

1716 W. Adams
Phoenix, AZ 85007

Phone:
(602) 926-5491



www.azleg.gov/jlbc.htm

"Compared to the October FAC revenue forecast, October revenues were \$104.8 million above forecast."

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on November 20, 2020.

Summary

October General Fund revenues were \$982.7 million, which is an increase of 5.8% above the prior year.

Beginning with this *Monthly Fiscal Highlights* our office will begin to benchmark the state's revenue collections against the October FAC forecast until the JLBC Baseline is released in January.

Compared to the October FAC revenue forecast, October revenues were \$104.8 million above forecast. This forecast gain was concentrated in the Sales Tax category, which continued its recent pattern of extremely strong growth.

Total October Sales Tax collections (which represent September sales activity) grew by 16.0% above October 2019 and were \$67.5 million above forecast.

The trend of robust Sales Tax collections is being partly driven by a short-term shift in consumer behavior from spending on services (which are largely exempt from Sales Tax) to the purchase of consumer goods (which are generally subject to Sales Tax).

In particular, spending appears to be shifting to the purchase of "durable goods", which are classified as items expected to last at least 3 years (such as cars, home appliances, and electronics). Recent data indicates that durable goods expenditures are approximately 16% above the pre-pandemic level of February 2020.

This surge in durable goods spending, along with growth in remote online sales, helped generate 26.1% growth in the combined Retail/Remote Seller classifications.

(See the Sales Tax section below for more information on the revenue category)

The state's other major revenue categories all posted moderate forecast gains during the month of October. Overall Individual Income Tax (IIT) collections declined by (1.4)%, although this performance ultimately generated a forecast gain of \$14.2 million due to higher-than-expected payments and a lower amount of refunds issued.

October tends to be a smaller month for the Corporate Income Tax and Insurance Premium Tax. These categories posted forecast gains of \$10.6 million and \$6.8 million, respectively during the month.

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Summary (Continued)

Year-to-Date Revenue Results/Operating Balance

Year-to-date through October, excluding Urban Revenue Sharing and fund transfers, FY 2021 General Fund revenues are 19.6% above the prior year. The high year-to-date revenue percentage growth rate is mostly due to the state's deferral of the income tax filing due date from April 15 to July 15.

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-November 2020 is \$4.22 billion.

Future Implications for Budget Projections

In our [October Budget Update](#), we projected a FY 2021 General Fund ending balance of \$411 million and a FY 2022 balance of \$93 million. Based on recent revenue trends, these balance estimates will likely be higher by the time that the revenue forecast is updated in January.

In the meantime, we will need to monitor a wide variety of factors including the course of COVID-19, any new federal policy response to the pandemic, the continuing surge in durable good purchases and the level of consumer activity during the significant holiday sales season.

We currently anticipate that the FY 2022 balance may reach \$400 million to \$800 million. Due to the extraordinarily uncertain times, however, these figures should be considered very speculative.

We foresee that the FY 2022 balance will primarily be one-time in nature as it is likely to be driven by a large carryover balance from FY 2021.

October Revenues

Table 1

	General Fund Revenues (\$ in Millions)		
	<u>FY 2021 Collections</u>	<u>Difference From October FAC Forecast</u>	<u>Difference From FY 2020</u>
October	\$ 982.7	\$ 104.8	\$ 53.7
Year-to-Date	\$ 4,576.8	\$ 104.8	\$ 761.9

Sales Tax collections of \$503.2 million were 16.0% above October of last year and \$67.5 million above the June forecast.

As shown in *Table 2*, all of the state's sales tax categories, except for restaurant and bar, performed well in October when compared to the same month in the prior year.

Since March, Restaurant and Bar Sales Tax collections have been performing poorly, posting double-digit declines below the comparable month in the prior year. However, there is now some relative improvement, with October Restaurant and Bar revenue being the first month where collections declined by only single digits year-over-year since the beginning of the COVID-19 pandemic.

Table 2

	Sales Tax Growth Rates Compared to Prior Year	
	<u>Oct</u>	<u>YTD</u>
Retail/Remote Seller	26.1%	21.1%
Contracting	23.2%	20.4%
Use	14.1%	11.2%
Restaurant & Bar	(8.5)%	(11.3)%
Utilities	6.0%	6.6%

As discussed in the Summary section, the extremely high growth rate for the combined Retail/Remote Seller classifications is likely driven by a shift in personal spending towards taxable consumer goods and significantly increased durable goods sales activity.

Table 3 below lists taxable sales by retail subcategory, excluding remote sales. Retail growth occurred in all subcategories except for Clothing and Accessories. The large growth in Building

October Revenues (Continued)

Materials is due to an unusually low amount collected in October 2019, which inflated the October 2020 growth rate.

Table 3
October Retail Taxable Sales By Subcategories

	Oct. % Growth	% Share of Retail Sales
Auto Sales/Other Automotive	18.0%	19.9%
Building Materials, Lawn/Garden	91.4%	8.2%
Clothing and Accessories	(1.3)%	4.5%
Food and Liquor Sales	15.2%	6.0%
Furniture/Home Finishing	8.8%	6.6%
General Merchandise	12.2%	12.4%
Miscellaneous Retail	19.6%	17.7%
Wholesale	13.6%	6.6%
All Other	3.2%	18.1%
Total – Retail Classification	16.0%	100.0%

Taxable contracting activity was also strong in October growing by 23.9% over the same month in the prior year (see Table 4). This growth was fueled by the heavy construction sector (which includes highway construction) – this sector grew by 194% compared to the prior year and October heavy construction taxable sales are approximately 4 times the average monthly level seen during the last few years.

In addition, residential construction tax collections grew at the fastest rate since November 2019, which likely reflects the recent upward trend of single-family and multi-family building permit activity.

Table 4
Oct. Growth Rates – Contracting Subcategories Compared to Prior Year

Heavy Construction	193.9%
Nonresidential Construction	10.1%
Residential Construction	19.2%
Specialty Trade	11.3%
All Other	9.4%
Total – Contracting Classification	23.9%

Individual Income Tax (IIT) Net collections totaled \$436.6 million in October, which was (1.4%) lower than October 2019's \$442.8 million. Net IIT revenues performed better than expected, ending the month \$14.2 million over the October FAC forecast.

Withholding revenue for October was \$402.6 million, (4.8)% below last October and \$(24.0) million less than forecasted. This is the first month since June with a year-over-year decline in withholding revenue. The decline in withholding revenues was likely the result of timing issues – October 2020 had one fewer tax processing day than October 2019, and a large amount of withholding tax was deposited on the first processing day of November.

Payments fared better than withholding, ending the month at \$120.0 million, 5.2% above the previous October and \$26.4 million higher than the forecast. Refunds were (8.8)% lower than last year.

Table 5
Individual Income Tax Growth Rates Compared to Prior Year

	October	YTD
Withholding	(4.8)%	0.6%
Estimated/Final Payments	5.2%	195.0%
Refunds	(8.8)%	102.0%

Corporate Income Tax (CIT) net revenue was \$33.8 million in October, which was (43.8)% below the amount collected in October 2019 and \$10.6 million above the October forecast. Net collections in October typically represent about 5.5% of the fiscal-year total. The significant decline in October 2020 CIT revenue follows an unusually large amount collected for the category in October 2019. The reason behind the substantial collections in 2019 are unclear, however, the October 2020 results are a return to a more normal range of CIT collections for the month.

Year-to-date, net collections through October are \$243.6 million, an increase of 9.8% over the same period in the prior year.

Insurance Premium Tax (IPT) revenue was \$24.3 million in October, which was \$23.3 million above the amount collected in October 2019 and \$6.8 million above the October forecast. Based on historical data going back to 1986, the \$23.3 million collected in October is the largest on record for that month. This large increase in IPT collections may be related to a processing backlog that occurred in July, resulting in those July payments instead being processed over the following months (including October). Year-to-date, IPT collections are 6.0% above last year.

The **Lottery Commission** reported that total ticket sales in October were \$101.9 million. This amount is \$23.4 million, or 28.9%, above October 2019. Year-to-date, ticket sales are 42.9% above the same period in the prior year. General Fund profit distributions were \$32.6 million in October, an amount which was \$2.8 million above forecast.

Highway User Revenue Fund (HURF) collections of \$135.8 million in October were 7.9% above the amount collected in October 2019 and \$29.1 million above forecast. Year-to-date, HURF collections have increased by 7.3% compared to the same period in the prior year and are \$118.8 million above forecast.

Due to delays in reporting final September revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For October, DOR has increased the amount of prior General Fund revenue collections by \$3.2 million, and this amount has been included in the reported year-to-date results.

Table 6

General Fund Revenue: Change from Previous Year and October FAC Forecast October 2020

	Current Month					FY 2021 YTD (Four Months)				
	Actual October 2020	Change From October 2019		October FAC Forecast		Actual October 2020	Change from October 2019		October FAC Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$503,178,642	\$69,410,468	16.0 %	\$67,481,391	15.5 %	\$1,966,823,742	\$215,046,292	12.3 %	\$67,481,391	3.6 %
Income - Individual	436,598,293	(6,163,170)	(1.4)	14,182,139	3.4	2,363,150,350	559,595,780	31.0	14,182,139	0.6
- Corporate	33,788,032	(26,298,483)	(43.8)	10,560,348	45.5	243,557,257	21,772,639	9.8	10,560,348	4.5
Property	3,454,767	(4,739,425)	(57.8)	2,085,344	152.3	4,729,096	(4,724,080)	(50.0)	2,085,344	78.9
Luxury - Tobacco	1,985,591	550,540	38.4	0	--	7,687,557	552,757	7.7	0	0.0
- Liquor	3,198,433	255,488	8.7	0	--	13,185,602	1,896,936	16.8	0	0.0
Insurance Premium	24,306,380	23,294,411	--	6,807,634	38.9	167,012,488	9,521,738	6.0	6,807,634	4.2
Other Taxes	690,904	53,968	8.5	72,769	11.8	4,051,603	1,034,970	34.3	72,769	1.8
Sub-Total Taxes	\$1,007,201,043	\$56,363,797	5.9 %	\$101,189,625	11.2 %	\$4,770,197,696	\$804,697,032	20.3 %	\$101,189,625	2.2 %
<u>Other Revenue</u>										
Lottery	32,594,075	13,104,280	67.2	2,750,000	9.2	32,594,075	(6,895,720)	(17.5)	2,750,000	9.2
License, Fees and Permits	3,252,199	461,828	16.6	237,546	7.9	13,400,859	973,870	7.8	237,546	1.8
Interest	2,759	(2,993)	(52.0)	2,759	N/A	6,134	5,387	721.2	2,759	81.8
Sales and Services	3,026,199	1,625,205	116.0	1,446,955	91.6	8,570,038	1,264,045	17.3	1,446,955	20.3
Other Miscellaneous	3,042,682	(1,853,970)	(37.9)	95,510	3.2	8,205,334	526,783	6.9	95,510	1.2
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	545,783	(7,587,818)	(93.3)	(882,993)	(61.8)	13,633,399	(7,531,856)	(35.6)	(882,993)	(6.1)
Sub-Total Other Revenue	\$42,463,696	\$5,746,533	15.7 %	\$3,649,776	9.4 %	\$76,409,840	(\$11,657,491)	(13.2) %	\$3,649,776	5.0 %
TOTAL BASE REVENUE	\$1,049,664,740	\$62,110,329	6.3 %	\$104,839,402	11.1 %	\$4,846,607,535	\$793,039,541	19.6 %	\$104,839,402	2.2 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(69,041,072)	(7,577,640)	12.3	0	(0.0)	(276,164,286)	(30,310,559)	12.3	0	(0.0)
One-Time Transfers	0	(846,800)	--	0	--	0	(846,800)	--	0	--
Public Safety Transfers	2,122,109	0	0.0	(0)	(0.0)	6,366,327	0	0.0	(0)	(0.0)
Sub-Total Other Adjustments	(66,918,962)	(8,424,440)	14.4 %	0	(0.0) %	(269,797,959)	(31,157,359)	13.1 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$982,745,777	\$53,685,890	5.8 %	\$104,839,402	11.9 %	\$4,576,809,577	\$761,882,182	20.0 %	\$104,839,402	2.3 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	135,808,231	9,936,518	7.9 %	29,126,025	27.3 %	537,806,353	36,808,313	7.3 %	118,849,514	28.4 %

Monthly Indicators

NATIONAL

The U.S. Bureau of Economic Analysis reported that third quarter **U.S. Real Gross Domestic Product (GDP)** increased at an annualized rate of 33.1%. This is the largest percentage growth of any quarter in American history and reflects increased economic activity coincident with the softening of COVID-19 related restrictions. An extraordinary growth rate was expected given the record-steep decline of real GDP in the prior quarter. Total GDP remains (2.9)% below the level in the fourth quarter of 2019.

The Conference Board's **Consumer Confidence Index** fell (0.4) points in October, levelling off from a sharp 15.0 increase the month before. Consumers' perception of the current situation was generally positive, with the present situation sub-index increasing 5.7 points. The expectations sub-index fell (4.5) points, reflecting weakened confidence in the economy going forward.

The Conference Board's **U.S. Leading Economic Index (LEI)** rose by 0.7% to 107.2 in September. The increase was driven by lowered unemployment claims, more building permits, and a greater interest rate spread. The six months ending in September saw a 3.6% improvement in the LEI.

The U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)** did not change in October. After seasonal adjustment, prices are 1.2% higher than in October 2019. The index for food rose by 0.2%, and energy prices increased by 0.1%. However, the gains this month were offset by a (0.4)% decrease in the index for medical care and a (1.2)% decline in the apparel index. Core inflation (all items less food and energy) was also unchanged for the month, though core CPI is up by 1.6% compared to October 2019.

ARIZONA

Single-family housing permitting activity is continuing to grow. In September, Arizona's 12-month total of **single-family building permits** was 37,986. This is up 4.1% from the prior month, and is 18.6% above September 2019. This was the largest year-over-year increase since July 2016.

In September, Arizona's 12-month total of 14,999 **multi-family building permits** was 42.0% more than for the same 12-month period in 2019. September marked the 11th consecutive month with a double-digit year-over-year growth rate in multi-family permitting activity.

Tourism and Restaurants

Several tourism indicators show improvement compared to the previous month but still fall below levels from the prior year. For example, **Revenue per available room** was \$49.22 in September, a 16.2% increase from the prior month but still (32.5)% below September 2019.

Hotel occupancy was 55.4% in October, slightly higher than the 51.5% occupancy in September 2020, but still lower than the 70.8% in October 2019.

Additionally, **Phoenix Sky Harbor Airport Ridership** during September increased 12.0% above the previous month but was (54.3)% below the same month in the prior year.

Daily restaurant reservations were (29.0)% below the prior year level on November 14, according to OpenTable data. This is a reversal from the previous trend of diners slowly returning to in-person dining.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state gained 43,100 **nonfarm jobs** in October compared to the prior month. The private sector recorded a gain of 43,400 jobs over the month. Historically, (2010-2019), private sector employment has averaged a gain of 24,100 jobs in October.

Compared to the same month in the prior year, the state lost (73,800) jobs, a decrease of (2.5)%. Only two of the major 11 job sectors had a year-over-year job gain in October. The gains were recorded in the Trade, Transportation & Utilities and Other Services. In contrast, the Leisure and Hospitality sector recorded the largest losses, with (48,700) jobs lost compared to the same month in the prior year. These losses are in most part due to the effects of the pandemic. However, over the month, Leisure and Hospitality recorded a gain of 9,800 jobs, signaling the start of a recovery.

The state's seasonally adjusted **unemployment rate** increased from 6.5% in September to 8.0% in October. The increase in the state's jobless rate was due to an increase in the number of individuals reported to be unemployed. This is a confusing result given the gain in October nonfarm employment reported above, which is based on employer payroll data. In contrast, the unemployment rate is based on a household survey, suggesting there may be methodological issues between the 2 measures in this rapidly changing

Monthly Indicators (Continued)

economic environment. The U.S. seasonally adjusted unemployment rate decreased from 7.9% in September to 6.9% in October (See the *October Monthly Fiscal Highlights* for more information on the pandemic's effect on employment and labor force surveys).

OEO reported that a total of 6,285 **initial claims for unemployment insurance** were filed in Arizona in the week ending on November 14th (This figure excludes the claims under the Pandemic Unemployment Assistance (PUA) program). For the same week in the prior year, 3,916 initial claims were filed.

According to OEO, for the week ending on November 7th, there were a total of 95,164 **continued claims for unemployment insurance** in Arizona. A year ago this time, the continued claims were 20,489.

For the week ending on November 14th, the federal Department of Labor (DOL) reported that 4,002 initial PUA claims were filed in Arizona. For the week ending on October 31st, DOL reported that 244,147 continued PUA claims were filed in the state. Both of these figures are advance estimates subject to change. (See *October's Monthly Fiscal Highlights* for more information on *Pandemic Unemployment Assistance*)

State Agency Data

As of November 1, 2020, the total **AHCCCS caseload** was 2.05 million members. Total monthly enrollment increased 1.1% in November over October and increased 11.6% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.3% in November, or 8.2% higher than a year ago.

Enrollment in Other Acute Care populations, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 870,266 in November – an increase of 2.2% over October and 17.4% above last year. For November 2020, Long-Term Care EPD and DD population growth increased by 0.2%. At 65,942, this population is (0.7)% lower than a year ago.

There were 15,824 **TANF Cash Assistance recipients** in the state in September, representing a (7.2)% monthly caseload decrease from August. The year-over-year number of TANF Cash Assistance recipients has increased by 19.4%. 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

September, 893,049 people received food stamp assistance in the state, representing a (4.7)% decrease from August caseloads. Compared to September 2019, the level of food stamp participation has increased by 9.1%.

The Arizona Department of Correction's **inmate population** was 38,495 as of October 31, 2020. This was a decrease of (1.0)% since September 30, 2020 and a (9.9)% decrease since October 2019.

Based on information the Department of Child Safety provided for September 2020, **reports of child maltreatment** totaled 43,477 over the last 12 months, a decrease of (6.0)% over the prior year. There were 14,087 **children in out-of-home care** as of August 2020, or 0.1% more than in August 2019. Compared to the prior month, the number of out-of-home children increased by 1.2%.

Table 7

MONTHLY INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	October	8.0%	1.5%	3.5%
- Total Unemployment Rate (discouraged/underemployed)	2nd Q 2020	11.3%	2.1%	2.1%
- Initial Unemployment Insurance Claims	Week Ending Nov 14	6,285	(2.0)%	60.5%
- Continued Unemployment Insurance Claims	Week Ending Nov 7	95,164	(7.8)%	364.5%
- Non-Farm Employment - Total	October	2,908,500	1.5%	(2.5)%
Manufacturing	October	171,600	0.2%	(3.9)%
Construction	October	173,200	1.4%	(0.3)%
- Average Hourly Earnings, Private Sector	October	\$27.93	0.9%	4.2%
<u>Building</u>				
- Single-Family Building Permits (12 months rolling sum)	September	37,986	4.1%	18.6%
Multi-family	September	14,999	(3.0)%	42.0%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	September	7,623	0.1%	32.5%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	September	\$340,000	1.2%	13.4%
- Maricopa Pending Foreclosures	September	1,288	(2.9)%	(44.3)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	September	1,578,524	12.0%	(54.3)%
- State Park Visitors	August	220,555	(15.3)%	(2.5)%
- Revenue Per Available Hotel Room	September	\$49.22	16.2%	(32.5)%
- Arizona Hotel Occupancy Rate	October	55.4%	3.9%	(15.4)%
- Arizona OpenTable Reservations – Y/Y % Change	November 14	N/A	N/A	(29.0)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	2nd Q 2020	\$372.2 billion	35.1%	11.1%
- Arizona Population	July 2019	7,278,717	N/A	1.7%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	May 2015/Nov 2019	Negative/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	November 1st	2,050,752	1.1%	11.6%
Traditional Acute Care		1,114,544	0.3%	8.2%
Other Acute Care		870,266	2.2%	17.4%
Long-Term Care – Elderly & DD		65,492	0.2%	(0.7)%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	September	43,477	(0.3)%	(6.0)%
DCS Out-of-Home Children	August	14,238	1.2%	0.1%
- ADC Inmate Growth	October	38,495	(1.0)%	(9.9)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	September	15,824	(7.2)%	19.4%
- SNAP (Food Stamps) Recipients	September	893,049	(4.7)%	9.1%
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	3rd Q, 2020 (1st Estimate)	\$18.6 trillion	7.4%	(2.9)%
- Consumer Confidence Index (1985 = 100)	October	100.9	(0.4)%	(19.9)%
- Leading Economic Index (2016 = 100)	September	107.2	0.7%	(4.2)%
- Consumer Price Index, SA (1982-84 = 100)	October	260.3	0.0%	1.2%

JLBC/JCCR Meeting Follow-Up

Arizona Department of Administration – Report on the Pharmacy Benefits Manager Contract– Pursuant to a provision from the April 2020 JLBC meeting, the Arizona Department of Administration (ADOA) submitted its report on the Pharmacy Benefits Manager Contract. ADOA has retained MedImpact as its Pharmacy Benefits Manager. ADOA reports that for Plan Year 2021, there are no changes to the prescription drug formulary for employees with current prescriptions. New prescriptions starting in January will use the new formulary. ADOA estimates that the new contract will save the Health Insurance Trust Fund (HITF) \$40.0 million annually due to better drug pricing and negotiated rebates with the vendor. However, that amount is subject to change with utilization. ADOA does not forecast many changes to the number and types of drugs covered in the new formulary. However, the formulary can change on a quarterly basis. (Rebecca Perrera)

Department of Public Safety – Report on Remote Housing Units – Pursuant to a provision from the April 2020 JCCR meeting, the Department of Public Safety (DPS) submitted its biannual report on remote housing units, which includes the current status and construction timeline of the units. The FY 2019 Capital Outlay Bill appropriated \$1.2 million from the General Fund and \$800,000 from the State Highway Fund to DPS for the construction of 6 to 8 remote housing units throughout the state.

The FY 2020 Capital Outlay Bill appropriated \$2.4 million from the Board of Fingerprinting Fund to DPS for the construction of 6 to 8 remote housing units throughout the state.

DPS reported the FY 2019 appropriation resulted in the completion of 8 modular homes by June 2020 in the following locations: Dateland (1), Gila Bend (2), Gray Mountain (2), Kayenta (1), and Salome (2). The department expended the total \$2 million appropriation for this project, with an average price per home of \$250,000.

DPS reported the FY 2020 appropriation funding is on schedule to replace 8 remote housing units by June 2021. The procurement process resulted in a single contractor bidding and DPS accepting this bid. Quotes from the contractor for the various units resulted in an average price per home of \$283,000 and a total cost of \$2.3 million without contingencies.

The construction of 8 modular homes will be completed in the following locations: Dateland (1), Gila Bend (2), Gray Mountain (2), Quartzite (2), and Tusayan (1). The start date of construction for the units will range from May 2020 to February 2021, with the estimated completion of the units ranging from August 2020 to June 2021. (Jordan Johnston)

Summary of Recent Agency Reports

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2021 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its first quarter FY 2021 update of 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. ADOA reported the completion of 10 projects. Of the 4 active projects, ADOA has labeled 2 on track, 1 off track, and 1 not yet started.

CHILDS Replacement (DCS)

The Arizona Strategic Enterprise Technology (Office (ASET) continues to list the Department of Child Safety (DCS) Children's Information Library and Data Source (CHILDS) Replacement project as off-track. ADOA reports several issues which have resulted in delays to the go-live date including security issues, data

migration, and caseworker training. To mitigate further delays, DCS has obtained additional staffing resources. The new go-live date is February 2021 and DCS has limited the project scope to core functionality. "De-scoped" functionality will be delivered as part of the maintenance and operations process. DCS will request approval from the Information Technology Authorization Committee (ITAC) in November 2020 for the revised schedule and scope.

ITAC Third-Party Reports

Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5 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. The IVV reports were submitted for the following projects: Electronic Visit

Summary of Recent Agency Reports (Continued)

Verification project (AHCCCS), Provider Management System upgrade (AHCCCS), CHILDS replacement (DCS), School Finance System Replacement (Arizona Department of Education), Medical Marijuana Licensing Management System (Department of Health Services), and Criminal Justice Information System upgrade (Department of Public Safety). The reports provided commentary on project progress that matched that of the quarterly APF reports from ASET. (Rebecca Perrera)

Arizona Department of Administration – Report on Administrative Adjustments – Pursuant to A.R.S § 35-191, the Arizona Department of Administration (ADOA) submitted their report on administrative adjustments. A.R.S § 35-191 allows administrative adjustments for goods and services received after the end of the fiscal year if written documentation is provided by an agency and approved by ADOA. Statute requires ADOA to report any approvals for goods or services ordered in one fiscal year but received beyond August 30 of the following fiscal year. For FY 2020, ADOA granted approval to the following agencies for purchases made prior to the end of the fiscal year but received after August 30, 2020:

- ADOA for building repairs (\$331,000) and 5 vehicles (\$177,200)
- Attorney General for ammunition (\$17,100)
- Arizona Department of Corrections for multiple vehicles (\$1,415,300)
- Department of Public Safety for vehicles, vehicle equipment and labor (\$138,500) and server installation and support (\$35,600)

(Rebecca Perrera)

Arizona Department of Administration – Report on the Telecommunications Program Office - Pursuant to A.R.S. § 41-712, the Arizona Department of Administration (ADOA) submitted its annual report on the Telecommunication Program Office (TPO), including the current rate structure of telecommunications charges, and payments made by all AZNet participants for FY 2020 and FY 2021. AZNet is the state's single telecommunication network for state agencies. In FY 2021, ADOA signed a new contract with its telecommunications vendor for AZNET 3. AZNet 3 participants pay a variety of fees for different purposes, including a third-party vendor to operate and maintain the system, a separate third-party vendor who aggregates an agency's bills and manages expenses, as well as an amount paid to TPO for their administration of the system as a whole. In FY 2020, total charges paid by all entities were \$40.1 million. In FY 2021, the estimated total charges paid by all entities is \$43.6 million.

Pursuant to A.R.S. § 41-713, ADOA additionally submitted their annual report on the Telecommunication Fund, which includes the sources and uses of received monies, for FY 2020, as well as estimates for FY 2021. The Telecommunication Fund primarily consists of monies paid by agencies, as well as other AZNet participants, to TPO to administer the system as a whole. In FY 2020, the Telecommunication Fund received \$1.8 million from AZNet participants to administer the system. In FY 2021, the Telecommunication Fund is also estimated to receive \$1.8 million from AZNet participants to administer the system, although ADOA is appropriated \$1.7 million from the fund in FY 2021 to administer the program. (Rebecca Perrera)

Arizona Department of Administration – Report on the State Monument and Memorial Repair Fund – Pursuant to A.R.S § 41-1365, the Arizona Department of Administration (ADOA) submitted their annual report on monies deposited into the State Monument and Memorial Repair Fund. The fund consists of donations designated for the maintenance of specific monuments or memorials. Monies in the fund are subject to appropriation. In FY 2020, ADOA received donations of \$1,400 for the Fallen Firefighter and Emergency Medical Technician Memorial, \$6,300 for the Gold Star Families Memorial, and \$14,200 for the Arizona Silent Service Memorial. The total balance in the fund is \$237,500 designated for 8 specific monuments or memorials. The amount includes:

- Father Albert Braun Memorial: \$1,000
- Arizona Law Enforcement Canine Memorial: \$300
- Earnest W. McFarland Monument: \$42,800
- Bill of Rights Monument: \$36,100
- Fallen Firefighter and Emergency Medical Technician Memorial: \$115,400
- Enduring Freedom Memorial: \$21,400
- Gold Star Families Memorial: \$6,300
- Arizona Silent Service Memorial: \$14,200

There were no appropriated expenditures from the fund in FY 2020. (Rebecca Perrera)

Arizona Department of Administration – Report on Vehicle Maintenance Savings – Pursuant to Laws 2020, Chapter 58, ADOA reported on the maintenance savings achieved by replacing vehicles that have an average of 80,000 miles or more. ADOA estimates maintenance savings by subtracting the first full year of maintenance costs for each vehicle from the maintenance costs incurred in the last year each vehicle was in service. In FY 2020, ADOA estimates total maintenance savings of \$105,500 for replacement of 66 vehicles with an average of 168,655 miles. (Rebecca Perrera)

Summary of Recent Agency Reports (Continued)

AHCCCS – Report on Targeted Investment Program Expenditures – Pursuant to a provision from the June 2017 JLBC meeting, the Arizona Health Care Cost Containment System (AHCCCS) submitted its annual report on actual Targeted Investment Program (TIP) expenditures. TIP provides incentive payments to Medicaid providers who develop processes for integrated care. The program is funded through Federal Funds and Political Subdivision Funds.

In FY 2019, Arizona spent \$42.2 million total on TIP expenditures. The Adult and Child Ambulatory program, which funds primary care providers, behavioral health providers, and integrated clinics, accounted for 86% of expenses at \$36.3 million. The remaining \$5.9 million was spent across 3 other program categories: Justice, Hospitals, and Administration. Justice pertains to the integration of acute and behavioral health services for adults with behavioral health needs transitioning from incarceration. (Maggie Rocker)

Attorney General – Quarterly Report on Child and Family Advocacy Center Fund Expenditures – Pursuant to A.R.S. § 41-191.11, the Attorney General (AG) submitted its quarterly report on expenditures from the Child and Family Advocacy Center Fund (CFAF), which funds nonprofit and government entities that serve victims of child abuse or investigate and prosecute their abusers.

Through the first quarter of FY 2021, the AG has not expended its \$500,000 FY 2020 appropriation from the Consumer Protection - Consumer Fraud Revolving Fund. In addition to the FY 2020 appropriation, the fund has an unobligated balance from FY 2019 of \$100,000, for a total fund balance of \$600,000. The balance does not include \$100,000 appropriated to the AG in FY 2021. (Ryan Fleischman)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures – Pursuant to A.R.S. § 41-199, the Attorney General (AG) submitted its quarterly report on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund receives an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age restricted areas. Monies in the fund are utilized to support the ICAC Task Force, which is housed within the Phoenix Police Department and works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the first quarter of FY 2021, the AG received no revenues for deposit into the ICAC Enforcement Fund. A total of \$257,700 was expended from the fund balance in the first quarter of FY 2021 to help pay for the operating costs of the ICAC Task Force. As of September 30, 2020, the ICAC Enforcement Fund had a fund balance of \$2.1 million, plus \$155,800 in outstanding encumbrances, leaving an unencumbered fund balance of \$2.0 million. (Ryan Fleischman)

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

In the first quarter of FY 2021, the AG deposited a total of \$2.2 million into various consumer accounts. Of that amount, \$1.6 million was deposited into the CPCF Revolving Fund, \$156,000 was deposited into the Consumer Restitution Subaccount, and \$503,100 was deposited into the Consumer Remediation Subaccount. The AG made no deposits to the General Fund from settlements.

Deposits to the CPCF Revolving Fund

The AG deposited \$1.6 million to the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. This amount primarily resulted from a \$1.5 million settlement with Michael Babich and Natalie Lavine regarding Insys Therapeutics, with additional amounts from small legal settlements and other revenue.

Deposits to Antitrust Enforcement Revolving Fund

The AG made no deposits into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$156,000 into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from small legal settlements as well as \$9,700 from interest income.

Deposits to the Consumer Remediation Subaccount

The AG received \$503,100 in interest income into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. This amount resulted from a \$500,000 settlement with Michael Babich and Natalie Lavine

Summary of Recent Agency Reports (Continued)

regarding Insys Therapeutics (in addition to the \$1.5 million CPCF Revolving Fund deposit) as well as \$3,100 from interest income.

Deposits to the General Fund

The AG made no deposits into the General Fund from settlements. (Ryan Fleischman)

Arizona Commerce Authority – Annual Report on Arizona Competes Fund – Pursuant to A.R.S. § 41-1545.04, the Arizona Commerce Authority (ACA) provided its annual report on: 1) grants from the previous fiscal year and other projects currently funded from the Arizona Competes Fund, and 2) performance measures for the recipients including job creation, capital investment and average wages.

New FY 2020 Grants

ACA awarded 7 grants from the Arizona Competes Fund totaling \$8.3 million in FY 2020.

ACA awarded 7 new grants totaling \$8.3 million for the purpose of expanding or retaining businesses in Arizona. These grants were awarded to the following recipients:

- Nikola Corporation USA was awarded \$3.5 million.
- Mark Anthony Brewing Inc. was awarded \$1.3 million.
- Allstate Insurance Company was awarded \$1.0 million.
- Norton Lifelock Inc. was awarded \$1.0 million.
- 23andMe Inc. was awarded \$500,000.
- Universal Electronics Inc. was awarded \$500,000.
- Choice Hotels was awarded \$500,000.

Each recipient agreed, as part of the granting process, to meet certain metrics regarding job creation. The 7 recipients agree, over the next 3 years, to create a collective total of 5,195 new jobs, retain 1,389 existing jobs, provide average annual wages above the county median wage, make a collective capital investment of \$1.4 billion, and pay for at least 65% of their employees' health insurance costs.

ACA also provides grants to small and rural businesses through 4 different programs. The Arizona Innovation Challenge (AIC) awarded a total of \$3.0 million to 20 different companies to promote new technologies and small business growth. The Arizona Small Business Development Center Grant (AZSBDCG) gave \$378,750 to Maricopa County Community Colleges to "enhance economic development" through tracking and improving small business creation and expansion. The

Arizona COVID-19 Assistance Grant (AZCAG) provided \$150,000 to home-based microenterprises affected by the coronavirus pandemic. No grants were awarded via the Rural Economic Development Grant (REDG) in FY 2020. Grants made under this program are meant to fund rural infrastructure projects that will generate or retain private sector jobs.

Performance Measures

ACA awarded 44 grants totaling \$68.8 million from FY 2012 through FY 2020 for the purpose of expanding or retaining business in Arizona. In addition, 5 grants were rescinded totaling \$6.5 million. Through FY 2020, these grantees created 17,491 jobs with average annual wages of \$86,982 and capital investment of \$2.1 billion. This compares to commitments of 28,301 jobs created, average annual wages of \$66,434, and capital investment of \$2.3 billion. The grantees have 3 years to reach the agreed upon metrics. Grantees that did not perform the agreed upon metrics were only funded for the job creation and capital investments that were completed.

From FY 2012 through FY 2020, ACA made 122 REDG, AIC, AZBDCCG, and AZCAG grants totaling \$27.9 million for the purpose of supporting rural and small businesses. As of June 30, 2020, these grantees created 3,508 jobs and \$278.6 million in capital investment compared to commitments of 3,865 jobs and \$479.2 million in capital investment. The average annual wage of the jobs created was \$47,000. Only 1 AIC grant for \$250,000 was rescinded.

Fund Status

The Arizona Competes Fund typically receives a General Fund deposit of \$5.5 million and an additional deposit of \$3.5 million in lottery revenues. As of June 30, 2020, the Arizona Competes Fund had a balance of \$55.0 million. (Benjamin Newcomb)

Department of Corrections – Report on Inmate Health Care Performance Measures

– Pursuant to an FY 2021 General Appropriation Act footnote, ADC submitted its report detailing the status of performance measures required under the *Parsons v. Ryan* Stipulation. ADC currently tracks 852 monthly performance measures across the 10 state prisons. ADC provided the following timeline of events since its last report submitted on February 7, 2020.

On January 31, 2020, the Federal court overseeing the stipulation ordered ADC to come into compliance with the performance measures no later than March 1, 2020 or the court could impose civil contempt sanctions of \$100,000 per month for every measure not in "substantial compliance." In order to be considered in "substantial

Summary of Recent Agency Reports (Continued)

compliance,” ADC must show compliance over a 2-year period.

On February 14, 2020, ADC sent a letter to its healthcare vendor demanding increased efforts to reach full compliance with the Stipulation. The vendor responded to the letter by outlining their performance measure remediation plan. ADC also reorganized their leadership and oversight of the inmate health care contract and performance measures.

ADC reports that as of May 2020 it was in substantial compliance with 88.1% of the measures, up from 87.2% in November 2019. ADC reports 100 performance measures are not in substantial compliance. If the court imposes sanctions on each of these, the total would be approximately \$10.0 million per month. The court has not yet chosen to impose these sanctions. ADC believes the healthcare vendor, not the state, is legally responsible for any sanctions. (Geoffrey Paulsen)

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 formula that compares the growth rate of real adjusted Arizona 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).

Since the calendar year 2019 growth rate exceeded the trend growth rate by 0.12%, EEC reported on May 28, 2020 that the formula called for a BSF deposit of \$12.0 million at the end of FY 2020. In a separate memo issued on October 28, 2020, EEC revised this figure to \$13.4 million.

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. Laws 2019, Chapter 263 includes a \$271.1 million deposit from the General Fund in FY 2019 and FY 2020, for a total of \$542.2 million. These amounts were determined independent of the formula. The current BSF balance is approximately \$967.5 million. (Jeremy Gunderson)

Department of Economic Security – Report on Annual Child Care Expenditures – A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The

FY 2020 report shows that the average number of children served increased to 35,141, or 15.3% above FY 2019; the number of families served increased by 17.6%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) increased by 32.5%, child welfare-related placements decreased by (0.2)%, the number of Temporary Assistance for Needy Families-related children decreased by (6.3)%, and the number of children receiving transitional child care decreased by (7.7)%. The wait list for child care subsidies decreased from 738 at the beginning of FY 2019 to none at the beginning of FY 2020. Currently, all eligible families are able to receive child care services immediately.

The amount spent by DES on child care subsidies increased to \$221.4 million, an increase of 55.3% from FY 2019. The average monthly subsidy paid per child increased 38.4% to \$524.93. The significant increase in the average subsidy is the result of an increase in the maximum reimbursement levels that DES implemented on June 1, 2019 plus enhanced rates for participants in the Arizona Enrichment Centers Program implemented after the onset of the COVID-19 pandemic. The total amount of co-payments collected increased by 46.4% from FY 2019 to \$10.9 million. (Alexis Pagel)

Arizona Department of Education – Report on K-12 Aggregate Expenditure Limit – Pursuant to A.R.S. § 15-911B, the Department of Education recently reported that currently budgeted expenditures for school districts collectively for FY 2021 are \$138.9 million above the aggregate expenditure limitation (AEL) established for school districts in the State Constitution. The difference for FY 2020 was \$(49.3) million.

The AEL caps spending for all school districts combined at 110% of the FY 1980 statewide level adjusted for subsequent enrollment growth and inflation. It does not apply to exempted items like overrides, bonding and Proposition 301 funding or to charter schools. School district budgets are exceeding the AEL in FY 2021 because funding for teacher pay raises and Additional Assistance restorations is causing district spending to grow faster than enrollment and inflation combined in the current year.

A.R.S. § 15-911C allows the Legislature to authorize school district spending above the AEL for a current fiscal year with a two-thirds majority vote in both the House of Representatives and Senate. A permanent increase in the AEL would require a voter-approved change to the State Constitution. (Patrick Moran)

Summary of Recent Agency Reports (Continued)

Board of Executive Clemency – Report on FY 2020 Caseload – Pursuant to a footnote in the FY 2021 General Appropriation Act, the board is required to submit a report on its FY 2020 caseload by November 1, 2020.

The board conducted 2,586 case hearings in FY 2020, as described below:

Phases 1 and 2 Commutation (266): After reviewing an inmate’s request to have their sentence commuted, the board can decide to deny the request or allow the request to move to a Phase 2 Commutation hearing.

Pardon (0): The board may recommend that the Governor pardon an offender.

Absolute Discharge (9): The board can discharge a person from imprisonment or parole supervision prior to the sentence expiration date or prior to the expiration of parole.

Modification (0): The board can recommend to the Governor that an inmate’s sentence be modified or commuted.

Reprieve (0): The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate’s punishment.

Parole (376): These hearings only apply to offenders sentenced prior to 1994. The board may place these offenders on parole or deny their application for parole and return them to the Department of Corrections.

Violator (1,935): These hearings are conducted when an offender has violated the terms of community supervision. (Nicole Lovato)

JLBC Staff – County Flexible Revenue Report – The FY 2021 Revenue Budget Reconciliation Bill (BRB) (Laws 2020, Chapter 52) permits counties with a population under 250,000 persons according to the 2010 Census to use any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2021, but limits this authority to no more than \$1,250,000 used for purposes other than the purpose of the revenue source. The FY 2021 Revenue BRB requires counties to report on their use of this provision.

Of the 12 eligible counties, 6 reported using \$5.43 million of flexibility:

- Coconino County: \$1.25 million from the Jail District to the General Fund to pay down the Public Safety Personnel Retirement System (PSPRS) debt and pay

for information technology needs for the Sheriff’s Department. Coconino County utilized \$1.25 million last year.

- La Paz County: \$600,000 from the Vehicle License Tax to the General Fund to pay down PSPRS debt and pay for general operating expenses. La Paz County utilized \$1.25 million last year.
- Mohave County: \$1.0 million from the Landfill Fund to the General Fund for capital facilities. Mohave County did not utilize flexibility last year.
- Navajo County: \$830,000 from the Flood Control District and Library District to the General Fund for operating expenses. Navajo County utilized \$1.0 million last year.
- Yavapai County: \$1.25 million from the Flood Control District to the General Fund for operating expenses. Yavapai County did not utilize flexibility last year.
- Yuma County: \$500,000 from the Flood Control District to the Jail District to supplement operating revenue due to projected shortfall related to the COVID-19 pandemic. The transfer will only be made if needed. Yuma County did not utilize flexibility last year.

Last year, 4 eligible counties reported utilizing a total of \$4.8 million of flexibility.

The following 5 counties indicated that they are not utilizing this provision: Cochise, Gila, Graham, Greenlee, and Santa Cruz. Apache County did not respond. (Ryan Fleischman)

JLBC Staff – Report on FY 2020 Travel and Relocation Expenses – A.R.S. § 35-196.01 requires agencies to annually report relocation expenses for their employees. As of November 15, 2020, 7 agencies reported spending a total of \$44,103 on these purposes in FY 2020. See Table 8. In FY 2019, 9 agencies reported \$44,583 for such expenses. (Alexis Pagel)

<u>Agency</u>	<u>FY 2020 Travel Expense</u>
Corrections, State Department of	10,750
Environmental Quality, Arizona Department of	7,000
Game and Fish Department, Arizona	3,567
Juvenile Corrections, Department of	2,009
Public Safety, Department of	6,462
Public Safety Personnel Retirement System	11,936
Tourism, Office of	2,379
Total	\$44,103

Summary of Recent Agency Reports (Continued)

Department of Revenue/Department of Insurance and Financial Institutions – Report on Tax Credits

DOR – Income Tax Credits

Pursuant to A.R.S. § 43-224, the Arizona Department of Revenue submitted its annual report on the amounts of individual income and corporate income tax credits used during the prior fiscal year.

The agency reported that 2.45 million credit claims, totaling \$649.4 million, were claimed against the individual income tax in FY 2020. This is a dollar impact growth of 24.7% over the prior year. Of the total, the Income Taxes Paid to Other States and Countries Credit accounted for \$199.7 million, the Dependent Tax Credit for \$129.5 million, school tuition organization credits accounted for \$128.0 million, the charitable and foster care contributions credits accounted for \$85.9 million, and the public-school extracurricular activity fee credit accounted for \$37.9 million. Use of other credits, including the Solar Energy Device Tax Credit, totaled \$43.8 million. The number of claims and dollar impact of credits are listed in *Table 9* below.

<u>Credits:</u>	<u># of Claims</u>	<u>Annual Cost</u>
Income Taxes Paid to Other States and Countries	74,190	\$199.7
Dependent Tax Credit	867,704	129.5
School Tuition Organizations	130,549	128.0
Contributions to Charitable and Foster Care Organizations	187,884	85.9
Public School Contributions	142,420	37.9
Prop 301 Sales Tax Credit	526,736	24.6
Other Credits ^{1/}	<u>524,412</u>	<u>43.8</u>
Total Value of Credits	2,453,895	\$649.4

^{1/} Due to taxpayer confidentiality, DOR did not report the number of claims or credit use for all "Other Credits"

The Department of Revenue reported that taxpayers used a total of \$131.2 million in corporate income tax credits in FY 2020, a dollar impact increase of 32.5% from the prior year. Of the total amount used, \$72.5 million was for research and development credits and \$23.4 million was for school tuition organization credits. Use of other credits, including credits for renewable energy production, totaled \$21.2 million in FY 2020. The number of claims and dollar impacts of credits are listed in *Table 10* below.

<u>Credits:</u>	<u># of Claims</u>	<u>Annual Cost</u>
Research and Development ^{1/}	460	\$72.5
School Tuition Organizations	105	23.4
New Employment	39	14.1
Other Credits ^{2/}	<u>59</u>	<u>21.2</u>
Total Value of Credits	663	\$131.2

^{1/} Does not include additional credit for university research due to confidentiality laws. This amount is, however, reflected in the total.
^{2/} Due to taxpayer confidentiality, DOR did not report the number of claims or credit use for all "Other Credits".

DOI – Insurance Premium Tax Credits

Pursuant to A.R.S. § 20-224I, the Department of Insurance submitted its annual report on the amounts of insurance premium tax credits used in the previous fiscal year. The agency reports that a total of \$64.3 million in insurance premium tax credits were used in FY 2020. This is a dollar impact growth of 57.2% over the prior year. Of this amount, \$48.4 million consists of credits earned for donations made by insurance companies to private school tuition organizations that provide scholarships to children of low-income families or to children with disabilities. The dollar impacts of the specific credits are listed in *Table 11* below.

<u>Credits:</u>	<u>Annual Cost</u>
Private School Tuition Organizations - Low Income Students ^{1/}	\$45.4
New Employment	8.0
Health Insurance Premium ^{2/}	4.0
Private School Tuition Organizations - Disabled/Displaced Students ^{3/}	2.9
Insurance Guaranty Fund	<u>3.9</u>
Total Value of Credits	\$64.3

^{1/} The credit was capped at \$107.0 million in FY 2020 between corporate income and insurance premium taxpayers.
^{2/} Credit is capped at \$5.0 million annually.
^{3/} Credit is capped at \$5.0 million annually between corporate income and insurance premium taxpayers.

(David Hoffer, Ben Newcomb)

Summary of Recent Agency Reports (Continued)

Department of Revenue – Report on Tax Fraud Prevention Services – Pursuant to an FY 2021 General Appropriation Act footnote, on or before November 1, 2020 the Department of Revenue (DOR) is required to report the results of private fraud prevention investigation services during FY 2020. Funds are used to contract with a vendor to provide investigation services to identify potentially fraudulent tax returns and prevent fraudulent refunds from being sent by the department. The department reports that the fraud prevention efforts stopped \$22.8 million in fraudulent claims. Of this amount, \$19.1 million came from 15,495 fraudulent Individual Income Tax returns and \$3.7 million came from Withholding verification analytics, audit leads on tax preparers and other unspecified corrective actions.

The October *Monthly Fiscal Highlights* included a summary of DOR's report on enforcement revenue, which mostly focused on work by DOR staff to audit taxpayer returns and pursue collections activity on outstanding tax amounts due. The report described above specifically details contracted fraud prevention services, which is one part of DOR's overall enforcement efforts. (Jeremy Gunderson)

School Facilities Board – Quarterly Report on Credit Enhancement Program – Quarterly Report on Credit Enhancement Program – Pursuant to A.R.S. § 15-2158, the School Facilities Board (SFB) is required to submit quarterly reports on the Public School Credit Enhancement Program. The program is operated by the Governor's Office of Education. Since the last quarterly report in July 2020, no new schools have been approved for funding. As of September 30, 2020, 12 schools have been approved for financing through the program – Academy of Math and Science (2 projects), Arizona Agribusiness and Equine Center, BASIS Schools (2 projects), Candeo Schools, Great Hearts Academies (2 projects), Highland Prep, Legacy Traditional Schools, Paradise Schools, and Vista College Preparatory. The total outstanding principal amount is \$232.0 million. To date, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$106.0 million and has a leverage ratio of 2.19 (based only on the outstanding principal of issued financing). The statutory limit for the program's leverage ratio is 3.5. (Rebecca Perrera)

School Facilities Board – Report on Costs for New Construction at the Arizona State Schools for the Deaf and the Blind – Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is required to biennially report on the resources needed to fulfill the new construction requirements for the Arizona State Schools for the Deaf and the Blind (ASDB). ASDB operates 2 campuses, a

campus in Phoenix and a campus in Tucson. According to SFB, new construction costs would total \$16.8 million for ASDB to meet minimum space requirements. This cost pertains to a space deficiency at the ASDB Phoenix campus, which has capacity for 169 students and a current enrollment of 277 students. The ASDB Tucson campus does not have a space deficiency, as it has capacity for 388 students and a current enrollment of 128 students. The ASDB capacity calculations are based on SFB agency policy, which requires 875 square feet per student for ASDB facilities. The ASDB Phoenix project cost was calculated using the current statutory K-12 construction cost per square foot, multiplied by the capacity needed for the current student population plus projected enrollment growth over the next several years. (Rebecca Perrera)

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 \$6.0 million in FY 2019 and \$5.9 million in FY 2020 and are projected to be \$6.4 million in FY 2021. 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]

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

Once the cumulative net income from an individual agreement reaches \$1.0 million, A.R.S. § 15-1670 requires that the University transfer 20% of cumulative net income exceeding \$1.0 million to AFAT, less any prior distributions made to AFAT related to the agreement.

In FY 2020 ASU reported no total income, NAU reported \$31,100 of total income and UA reported \$7.3 million in total income. In FY 2020 UA has \$3.3 million in cumulative net income exceeding \$1.0 million. Pursuant to A.R.S. § 15-1670, UA will deposit \$664,500 into the AFAT. (Alexis Pangel)

Summary of Recent Agency Reports (Continued)

Universities – Report on University Centers – In conjunction with an ongoing appropriation, the FY 2020 General Appropriation Act requires Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) to operate Center's and report on each of the Center's 1) total funding; 2) faculty and courses; 3) student enrollment; and 4) community events, initiatives, and publications.

Arizona State University – The FY 2021 General Appropriation Act appropriated \$3.0 million to ASU to operate the School of Civic and Economic Thought and Leadership (SCETL). The SCETL reports total available funds of \$5.6 million in FY 2020. This includes the \$3.0 million FY 2020 General Fund appropriation, a \$2.0 million carryover from FY 2019, \$300,000 in university funding, and \$313,000 from donor support. ASU reports that operation costs for the school in FY 2021 are \$753,000.

The SCETL currently has 12 long-term faculty members; 6 PhD or JD faculty as lecturers, professors of practice, or post-doctoral fellows; and 3 visiting professors who are collectively responsible for teaching 59 courses. The SCETL reports 617 students enrolled in courses taught by the school or who are enrolled in a major/minor offered by the school in FY 2020.

In FY 2019, the SCETL supported internships in Africa, Belize, Israel, and India; along with Global Intensive Experience (GIE) courses in India and Israel for students. Due to COVID-19, the school expects to resume these activities in 2021. The school's proposal for a M.A. degree in Classical Education and Leadership was approved and this program was launched in August 2020. The SCETL also coordinates the Civic Discourse Project, presenting forums, lectures, and panel discussions. The 2020-2021 series is focused on Race, Justice, and Leadership.

Northern Arizona University – The FY 2021 General Appropriation Act appropriated \$500,000 to NAU to operate the Alliance Bank Economic Policy Institute (EPI) in the College of Business. The Institute reports receiving a total of \$796,500 in funding for the Economic Policy Institute during FY 2020, including the FY 2020 \$500,000 General Fund appropriation and \$296,500 from various sources, such as: the Arizona Office of Tourism, Arizona State Parks Board, Coconino County, U.S. Department of Commerce, Bureau of Reclamation, and Friends of Coconino County Parks. The EPI is staffed by a Director, 5 undergraduate student employees and 1 graduate fellow. NAU reports no formal student enrollment, as the EPI did not offer any courses as a part of its structure through FY 2020. Starting in the fall 2020 semester, the EPI will teach a Personal Finance course offered campus-wide.

Current EPI research includes the economic impact of COVID-19 on the county and local economy, the economic impact of COVID-19 on the tourism economy of Coconino County, the economic impact of tourism on Cochise County, and the Navajo Generating Station and Kayenta Mine Closure Report. In addition, EPI hosts conferences and workshops such as the Economic Outlook Conference, Tribal Entrepreneurship Trainings, Seventh Generation Money Management Workshop and Tribal Business Plan Competitions.

University of Arizona – The FY 2021 General Appropriation Act appropriated \$2.5 million to UA to operate the Center for the Philosophy of Freedom. The Center reports receiving a total of \$2.7 million in funding during FY 2020 including a \$2.5 million General Fund appropriation and \$25,000 from private donors.

During FY 2020, the Center had 8 faculty members and 11 graduate students currently enrolled. Between summer 2020 and spring 2021 the Center has 30 courses with total undergraduate enrollment of 1,569 students. In addition to teaching, the Center reports that it has contributed to the publication of 5 books and academic articles in 2019 and 2 books and academic articles in 2020. The Center reports community events such as large public lectures and Freedom Talks. (Alexis Pagel)

Arizona Economic Trends

November 2020

Appendix A

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2.....Total Non-Farm Employment

Average Hourly Earnings – Private Sector

3.....State Sales Tax Collections – Retail Category

State Sales Tax Collections – Contracting Category

4.....Residential Building Permits

Rolling 4-Week Withholding Total

Initial Unemployment Insurance Weekly Claims

Continued Unemployment Insurance Weekly Claims

5.....SNAP Recipients

AHCCCS Recipients

HURF Revenue

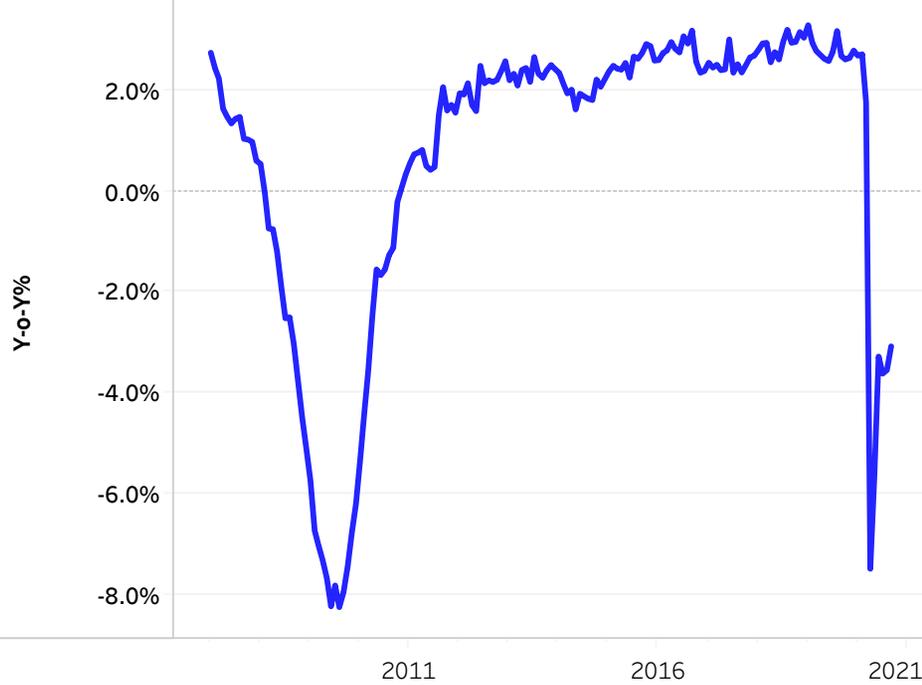
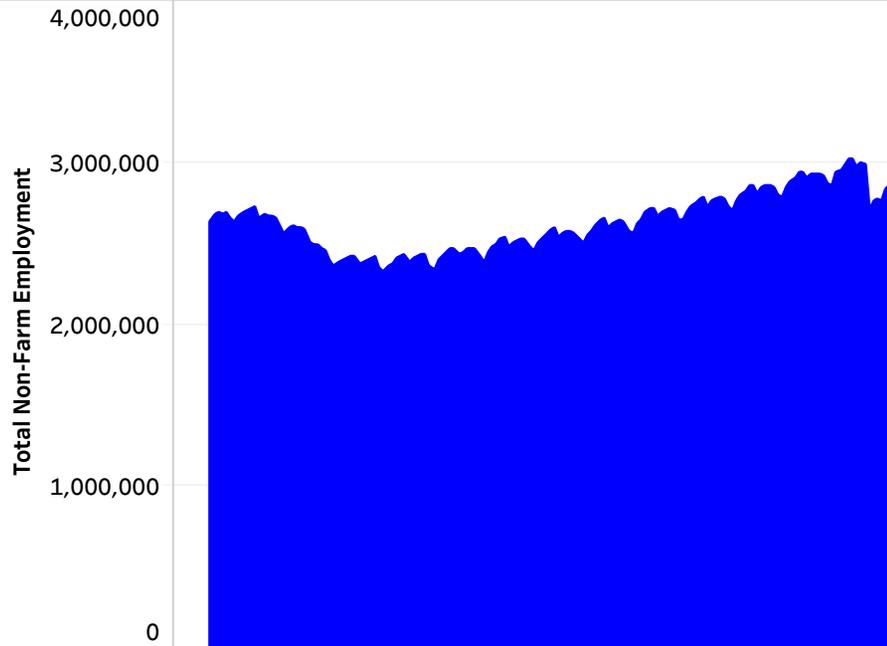
Sky Harbor Total Passengers

6.....Arizona Hotel Occupancy

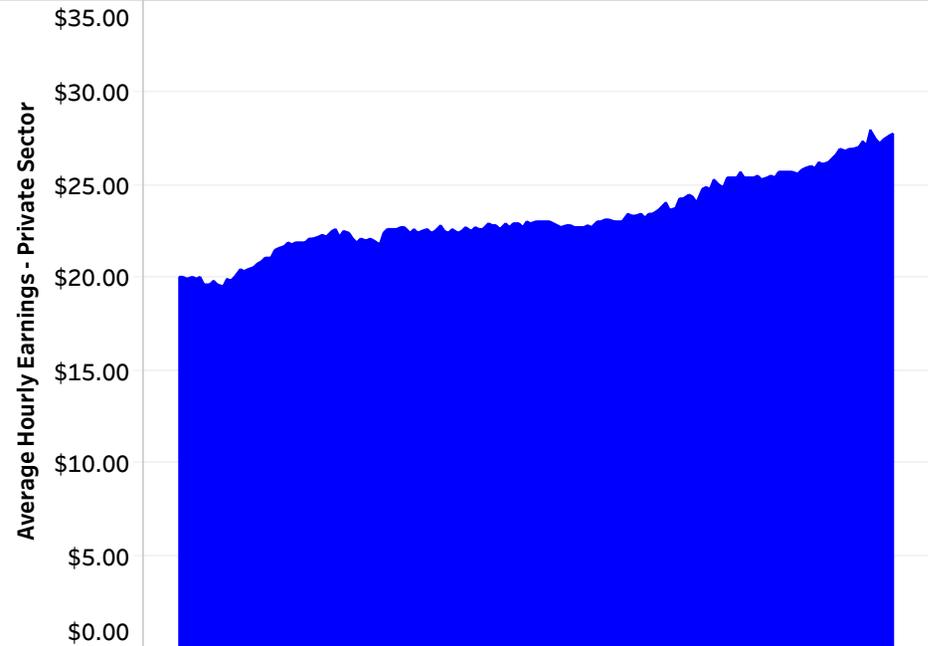
Arizona OpenTable Daily Reservations

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

Total Non-Farm Employment

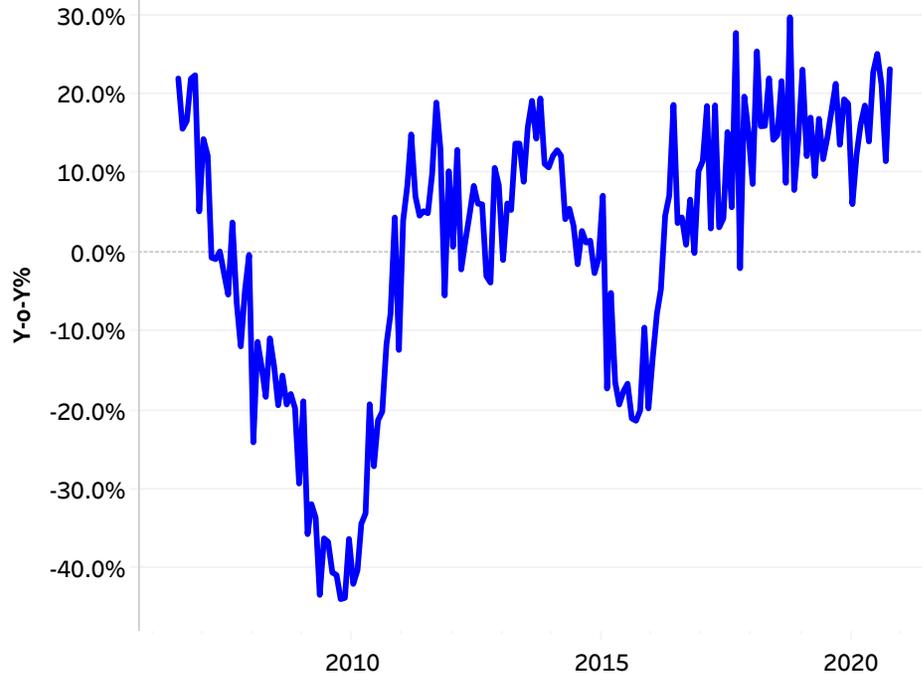
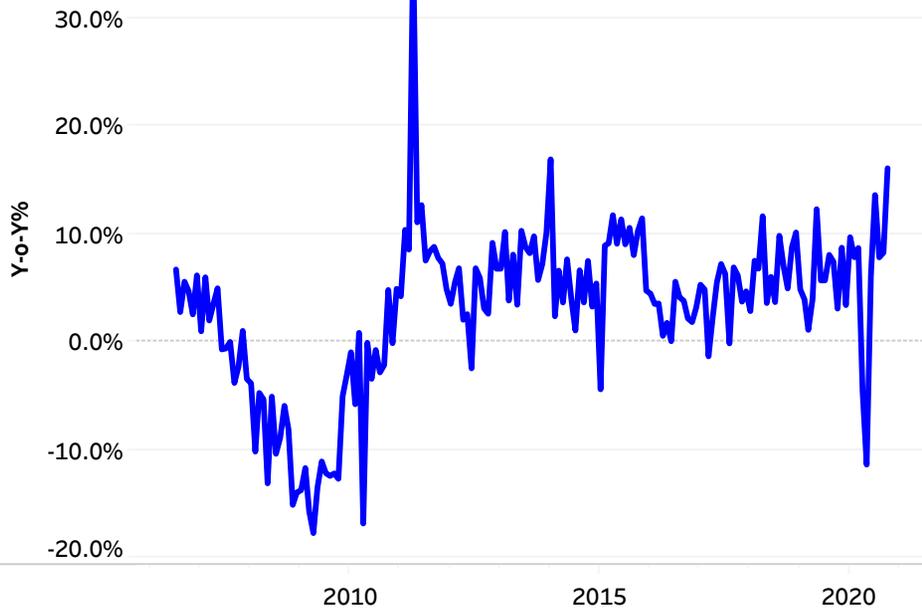
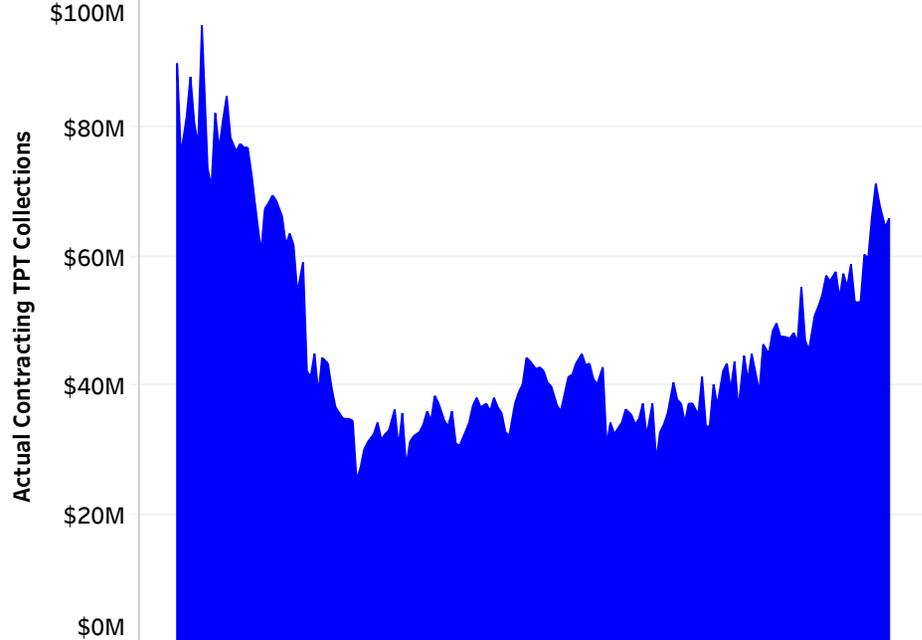
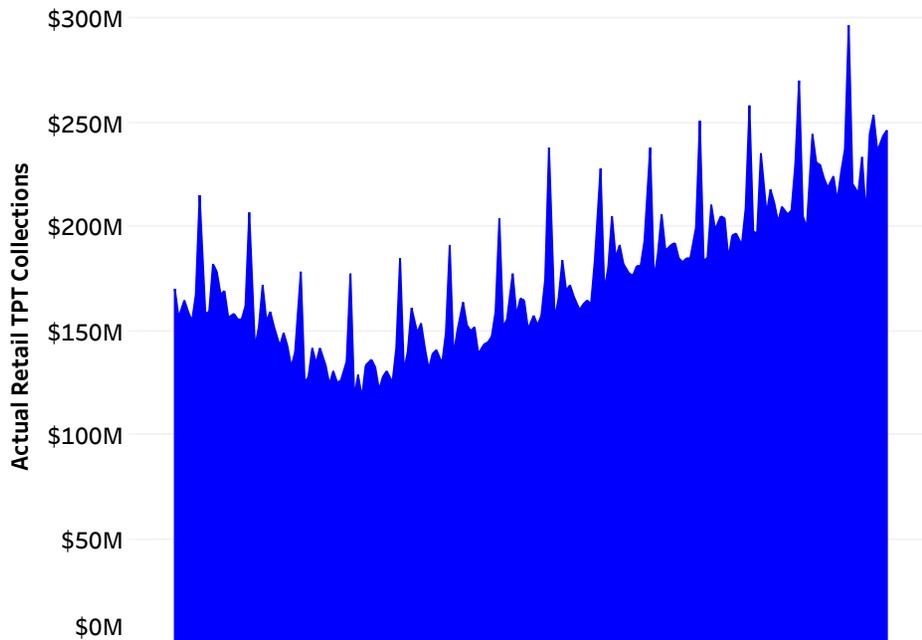


Average Hourly Earnings - Private Sector

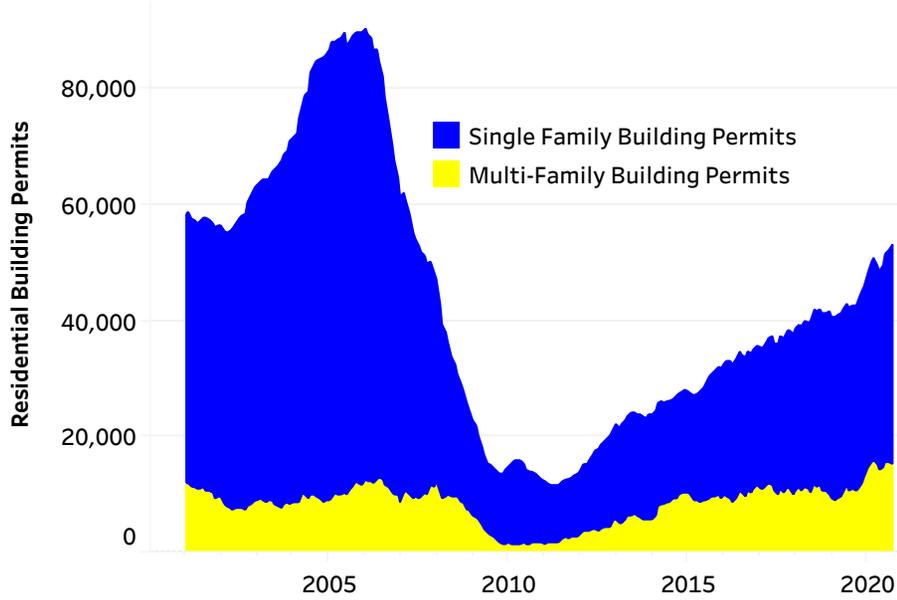


State Sales Tax Collections - Retail Category

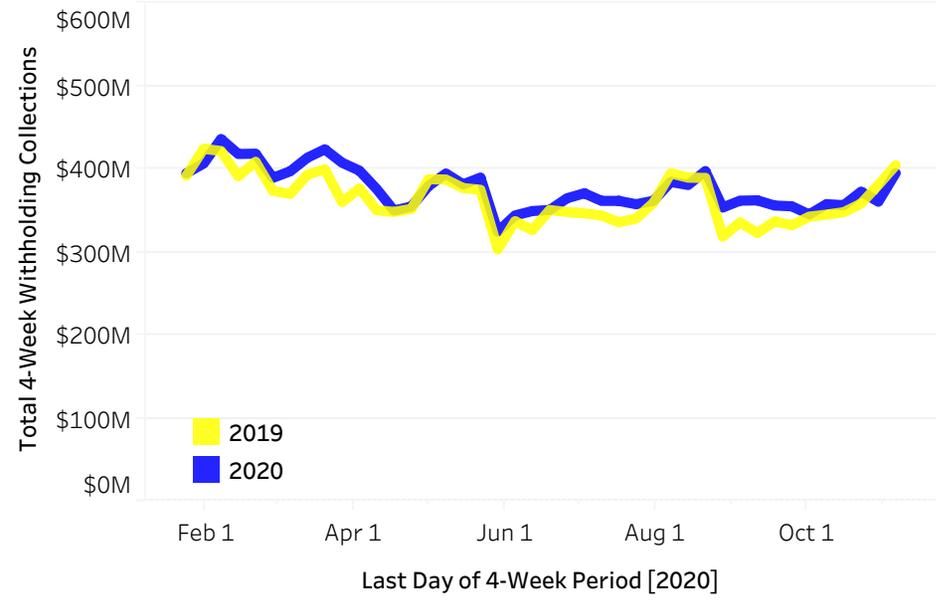
State Sales Tax Collections - Contracting Category



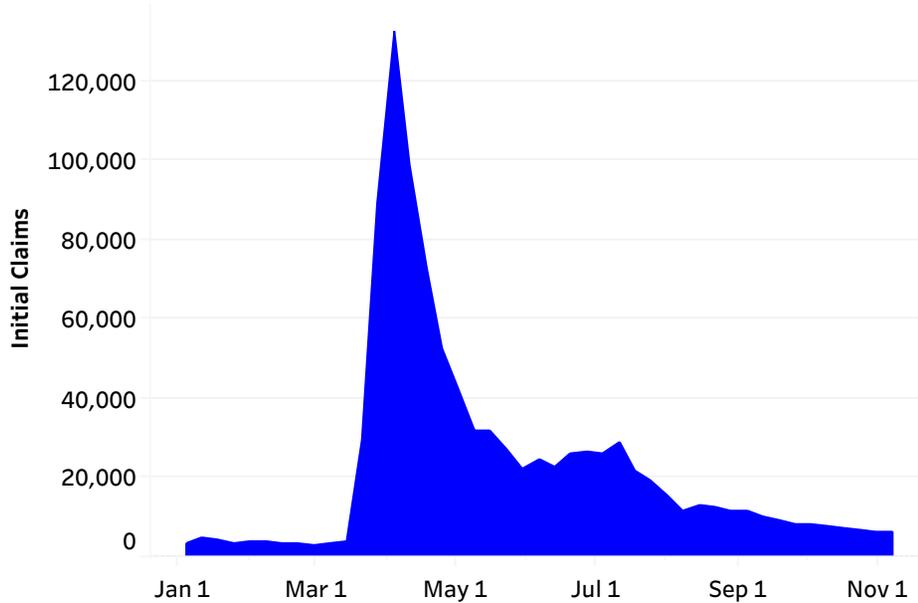
Residential Building Permits



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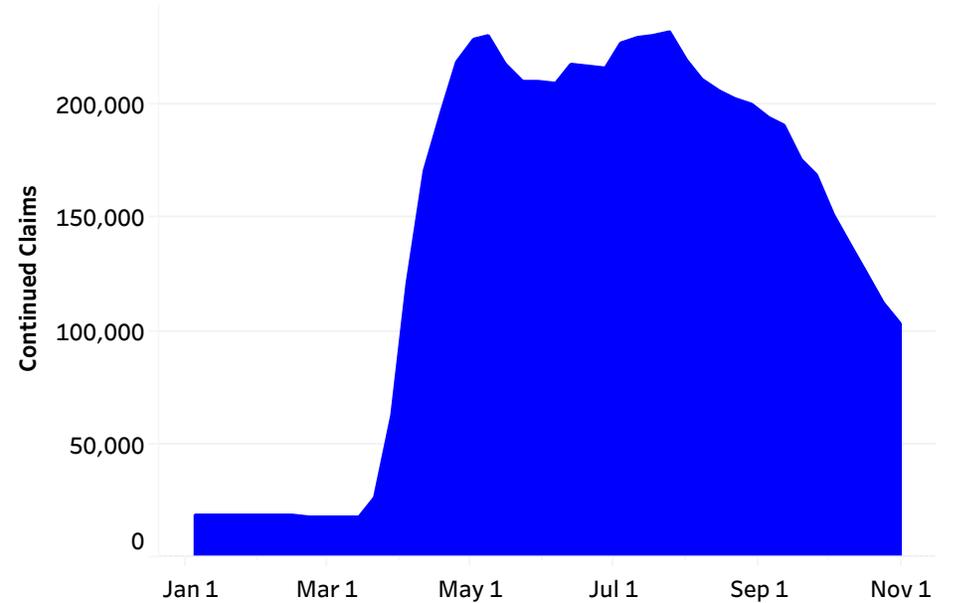


Initial Unemployment Insurance Weekly Claims



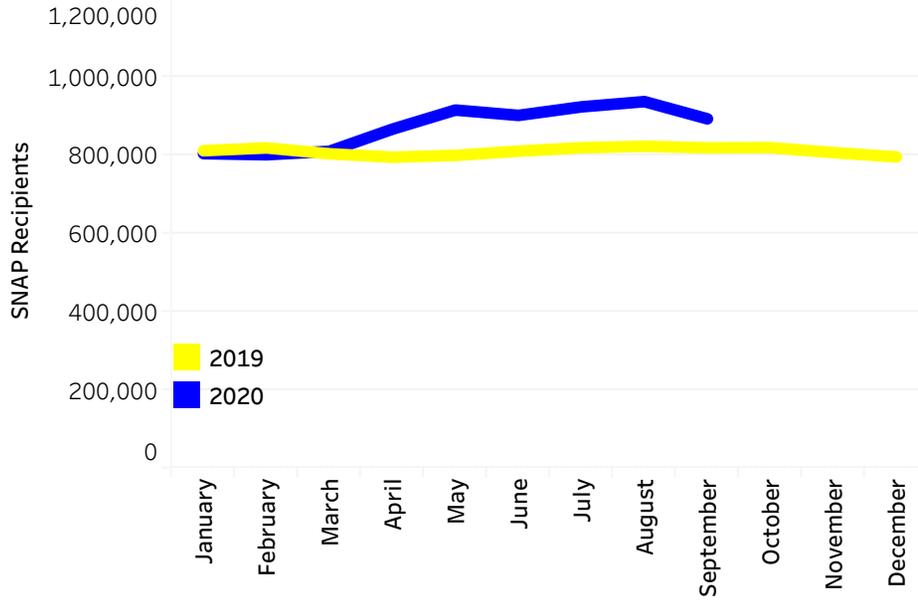
Reported Unemployment Insurance Initial Claims and Continued Claims do not include claims associated with the federally funded Pandemic Unemployment Assistance (PUA) program.

Continued Unemployment Insurance Weekly Claims

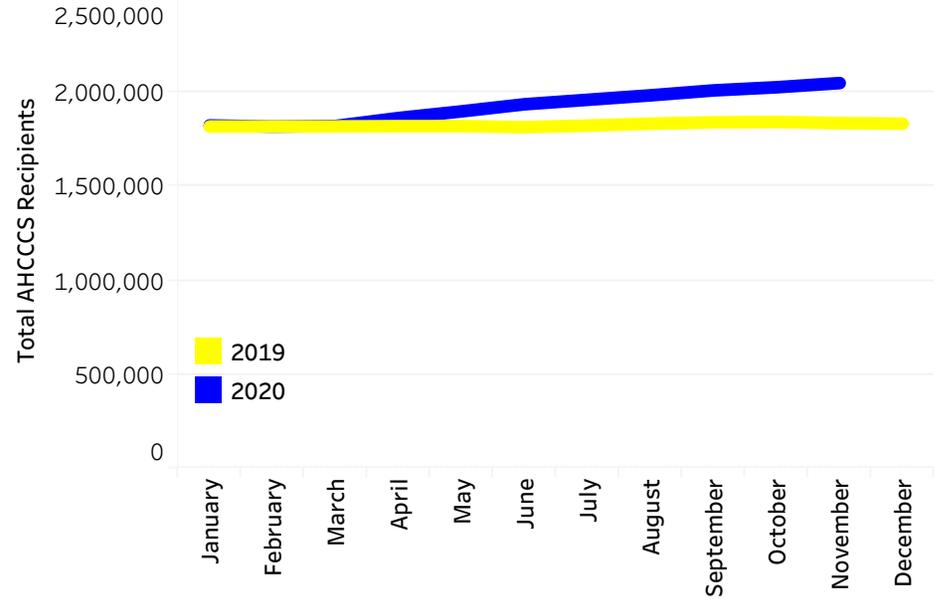


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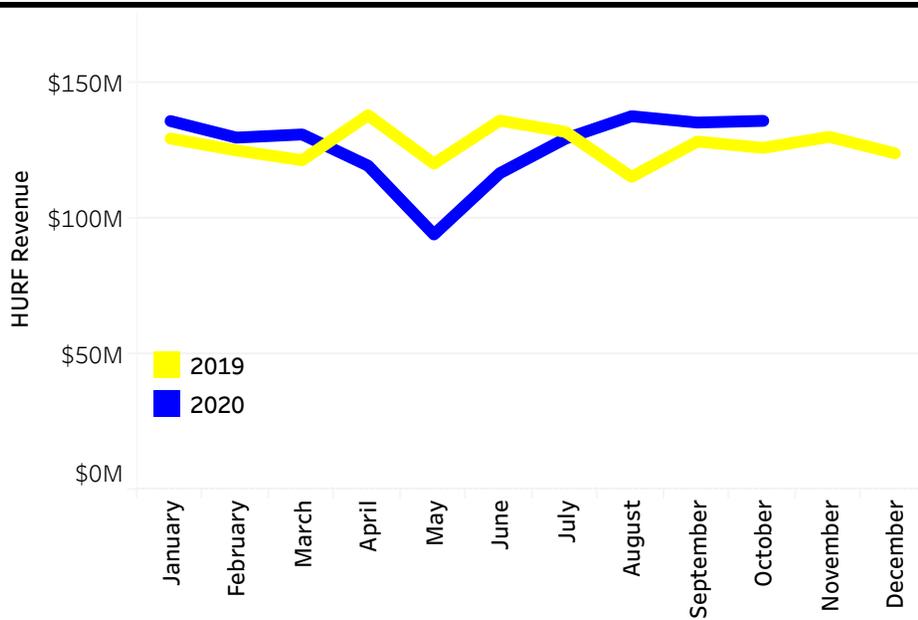
SNAP Recipients



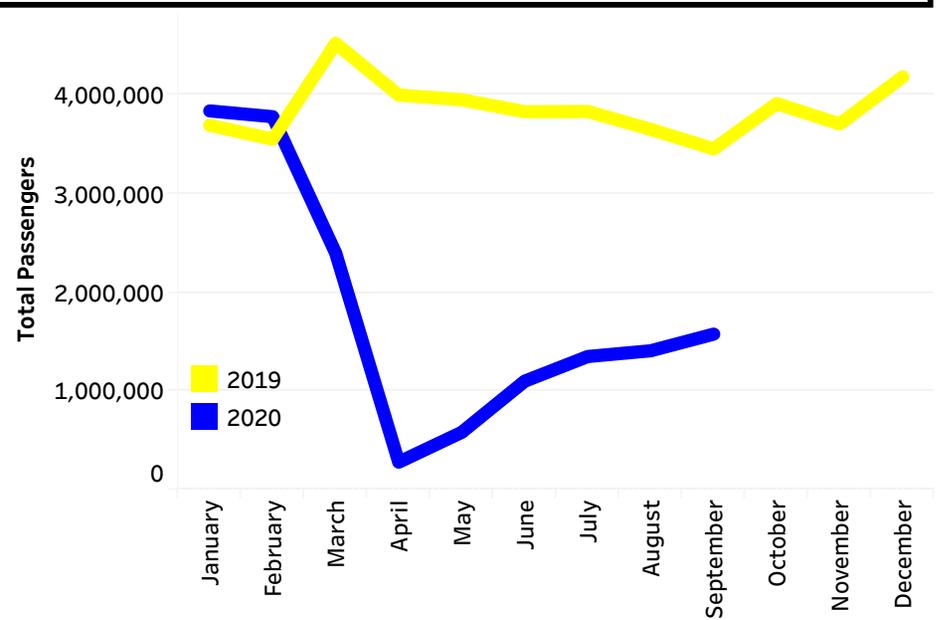
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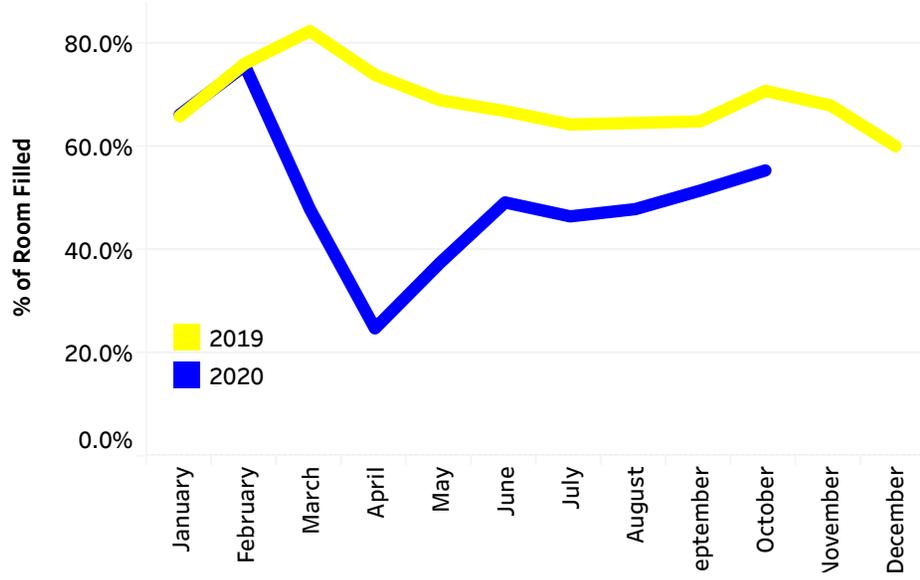
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