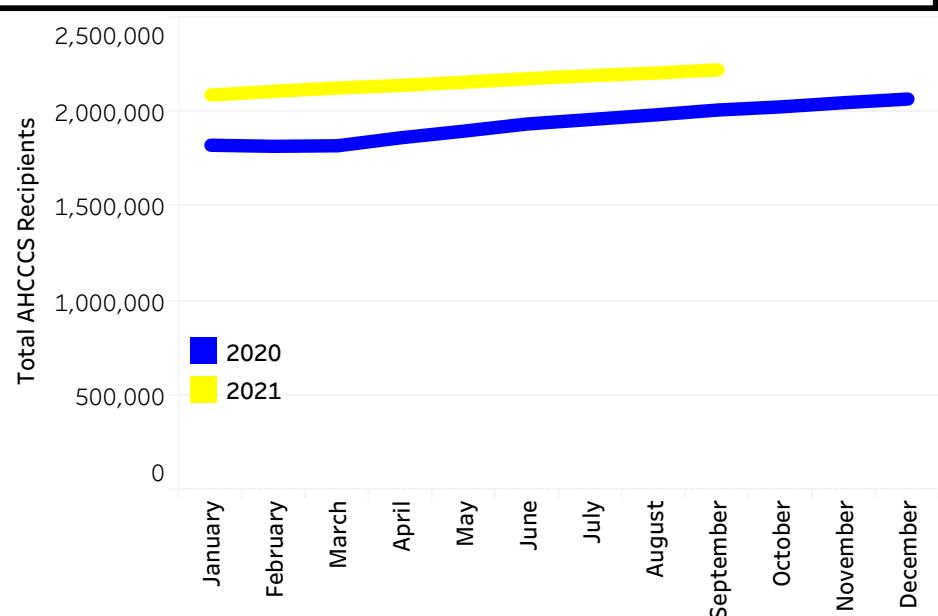
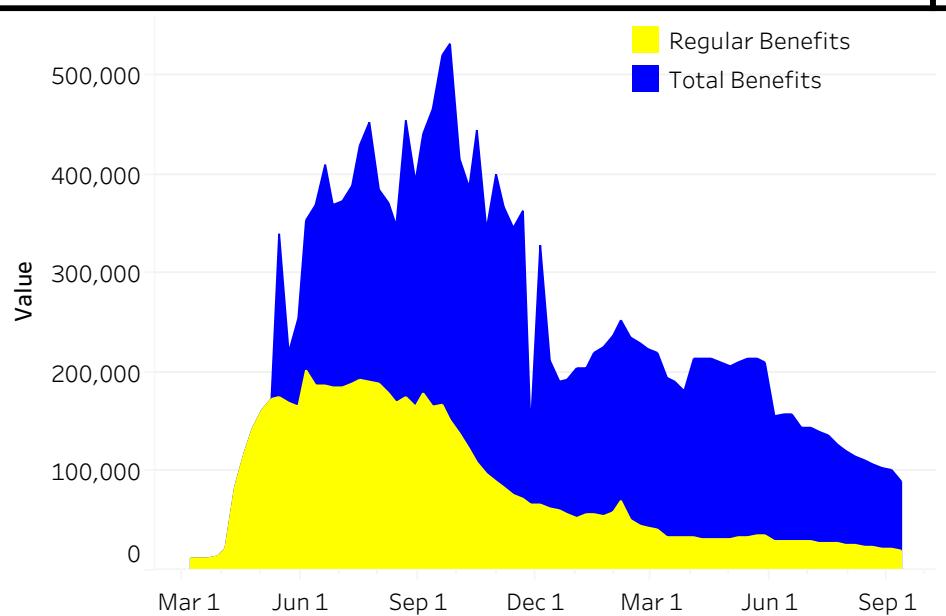
Reported Unemployment Insurance Initial Claims and Continued Claims do not include claims associated with the federally funded Pandemic Unemployment Assistance (PUA) program.



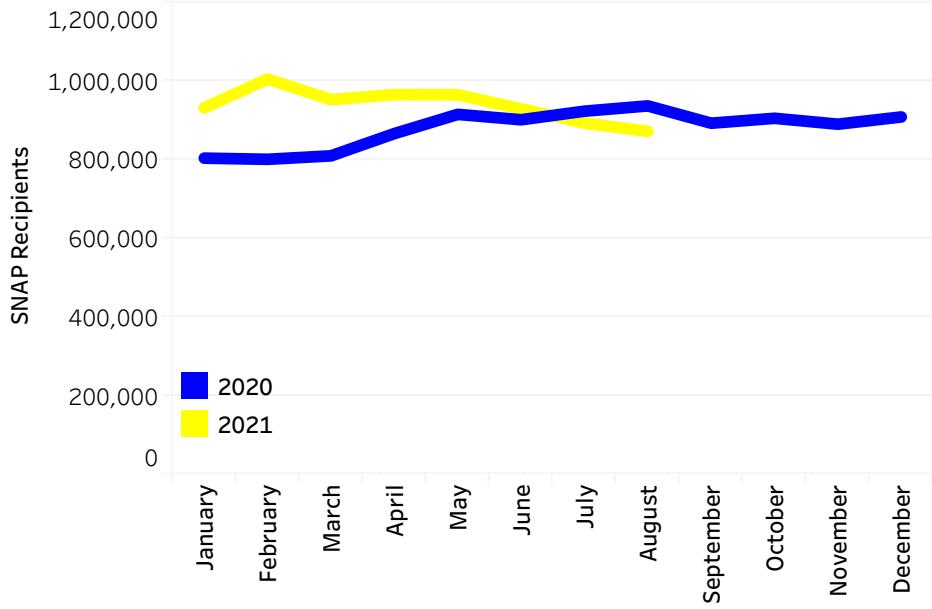
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Unduplicated Unemployment Insurance Claimants

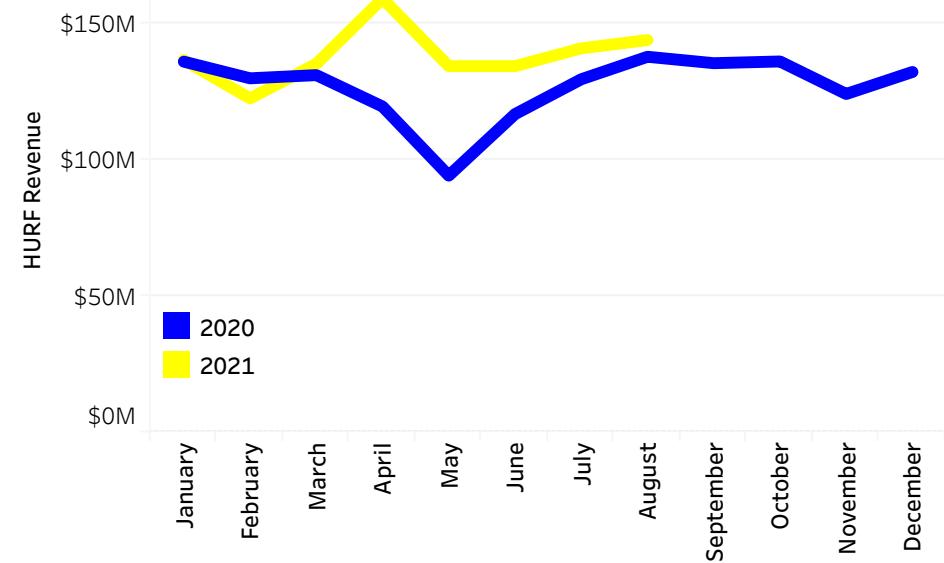
AHCCCS Recipients



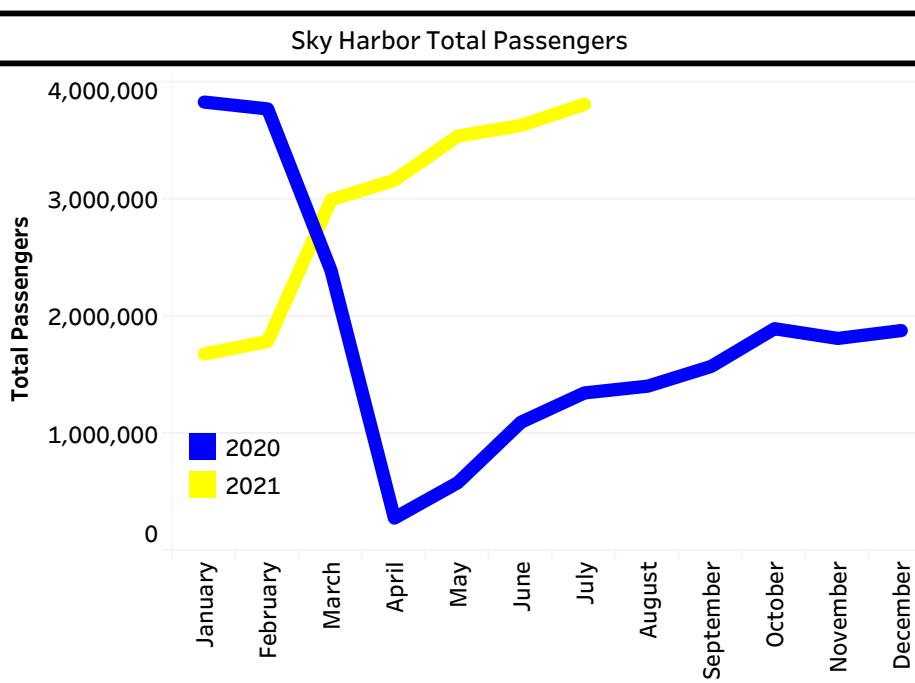
SNAP Recipients



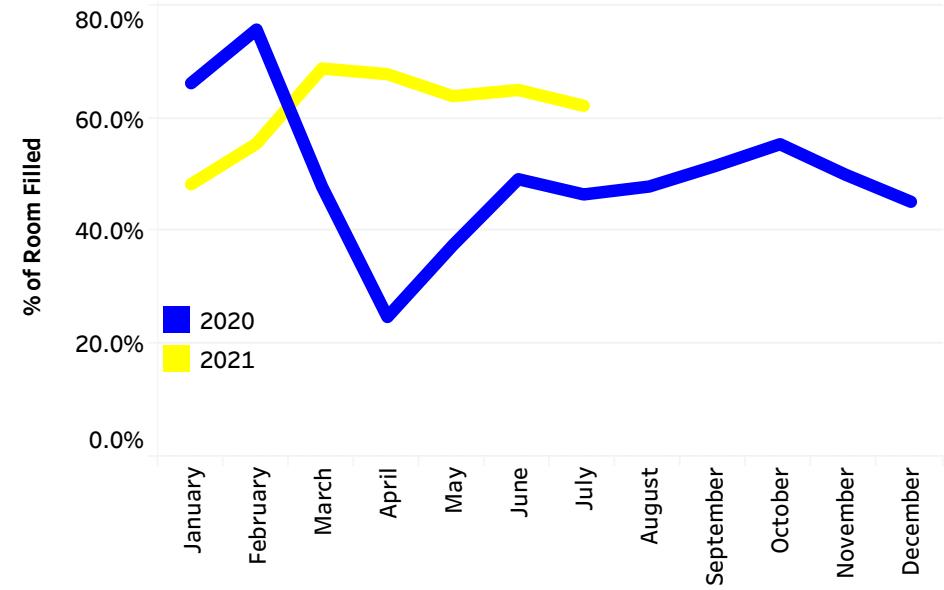
HURF Revenue



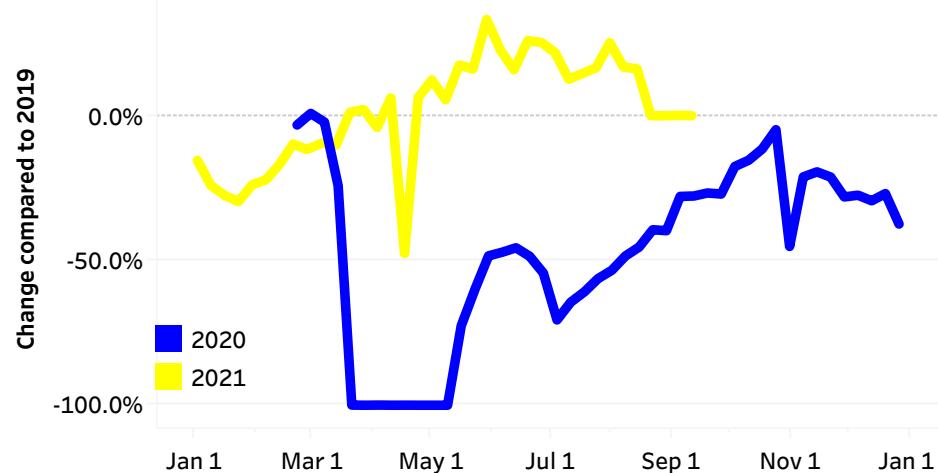
Sky Harbor Total Passengers



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.