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### "General Fund

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## Summary

General Fund revenue collections during August totaled \$888.5 million, which is 10.6% above the prior year. This level of August revenues resulted in an overall gain of \$53.0 million compared to the June Budget Update forecast, with gains concentrated in the Sales Tax category.

Overall, August Sales Tax collections (which represent July sales activity) grew by 9.9% above August 2019, and were \$54.3 million above forecast.

In terms of the Sales Tax subcategories, much of the overall growth in Sales Tax collections was driven by the retail and contracting classifications, which grew by 7.8% and 21.2%, respectively.

Besides Sales Tax, the Individual Income Tax (IIT) and Corporate Income Tax (CIT) categories posted modest forecast gains during August.

IIT collections were \$12.5 million above forecast, helped by higher than expected withholding and payments.

CIT revenues during August were \$18.2 million above forecast – however, it is difficult to draw conclusions from this result due to August being a relatively small month for CIT collections.

The state's largest forecast loss during the month came from the Insurance Premium Tax (IPT), where collections during August were \$(32.6) million below forecast. This loss continues a technical timing issue seen during July. Beyond any overall changes in liability, the timing of IPT deposits during the months of July,

August and September can show variability from year-to-year. This year, it appears some IPT collections may have shifted from July and August to later months.

### Year-to-Date Revenue Results/Operating Balance

Year-to-date through August, excluding Urban Revenue Sharing and fund transfers, FY 2021 General Fund revenues are 40.5% above the prior year and are \$283.7 million above the June Budget Update forecast. The high year-to-date revenue growth rate is 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-September 2020 is \$3.58 billion

### Preliminary FY 2020 Ending Balance Report

As noted in the August *Monthly Fiscal Highlights* the Executive Branch was required to provide a preliminary estimate of the FY 2020 ending balance by September 15, 2020.

The state's General Accounting Office is currently reporting the FY 2020 ending balance to be \$373 million. In August, JLBC Staff had published an initial FY 2020 ending balance projection of \$377 million.

## Table of Contents

### Summary

- Year-to-Date Revenue Results ..... 1
- Preliminary FY 2020 Ending Balance Report .. 1

### August Revenues..... 2

### Monthly Indicators ..... 5

### JLBC/JCCR Meeting Follow Up ..... 8

### Summary of Recent Agency Reports

- AHCCCS – Behavioral Health Services..... 9
- AHCCCS – Suicide Prevention Report..... 9

- County Attorneys – Deferred Prosecution..... 9
- ACJC – Anti-Racketeering Fund Report..... 9
- DES – Coolidge Campus Report ..... 10
- ADE – Empowerment Scholarships Cost..... 10
- DEQ – FY 2020 WQARF Program Report..... 10
- Forestry – Nonnative Vegetation Report ..... 10
- DPS – Border Strike Task Force Spending ..... 11
- Supreme Court – Automation Projects ..... 11
- Arizona Economic Trends.....Appendix A**

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on September 21, 2020.

## August Revenues

Table 1

General Fund Revenues (\$ in Millions)			
	<u>FY 2021 Collections</u>	<u>Difference From June Update Forecast</u>	<u>Difference From FY 2020</u>
August	\$ 888.5	\$ 53.0	\$ 85.1
Year-to-Date	\$ 2,422.8	\$ 283.7	\$ 630.6

**Sales Tax** collections of \$479.8 million were 9.9% above August of last year and \$54.3 million above forecast.

August collections reflect sales that occurred in July. The first executive order to protect against COVID-19 was issued on March 19. This was followed by several additional executive orders, including an order to allow businesses to resume their operations in compliance with federal guidelines, beginning on May 16. On June 29, Governor Ducey ordered gyms, bars, movie theaters, waterparks and tubing rentals to pause their operations. This means that the data reported this month reflects sales activity following the pause of these business operations.

As shown in *Table 2* below, all sales tax categories except for restaurant and bar performed well in August when compared to the same month in the prior year. Restaurant and Bar Sales Tax growth rates have showed declines since March, when Governor Ducey issued his first executive order to protect against Covid-19.

Table 2

Sales Tax Growth Rates Compared to Prior Year		
	<u>Aug</u>	<u>YTD</u>
Retail	7.8%	10.7%
Contracting	21.2%	23.2%
Use	5.6%	7.7%
Restaurant & Bar	(14.3)%	(12.7)%
Utilities	5.9%	6.6%

As noted in *Table 3*, retail collections were helped by gains in automotive sales, building materials and garden supply, and furniture/home finishing.

Table 3

August Growth Rates – Retail Subcategories Compared to Prior Year	
Automotive	11.5%
Building Materials, Lawn/Garden	26.5%
Clothing and Accessories	(32.2)%
Food and Liquor Sales	15.0%
Furniture and Home Finishing	17.1%
General Merchandise	4.4%
Miscellaneous Retail	17.6%
Wholesale	5.9%
All Other	(2.7)%
<b>Total – Retail Classification</b>	<b>7.8%</b>

The Contracting classification also performed well in August, growing by 21.2% during the month. This growth was fueled by the heavy construction sector (which includes highway construction) and non-residential (commercial) construction, as noted in *Table 4*. In contrast, specialty trade (such as plumbers and electricians) fell during August, continuing a trend seen since the onset of the pandemic.

Table 4

August Growth Rates – Contracting Subcategories Compared to Prior Year	
Heavy Construction	179.7%
Nonresidential Construction	37.9%
Residential Construction	3.7%
Specialty Trade	(6.2)%
All Other	4.8%
<b>Total – Contracting Classification</b>	<b>21.2%</b>

**Individual Income Tax (IIT)** Net collections were \$393.6 million in August, a modest 1.2% higher than the August 2019 total amount of \$389.0 million. Net IIT revenues in August 2020 were \$12.5 million above forecast.

August withholding revenue was 4.0% above last August and \$9.0 million above forecast. The 4.0% growth in withholding collections during August has a confusing disconnect with the overall employment data – August 2020 non-farm employment in Arizona is approximately (100,000) below August 2019. The reasons for this disconnect is unclear, and may be caused by: 1) Employment data is collected through monthly surveys, which may be subject to statistical issues during the pandemic; and 2) The state paid significant amounts of backlogged UI benefit payments during August, which are subject to withholding and may have increased collections; and 3) August 2020 contained one more Monday than August 2019, and Mondays tend to be significant tax processing days for withholding.

Payments had another strong month in August, ending the month \$10.2 million, or 31.0%, above last year and \$9.5 million above forecast. With capital markets performing strongly relative to other sectors of the economy, it is not surprising that payments have seen higher-than-expected growth.

## August Revenues (Continued)

Refunds were \$(37.6) million in August compared to \$(17.3) million in the same month last year. The forecast assumed a refund amount of \$(31.6) million. For this reason, August's higher-than-expected refund level resulted in a revenue loss of \$(6.0) million relative to the forecast.

**Table 5**  
**Individual Income Tax Growth Rates**  
**Compared to Prior Year**

	<u>August</u>	<u>YTD</u>
Withholding	4.0%	2.7%
Estimated/Final Payments	31.0%	1,043.2%
Refunds	117.4%	439.2%

**Corporate Income Tax** net revenue was \$22.9 million in August, which was \$17.8 million above the amount collected in August 2019 and \$18.2 million above the updated June forecast. While this was the largest amount of net collections for the month of August since 2007, August net revenue typically represents less than 1% of the fiscal year-total.

Year-to-date, net collections through August are \$103.5 million, an increase of 157% over the same period in the prior year and \$66.0 million above forecast. As noted in the August *Monthly Fiscal Highlights*, the deferral of the tax filing due date from April 15 to July 15 may have had a larger impact on corporate income tax revenue than originally anticipated.

**Insurance Premium Tax** revenue was \$46.7 million in August, which was \$39.6 million above the amount collected in August 2019 and \$(32.6) million below forecast. Historically, insurance premium tax collections tend to vary considerably from month to month during the first 3 months of the fiscal year. For this reason, it is not unusual for large forecast deficits or overages to occur during the first few months of the fiscal year.

The **Lottery Commission** reports that August ticket sales were \$116.4 million, which is \$38.0 million, or 48.3% above sales in August 2019. Year-to-date, ticket sales are \$236.7 million, which is 49.3% above the prior year. These increases in ticket sales are driven by sales of Scratcher tickets, which have been considerably higher than normal since April.

**Highway User Revenue Fund (HURF)** collections of \$137.5 million in August were 19.4% above the amount collected in August 2019 and \$38.0 million above forecast. Year-to-date, HURF collections have increased by 8.1% compared to the same period in the prior year and are \$61.5 million above forecast.

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 \$18.5 million, and the adjustment has been included in the reported year-to-date results. Almost all of the unusually large adjustment to July revenues is attributable to the final payment category of the individual income tax.

Table 6

## General Fund Revenue: Change from Previous Year and June Budget Update Forecast August 2020

	Current Month					FY 2021 YTD (Two Months)				
	Change From					Change from				
	Actual	August 2019		June Budget Update Forecast		Actual	August 2019		June Budget Update Forecast	
	August 2020	Amount	Percent	Amount	Percent	August 2020	Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$479,807,472	\$43,048,166	9.9 %	\$54,321,892	12.8 %	\$972,581,882	\$99,786,785	11.4 %	\$116,407,693	13.6 %
Income - Individual	393,647,609	4,658,704	1.2	12,501,031	3.3	1,399,746,731	564,580,233	67.6	126,557,681	9.9
- Corporate	22,891,049	17,843,826	353.5	18,236,381	391.8	103,511,746	63,174,440	156.6	65,977,208	175.8
Property	152,971	14,456	10.4	41,506	37.2	373,000	(880,154)	(70.2)	(308,049)	(45.2)
Luxury - Tobacco	1,975,836	180,142	10.0	0	—	3,817,159	61,875	1.6	5,953	0.2
- Liquor	2,484,312	198,044	8.7	0	—	5,208,531	(161,188)	(3.0)	(527,531)	(9.2)
Insurance Premium	46,734,325	39,597,161	554.8	(32,620,552)	(41.1)	47,000,024	926,053	2.0	(37,320,267)	(44.3)
Other Taxes	1,590,758	831,415	109.5	630,092	65.6	2,588,034	985,066	61.5	589,008	29.5
<b>Sub-Total Taxes</b>	<b>\$949,284,332</b>	<b>\$106,371,913</b>	<b>12.6 %</b>	<b>\$53,110,349</b>	<b>5.9 %</b>	<b>\$2,534,827,107</b>	<b>\$728,473,109</b>	<b>40.3 %</b>	<b>\$271,381,694</b>	<b>12.0 %</b>
<b><u>Other Revenue</u></b>										
Lottery	0	0	—	0	—	0	0	—	0	—
License, Fees and Permits	3,789,726	914,350	31.8	770,769	25.5	6,861,768	479,468	7.5	230,467	3.5
Interest	117	(1,342,989)	(100.0)	117	N/A	2,133	(1,549,810)	(99.9)	2,133	—
Sales and Services	1,262,781	63,020	5.3	(172,239)	(12.0)	4,116,211	1,578,332	62.2	1,747,768	73.8
Other Miscellaneous	1,643,916	2,137,849	—	1,197,936	268.6	1,938,684	2,305,071	(629.1)	795,517	69.6
Disproportionate Share	0	0	—	0	—	0	0	—	0	—
Transfers and Reimbursements	(563,412)	(4,860,146)	—	(1,923,478)	—	11,004,845	6,480,163	143.2	9,545,234	654.0
<b>Sub-Total Other Revenue</b>	<b>\$6,133,129</b>	<b>(\$3,087,915)</b>	<b>(33.5) %</b>	<b>(\$126,895)</b>	<b>(2.0) %</b>	<b>\$23,923,641</b>	<b>\$9,293,223</b>	<b>63.5 %</b>	<b>\$12,321,120</b>	<b>106.2 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$955,417,460</b>	<b>\$103,283,998</b>	<b>12.1 %</b>	<b>\$52,983,455</b>	<b>5.9 %</b>	<b>\$2,558,750,748</b>	<b>\$737,766,332</b>	<b>40.5 %</b>	<b>\$283,702,814</b>	<b>12.5 %</b>
<b><u>Other Adjustments</u></b>										
Urban Revenue Sharing	(69,041,072)	(7,577,640)	12.3	0	(0.0)	(138,082,143)	(15,155,279)	12.3	0	(0.0)
One-Time Transfers	0	(12,705,056)	—	0	—	0	(94,158,056)	—	0	—
Public Safety Transfers	2,122,109	2,122,109	—	(0)	(0.0)	2,122,109	2,122,109	—	(0)	(0.0)
<b>Sub-Total Other Adjustments</b>	<b>(66,918,962)</b>	<b>(18,160,587)</b>	<b>37.2 %</b>	<b>0</b>	<b>(0.0) %</b>	<b>(135,960,034)</b>	<b>(107,191,227)</b>	<b>372.6 %</b>	<b>0</b>	<b>(0.0) %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$888,498,498</b>	<b>\$85,123,411</b>	<b>10.6 %</b>	<b>\$52,983,455</b>	<b>6.3 %</b>	<b>\$2,422,790,714</b>	<b>\$630,575,105</b>	<b>35.2 %</b>	<b>\$283,702,814</b>	<b>13.3 %</b>
<b><u>Non-General Funds</u></b>										
Highway User Revenue Fund	137,523,499	22,316,398	19.4 %	38,008,263	38.2 %	266,821,108	19,886,377	8.1 %	61,505,963	30.0 %

## Monthly Indicators

### NATIONAL

The U.S. Bureau of Economic Analysis' second estimate of the second quarter **U.S. Real Gross Domestic Product (GDP)** revises the number up to (31.7)% from (32.9)%. This is still the sharpest percent decrease in real GDP in U.S. history. Much of the record-large decline was due to the COVID-19 pandemic and attendant lockdowns. Private inventory investment, consumer spending, exports, and nonresidential fixed investment all saw upward revisions. New data from the Census Bureau revealed that more was spent on healthcare services than originally recorded (not surprising during a pandemic). Given the current work situation of many Americans, another interesting point of revision is higher spending on computers and similar equipment.

The Conference Board's **U.S. Consumer Confidence Index** is based on consumers' perceptions of current economic conditions as well as their expectations 6 months into the future. The index fell to 84.8 in August. This is the lowest that the index has been since 2014. Even though many businesses are opening up their operations again, consumers are less optimistic about the economic recovery.

The Conference Board's **U.S. Leading Economic Index (LEI)** increased from 102.0 in June to 104.4 in July. This is the third consecutive month of positive growth in the LEI. The first half of 2020 saw a (6.8)% drop in the LEI. Manufacturing work hours and building permits grew while unemployment insurance claims decreased, all of which contributed to the LEI increase.

Consumer prices, which are measured by the U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)**, increased 0.4% in August. This reflects a 1.3% increase above August 2019 prices after seasonal adjustment. The largest factor in the increase was the used cars and trucks index, which rose by 5.4%. The energy index also increased by 0.9%, and the food index rose 0.1% in August after declining in July. Core inflation (all items less food and energy) rose by 0.4% for the month. Compared to August 2019, the core CPI is up by 1.7%.

### ARIZONA

Single-family housing permitting activity is continuing to grow. In July, Arizona's 12-month total of **single-family building permits** was 35,747. This is up 2.7% from the prior month, and is 12.9% above July 2019. This was the largest year-over-year increase since November 2018. In July, Arizona's 12-month total of 15,558 **multi-family building permits** was 47.3% more than for the same 12-month period in 2019. July marked the 9<sup>th</sup> consecutive month with a double-digit year-over-year growth rate in multi-family permitting activity.

### Tourism and Restaurants

As expected, several tourism indicators are still below levels from the prior year. For example, **Revenue per available room** was \$41.02 in July, a (6.3)% decrease from the prior month and (35.5)% below July 2019. **Hotel occupancy** was 46.5% in July, compared to 73.9% in July 2019.

In addition, **Phoenix Sky Harbor Airport Ridership** during July was 22.7% above the prior month, but (64.7)% below the same month in the prior year.

Similarly, visits to state parks have decreased. **State park visitation** was 264,432 in June, (11.9)% below the prior month and (10.7)% below the same month in the prior year.

According to Open Table data, **daily restaurant reservations** were (27.6)% below the prior year level on September 12, according to OpenTable data. While daily restaurant reservations remain significantly below the level reported for the same day in the prior year, the long-term trend continues to show more diners returning to restaurants.

### Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state gained 79,200 **nonfarm jobs** in August compared to the prior month. The private sector recorded a gain of 30,400 jobs over the month and all 11 major sectors reported job gains.

Compared to the same month in the prior year, the state lost (100,200) jobs, a decrease of (3.4)%. Only two of the major 11 job sectors had a year-over-year job gain in August. The gains were recorded in the Trade, Transportation & Utilities sector, which added 11,600 jobs as well as Other Services, which gained 2,300 jobs. The Leisure and Hospitality sector recorded the largest losses, with (63,500) jobs lost compared to the same month in the prior year.

The state's seasonally adjusted **unemployment rate** decreased from 10.7% in July to 5.9% in August. The U.S. seasonally adjusted unemployment rate decreased from 10.2% in July to 8.4% in August. The month-over-month reduction of the Arizona unemployment rate of (4.8)% was the largest in recorded history (data going back to January 1976). This reduction, however, was almost exclusively attributable to a record-large reduction of the labor force. In August, 145,673 persons left the civilian labor force. By way of comparison, the largest month-over-month decrease prior to the pandemic occurred during the Great Recession when 7,789 left the labor force in July 2010.

The record-large decrease of the labor force in August was likely in large measures due to persons who were



## Monthly Indicators (Continued)

discouraged about their job prospects and therefore stopped actively looking for employment. The state's labor force participation rate (ratio of civilian labor force to civilian noninstitutional population) in August was 58.5%, which is the lowest figure in recorded history. Prior to the onset of the pandemic, Arizona labor force participation rate was 62.4%.

The unemployment rate, and the associated data on employment and labor force participation are based on monthly surveys which sample a relatively small proportion of the population. Given the unique circumstances of the COVID-19 pandemic, this unemployment data may be subject to larger than normal statistical sampling issues and there future revisions.

OEO reported that a total of 11,343 **initial claims for unemployment insurance** were filed in Arizona in the week ending on September 5th (This figure excludes the claims under the Pandemic Unemployment Assistance (PUA) program, which is discussed below.) For the same week in the prior year, 3,336 initial claims were filed.

According to OEO, for the week ending on August 29th, there were a total of 200,185 **continued claims for unemployment insurance** in Arizona. A year ago this time, the continued claims were 25,986.

The federal Coronavirus, Aid, Relief and Economic Security (CARES) Act enacted in March provides unemployment insurance compensation to individuals who are not otherwise eligible for regular unemployment insurance benefits, such as self-employed individuals and independent contractors. The unemployment insurance benefits under this federal program, referred to as **Pandemic Unemployment Assistance (PUA)**, are available from February 2 through December 26. The PUA program provided an additional \$600 in weekly federal unemployment compensation benefits from March 29 through July 25. After this time, the weekly benefit ranges from \$117 to \$240 until the PUA program ends on December 26.

On August 14, the Executive announced the state would be applying to the federal government to provide \$300 in additional weekly unemployment benefits retroactive to August 1st pursuant to President Trump's recent executive order, called the "lost wages assistance" program. Arizona's application was approved, and the (non-retroactive) \$300 benefit payments began to be distributed the week ending on August 22<sup>nd</sup>. However, this extension expired the week ending September 12<sup>th</sup>.

For the week ending on September 12th, the federal Department of Labor (DOL) reported that a total of 165,612 initial PUA claims were filed in Arizona. For the week ending on August 29th, DOL reported that 329,175

continued PUA claims were filed in the state. Both of these figures are advance estimates subject to change.

As noted in August's *Monthly Fiscal Highlights*, the continued PUA claim figure represents a duplicated count. Individuals may have applied more than once. In addition, individuals may be receiving multiple weeks of benefits at one time, potentially resulting in a duplicated count.

### State Agency Data

At the beginning of September 2020, the total **AHCCCS caseload** was 2.01 million members. Total monthly enrollment increased 1.3% in September over August and increased 9.2% compared to a year ago. Parent and child enrollment in the Traditional population increased by 0.8% in September, or 7.2% higher than a year ago.

Enrollment in Other Acute Care populations, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 838,324 in September – an increase of 2.1% over July and 12.9% above last year. For September 2020, the Long-Term Care EPD and DD populations decreased (0.5)% compared to last month. At 65,807, this population is (0.3)% lower than a year ago.

There were 18,360 **TANF Cash Assistance recipients** in the state in July, representing a 0.8% monthly caseload increase from June. The year-over-year number of TANF Cash Assistance recipients has increased by 34.9%. 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, 923,590 people received food stamp assistance in the state, representing a 2.4% increase above June caseloads. Compared to July 2019, the level of food stamp participation has increased by 12.7%.

The Arizona Department of Correction's **inmate population** was 39,153 as of August 31, 2020. This was a decrease of (0.5)% since July 31, 2020 and a (7.8)% decrease since August 2019.

Based on information the Department of Child Safety provided for July 2020, **reports of child maltreatment** totaled 47,724 over the last 12 months, an increase of 7.6% over the prior year. There were 14,165 **children in out-of-home care** as of June 2020, or 0.02% more than in June 2019. Compared to the prior month, the number of out-of-home children decreased by (0.1)%.

Table 7

MONTHLY INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	August	5.9%	(4.8)%	1.3%
- Total Unemployment Rate (discouraged/underemployed)	2nd Q 2020	11.3%	2.1%	2.1%
- Initial Unemployment Insurance Claims	Week Ending Sept 5	11,343	(3.1)%	240.0%
- Continued Unemployment Insurance Claims	Week Ending Aug 29	200,185	(1.2)%	670.4%
- Non-Farm Employment - Total	August	2,836,200	2.9%	(3.4)%
Manufacturing	August	171,600	0.3%	(4.1)%
Construction	August	169,300	0.8%	(2.2)%
- Average Hourly Earnings, Private Sector	August	\$27.69	0.7%	3.7%
<u>Building</u>				
- Single-Family Building Permits (12 months rolling sum)	July	35,747	2.7%	12.9%
Multi-family	July	15,558	6.1%	47.3%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	July	7,236	(9.0)%	13.6%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	July	\$330,000	1.5%	13.8%
- Maricopa Pending Foreclosures	July	1,447	(6.8)%	(38.3)%
<u>Tourism and Restaurants</u>				
- Phoenix Sky Harbor Air Passengers	July	1,351,807	22.7%	(64.7)%
- State Park Visitors	June	264,432	(11.9)%	(10.7)%
- Revenue Per Available Hotel Room	July	\$41.02	(6.3)%	(35.5)%
- Arizona Hotel Occupancy Rate	July	46.5%	(5.5)%	(27.4)%
- Arizona OpenTable Reservations – Y/Y % Change	September 12	N/A	N/A	(27.6)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	1 <sup>st</sup> Q 2020	\$346.0 billion	3.3%	7.0%
- 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	September 1st	2,011,810	1.3%	9.2%
Traditional Acute Care		1,107,679	0.8%	7.2%
Other Acute Care		838,324	2.1%	12.9%
Long-Term Care – Elderly & DD		65,807	(0.5)%	(0.3)%
- Department of Child Safety (DCS) Annual Reports of Child Maltreatment (12-month total)	July	47,724	7.6%	3.3%
DCS Out-of-Home Children	June	14,165	(0.1)%	0.0%
- ADC Inmate Growth	August	39,153	(0.5)%	(7.8)%
- Department of Economic Security				
- TANF Cash Assistance Recipients	July	18,360	0.8%	34.9%
- SNAP (Food Stamps) Recipients	July	923,590	2.4%	12.7%
<b>United States</b>				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	2nd Q, 2020 (2nd Estimate)	\$17.3 trillion	(31.7)%	(9.1)%
- Consumer Confidence Index (1985 = 100)	August	84.8	(8.4)%	(37.2)%
- Leading Economic Index (2016 = 100)	July	104.4	2.4%	(7.0)%
- Consumer Price Index, SA (1982-84 = 100)	August	259.7	0.4%	1.3%

## JLBC/JCCR Meeting Follow-Up

**Arizona Department of Transportation - Report on Kingman Lab and Seligman and Williams Maintenance Buildings Bid Results** – Pursuant to a provision from the December 2019 JCCR meeting, the Arizona Department of Transportation (ADOT) submitted a report on the results of the bidding process, including the number of bids, the dollar value of the bids, and the dollar value of the winning bid. The FY 2019 Capital Outlay Bill appropriated \$2.3 million from the State Highway Fund to ADOT for construction of the Kingman Materials Testing Lab. The FY 2020 Capital Outlay Bill appropriated \$2.3 million from the State Highway Fund to ADOT for construction of new maintenance buildings in Seligman and Williams.

ADOT reports that the department did not complete the bidding process for the Kingman Materials Testing Lab before the appropriation expired on June 30, 2020. The department expressed there was not sufficient time to complete construction of the project before the appropriation expired. Additionally, ADOT reports that the Seligman and Williams buildings received 7 bids ranging from \$2.3 million to \$3.0 million. The department ultimately awarded a contract to the vendor which offered a bid of \$2.3 million. (Jordan Johnston)



## 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 2019 Medicaid and non-Medicaid behavioral health expenditures. AHCCCS expended \$2.21 billion Total Funds on behavioral health services for Medicaid-eligible clients, including:

- \$1.05 billion for Traditional Medicaid Services.
- \$904.6 million for Proposition 204 Services.
- \$65.1 million for ACA Adult Expansion Services.
- \$133.1 million for foster children enrolled in CMDP.

The agency expended \$240.4 million Total Funds for non-Medicaid clients in SFY 2019, including:

- \$152.8 million for non-Medicaid seriously mentally ill services.
- \$47.4 million for adults with substance abuse and general mental health issues.
- \$16.3 million for Crisis Services.
- \$12.4 million for children with serious emotional disturbances. (Maggie Rocker)

**AHCCCS – Report on Suicide Prevention Progress** – Pursuant to an FY 2020 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) submitted a report on AHCCCS staff's suicide prevention accomplishments in SFY 2020.

AHCCCS and the Arizona Department of Health Services convened a stakeholder meeting in August 2019 to update the 2020 Arizona Suicide Prevention Strategic Plan. Based on the goals established in the plan, AHCCCS achieved the following in SFY 2020 (among other accomplishments):

- Developed and disseminated information on suicide prevention resources and training, including hosting 3 summits with more than 340 in attendance statewide
- Partnered with 3 school districts to provide behavioral health and suicide prevention resources
- Provided more than 80 community training sessions on suicide prevention, reaching more than 2,500 individuals statewide
- Adopted the Zero Suicide model statewide and created a Zero Suicide plan
- Conducted a review of all states to inform suicide prevention efforts in Arizona
- Reached out to more than 1,500 Arizonans with suicide prevention messaging during Suicide Prevention Month in September
- Funded printing of 1,000 Local Outreach to Survivors of Suicides packets for Maricopa County first responders (Maggie Rocker)

**County Attorneys – Report on Deferred Prosecution** – Pursuant to A.R.S. § 11-362, each county attorney that oversees an established Deferred Prosecution Program shall submit an annual evaluation of their respective program that includes the following metrics:

- The number of persons who were enrolled in deferred prosecution programs during the previous fiscal year.
- The number of persons who successfully completed deferred prosecution programs during the previous fiscal year.
- If available, the number of persons who were enrolled in deferred prosecution programs during the previous fiscal year and who were subsequently convicted of a new felony offense.

For FY 2020, all 15 counties submitted reports; all counties except Mohave and Yuma Counties currently administer a deferred prosecution program. A total of at least 15,082 individuals were enrolled in a deferred prosecution program in FY 2020, a 77% increase over FY 2019. Of these individuals, 10,303 successfully completed the program during FY 2020, with another 1,078 individuals still enrolled. Three counties, Graham County, Maricopa County and Pinal County, reported data on recidivism of program participants. Graham County reported that no program participants have been convicted with a subsequent felony after participation in the program. Maricopa reported that 6% of participants in FY 2017 and FY 2018 were subsequently convicted of a new felony offense within 2 years. Pinal also reported a recidivism rate of 6%.

Deferred prosecution allows individuals who commit non-dangerous, non-serious crimes to avoid prosecution through the completion of a program that may involve restitution, community service, substance abuse treatment, counseling, or other means by which the individual can make amends for their crime. After the completion of the program, the charges are dismissed. (Geoffrey Paulsen)

**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 2020, the ARRF received revenues totaling \$11.3 million and had expenditures

## Summary of Recent Agency Reports (Continued)

totaling \$6.6 million. Revenues for investigating and prosecuting agencies were highest in the pass-thru account of the Attorney General at \$4.7 million. Agencies participating in Maricopa County cases accounted for the highest expenditure total in the quarter with \$2.5 million in ARRF monies spent.

In the fourth quarter of FY 2020, participating agencies received \$7.5 million in net collections from seized assets originally valued at \$11.6 million. Net collections were highest in the Attorney General's Office at \$4.0 million, which derived from forfeitures valued at \$6.4 million. Some assets and properties were released back to the owner, but most were retained or sold by law enforcement.

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

**Department of Economic Security – Report on Arizona Training Program at Coolidge (ATP-C) Campus Total Costs** – An FY 2020 General Appropriation Act footnote requires the Department of Economic Security (DES) to report on total costs associated with the ATP-C for FY 2020. DES reports \$22.2 million in total costs. This is a 9.4% increase from the \$20.3 million spent in FY 2019. The total number of ATP-C Intermediate Care Facility (ICF) clients decreased from 57 in FY 2019 to 56 in FY 2020 while the number of clients in State Operated Group Homes (SOGHs) decreased from 18 to 16. 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. (Lauren Jorgensen)

**Department of Education – Report on Estimated Cost of Empowerment Scholarship Accounts for FY 2021** – Pursuant to A.R.S. § 15-2403G the Arizona Department of Education (ADE) recently reported that it will cost an estimated \$145 million to fund Empowerment Scholarship Accounts (ESAs) for FY 2021. This assumes that 9,200 students will receive ESA funding for FY 2021. For the prior year (FY 2020) ADE reports that 7,781 students received \$106.8 million in ESA funding. ADE also states that it plans to request \$250,000 in net new

administrative funding for ESA administration in FY 2022 for information technology maintenance and enhancements to the ESA parent portal. (Patrick Moran)

**Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2020** – Pursuant to an annual General Appropriation Act footnote, the Department of Environmental Quality (DEQ) submitted its September 1 report to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program and is designed to remediate contaminated groundwater at specified sites. The report lists total FY 2020 expenditures of \$14.9 million. Revenues totaled \$16.1 million, including \$13.6 million in appropriations, \$1.9 million in fees, \$468,900 recovered from responsible parties, and \$159,700 in other revenues.

In FY 2021, DEQ plans to spend \$18.3 million on the WQARF Program for 35 sites, including \$10.8 million for registry sites and preliminary investigations, \$7.4 million for administration, and \$130,000 for the Department of Water Resources.

Pursuant to an annual General Appropriation Act footnote, DEQ also reported on the progress of each site listed on the WQARF registry. There are 12 potential steps in the WQARF process. At the end of FY 2020, DEQ reported 35 WQARF sites, one less than in FY 2019 as 1 site was removed from the registry in FY 2020. In FY 2020, DEQ completed 3 remedial investigations, 8 feasibility studies, 8 proposed remedial action plans, and 4 remedial actions. In FY 2020, 1.5 billion gallons of groundwater were treated, 1.2 million pounds of metals and other hazardous materials were removed, and 3,708 pounds of volatile organic compounds were removed. (Ryan Fleischman)

**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 from the previous fiscal year.

In FY 2020, the Legislature appropriated \$2 million for NVSE projects. DFFM selected the 11 projects below to receive NVSE grant funding during the 2019 grant cycle out of 25 grants requesting a total of \$5.3 million. Most projects have completion timelines of 2 to 3 years in duration. While NVSE grants do not have a matching requirement, DFFM anticipates various private, local, state, and federal matching funding for the projects listed below. Please see *Table 8* on the next page for more details. (Henry Furtick)

## Summary of Recent Agency Reports (Continued)

**Department of Public Safety – Report on Border Strike Task Force Expenditures** – Pursuant to a footnote in the FY 2021 General Appropriation Act, DPS is required to submit an expenditure plan for the Border Strike Task Force Local Support line item. The FY 2021 budget appropriated \$1,261,700 from the General Fund for the Border Strike Task Force Local Support line item. The line item funding consists of \$761,700 to support local law enforcement positions within the task force and \$500,000 for grants to local governments for prosecutorial and jail costs associated with border-related crimes. The FY 2021 expenditure plan is similar to the FY 2020 DPS allocations. DPS plans to expend \$761,700 to support 6 deputy positions at the Cochise County Sheriff's Office and 3 deputy positions at the Pima County Sheriff's Department. The \$500,000 for prosecutorial and jail costs will be split equally among Cochise County, Pima County, and Santa Cruz County. (Jordan Johnston)

**Supreme Court – Report on Current and Future Automation Projects** – Pursuant to an FY 2021 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) provided its FY 2021 report on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2021 will be approximately \$27.1 million. Of this amount, approximately \$2.5 million, or 9%, will be spent on 8 new or continuing projects as listed below; \$17.5 million, or 64%, will be spent on shared infrastructure; and \$7.2 million, or 27%, will be spent on ongoing automation support.

New Projects:

- Develop an automated process for answering public safety assessment questions as part of the pretrial risk assessment report (\$87,100 in FY 2021).
- Emergency teleconferencing licenses to maintain court operations throughout the COVID-19 pandemic (\$30,600 in FY 2021).

Continuing Projects:

- Replace legacy appellate-court Case Management System (\$968,700 in FY 2021).
- Expand new e-filing capabilities for the limited jurisdiction courts in rural counties and expand functionality to new case and filing types (\$562,100 in FY 2021 and \$394,100 in FY 2022).
- Continue to update outdated software within the statewide case management system in limited jurisdiction courts (\$409,500 in FY 2021).
- Continue development of redesigned Fines, Fees and Restitution Enforcement (FARE) data warehouse (\$305,200 in FY 2021).
- 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) (\$73,800 in FY 2021 and FY 2022).
- Replace out-of-support devices and software licenses in Pima County (\$46,700 in FY 2021).

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 (\$7.7 million), and the General Fund (\$3.5 million). Together these 3 funds comprise 80% of the proposed funding in FY 2021. (Ryan Fleischman)

Table 8

### DFFM Nonnative Vegetations Species Eradication Grant Expenditures

Grantee	Project Title	Grant Amount	Expenditures as of August 31	Expected Completion Date
Arboretum at Flagstaff	Post-Museum Fire Invasive Plant Treatment	\$ 320,000	\$ 12,800	December '21
Arizona Department of Transportation	Interstate 17 Invasive Plant Treatment	100,000	0	March '22
Arizona Game and Fish Department	Lower San Pedro River Wildlife Area	375,000	25,000	March '22
Arizona Wilderness Coalition	Arnett Creek and Telegraph Canyon	80,000	10,000	December '21
Arizona-Sonoran Desert Museum	Eliminating Buffelgrass from Tumamoc Hill	105,000	0	March '22
Borderlands Restoration Network	Johnson Grass Eradication	92,000	20,900	December '21
Gila Watershed Partnership	Upper Gila River Restoration	405,000	23,400	December '22
Landward Foundation	Little Colorado River Valley Restoration	60,000	50,000	December '20
National Audubon Society	Yellow Bluestem Eradication	23,000	1,500	December '21
Pima County	Pima County Invasive Plant Program	340,000	5,800	March '22
Yuma Crossing National Heritage Area	Yuma East Wetlands Habitat Restoration	70,000	19,100	March '21
<b>Total</b>		<b>\$1,970,000</b>	<b>\$168,500</b>	

# Arizona Economic Trends

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**September 2020**

## **Appendix A**

**Page:**

**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**

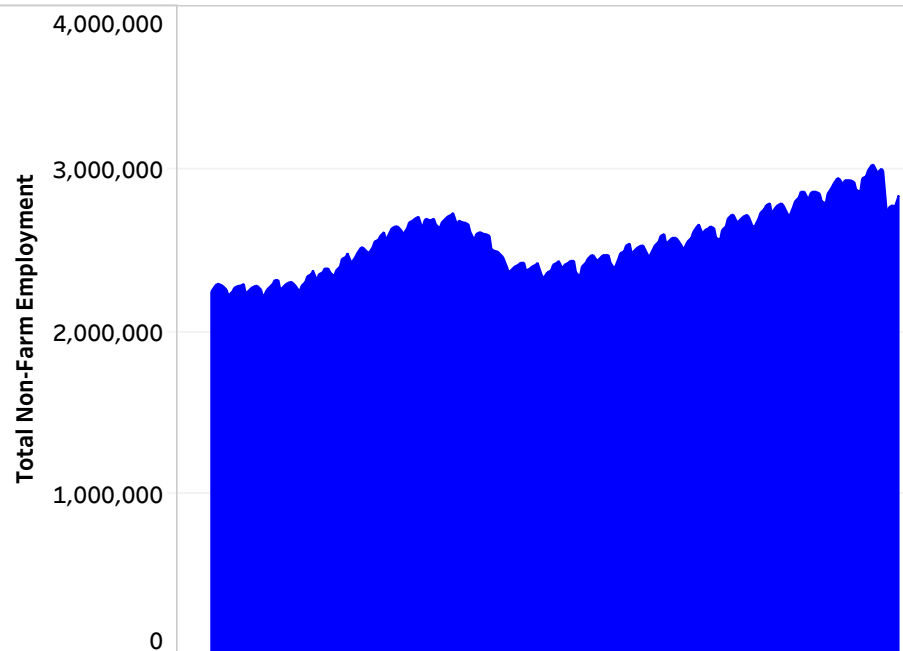
**HURF Revenue**

**Sky Harbor Total Passengers**

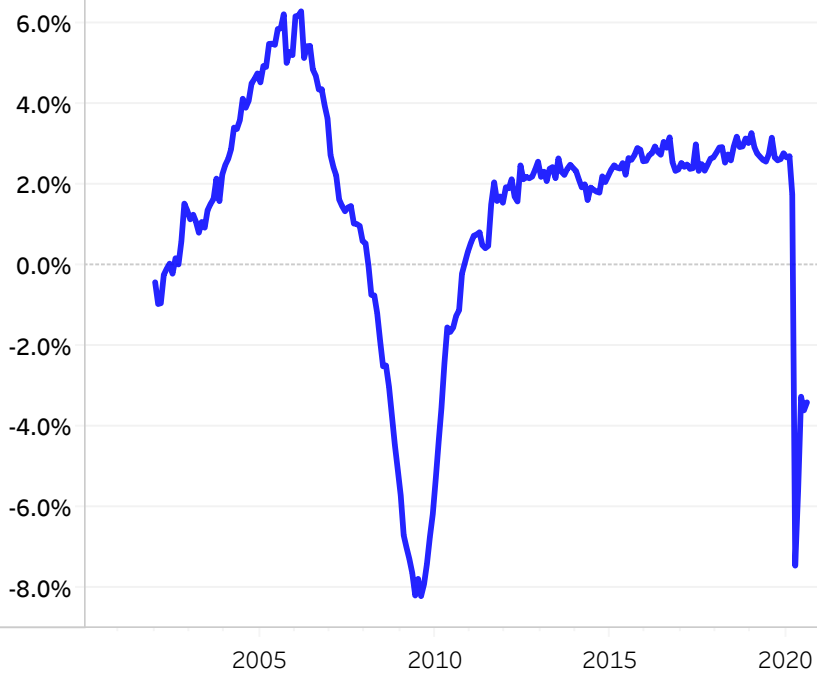
**6.....Arizona Hotel Occupancy**

**Arizona OpenTable Daily Reservations**

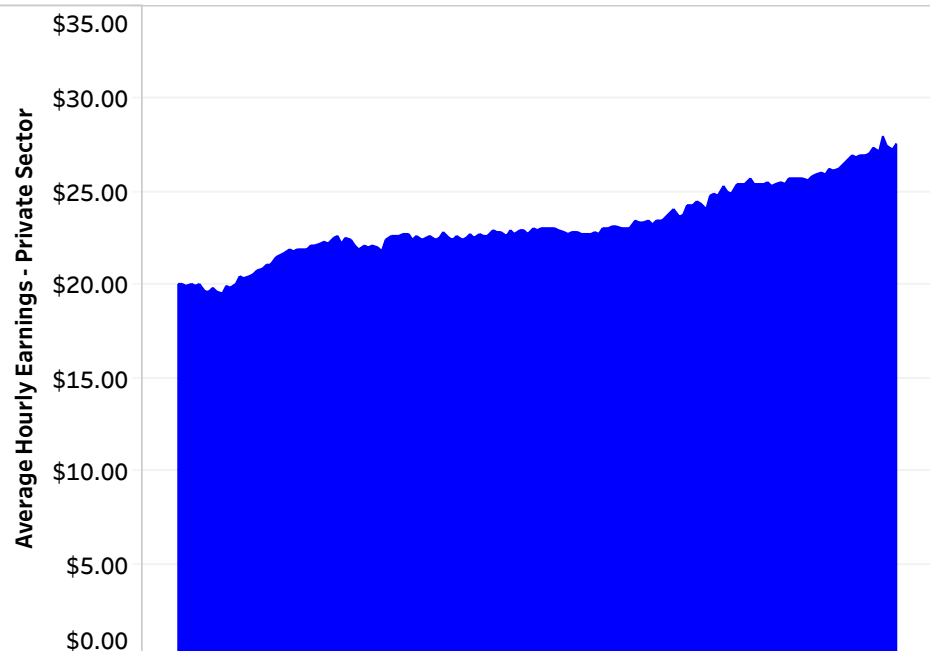
Total Non-Farm Employment



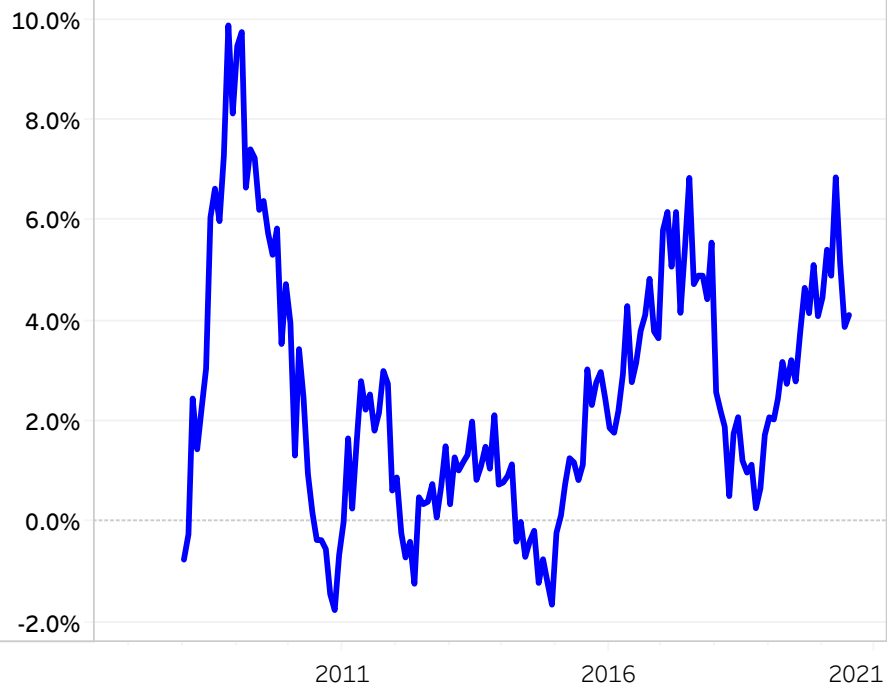
Y-o-Y%



Average Hourly Earnings - Private Sector

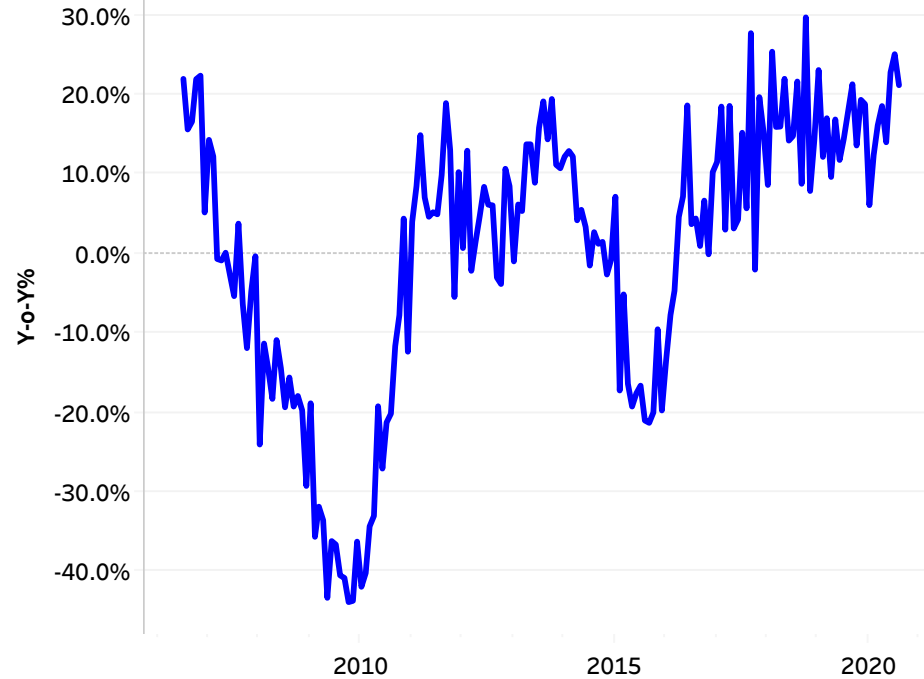
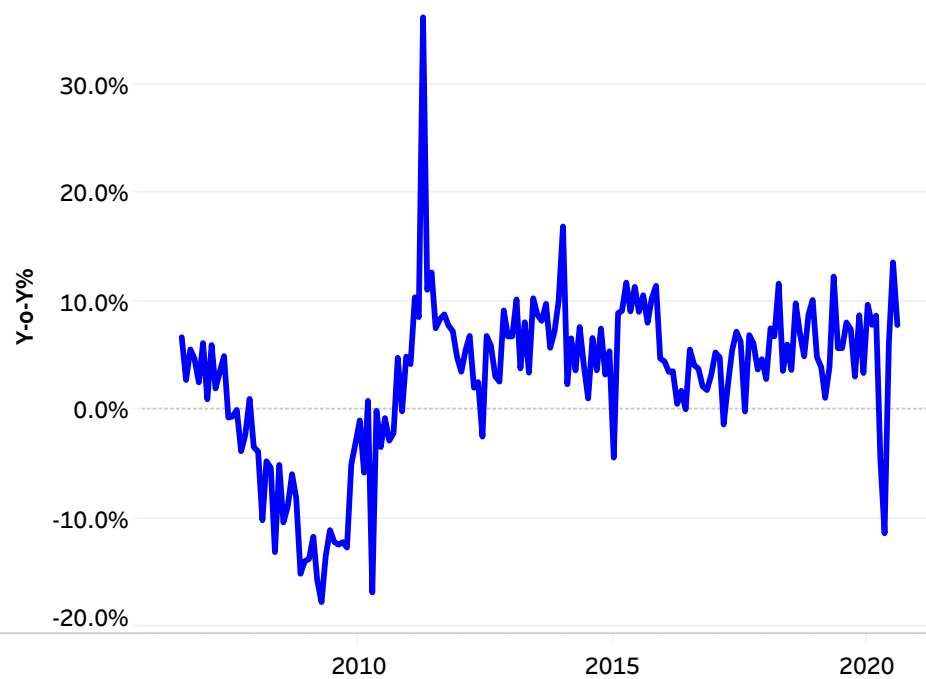
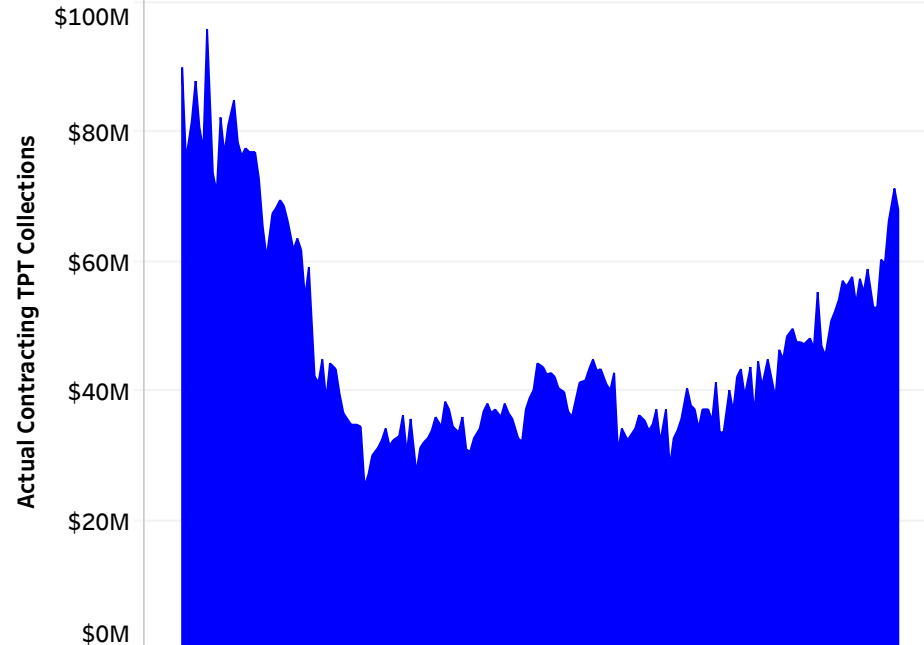
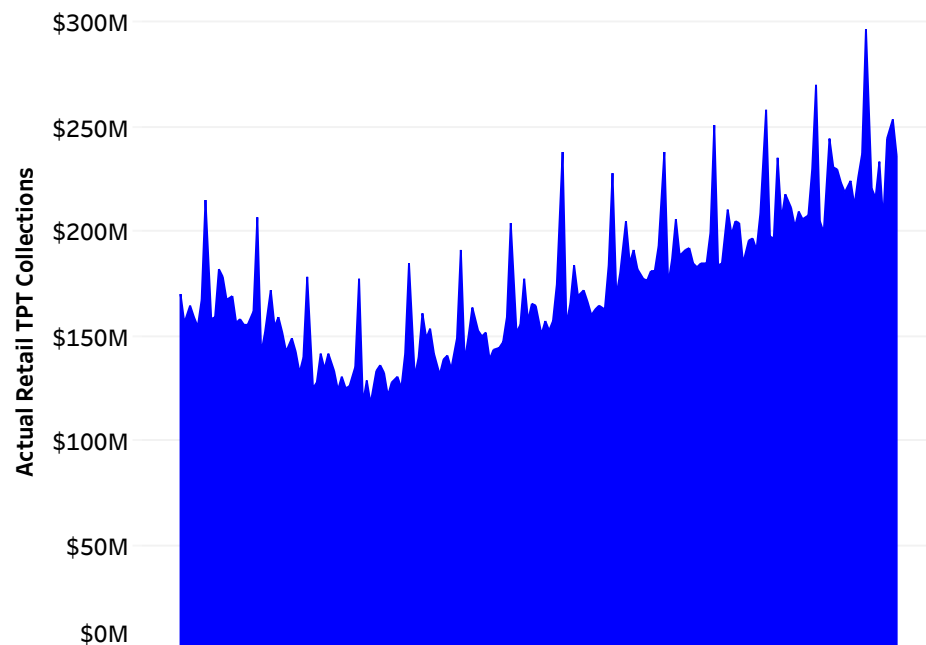


Y-o-Y%



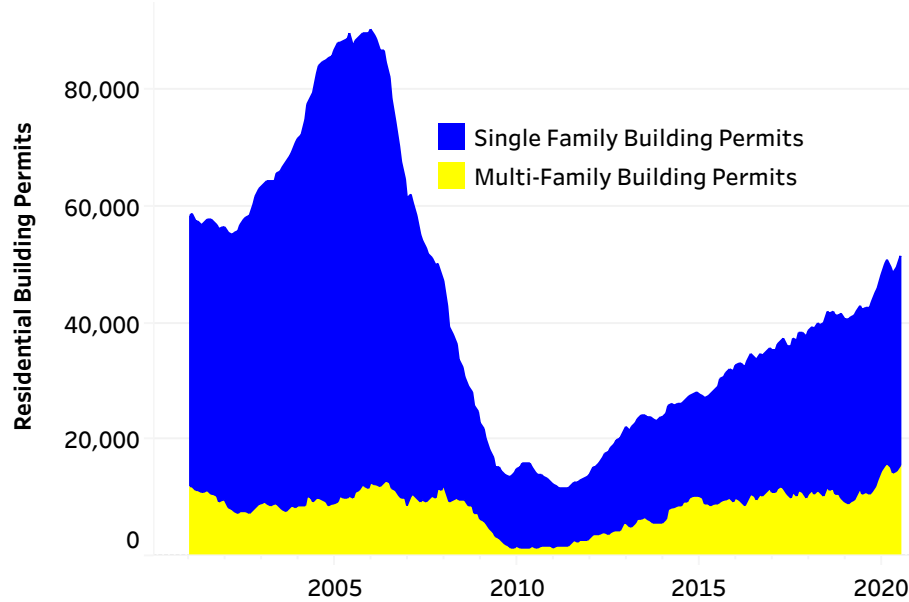
State Sales Tax Collections - Retail Category

State Sales Tax Collections - Contracting Category

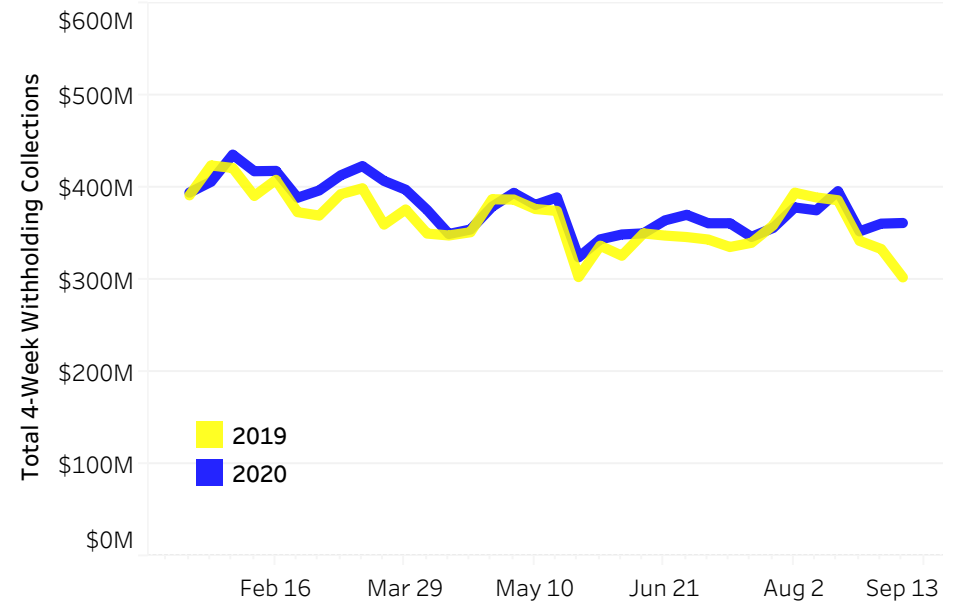




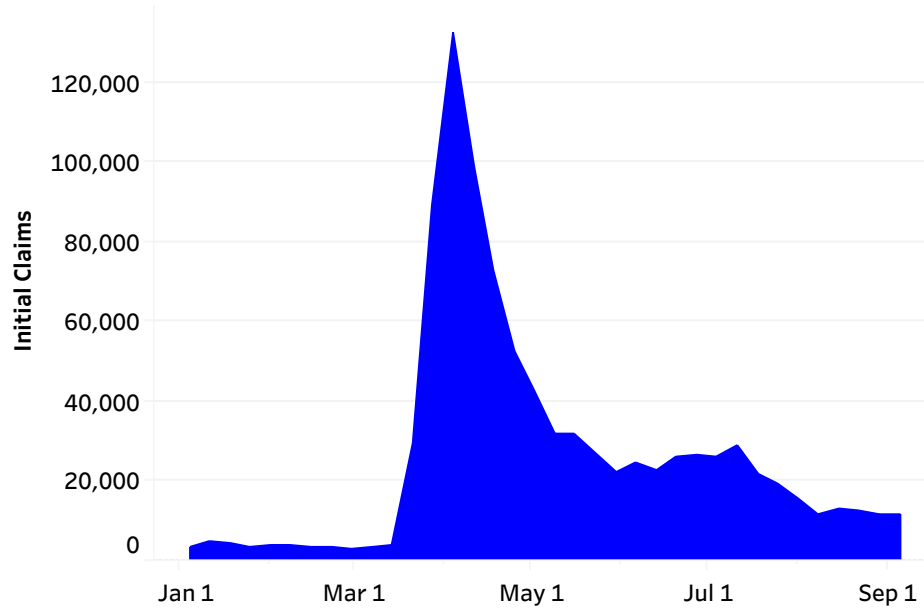
Residential Building Permits



Rolling 4-Week Withholding Total

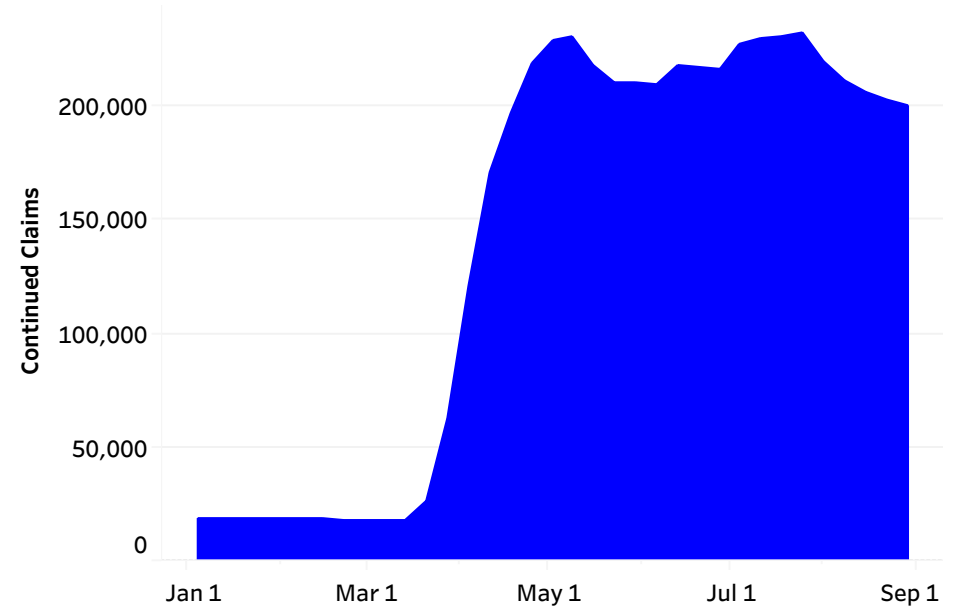


Initial Unemployment Insurance Weekly Claims

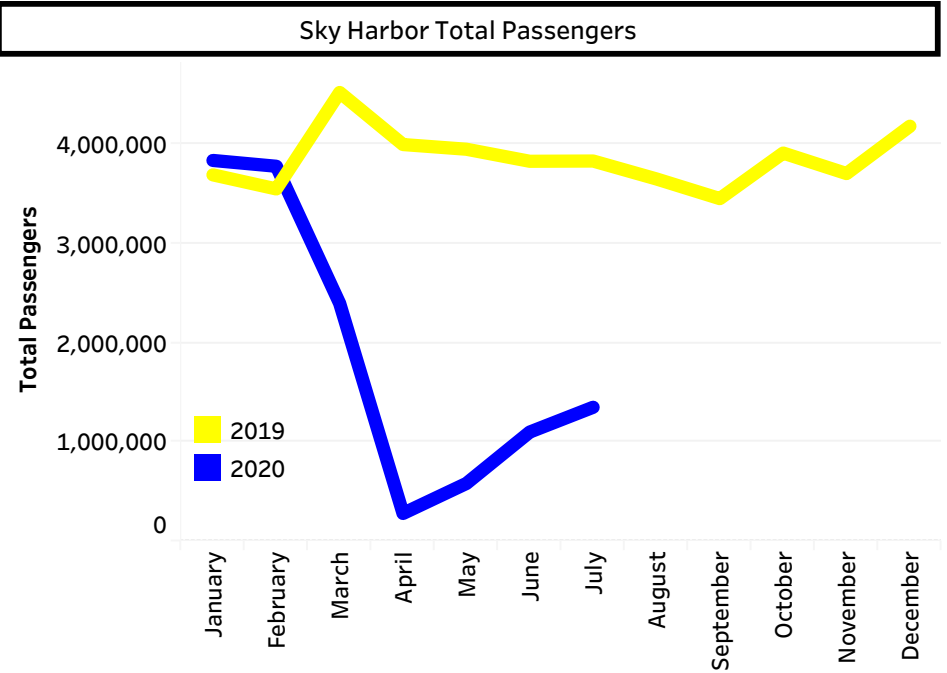
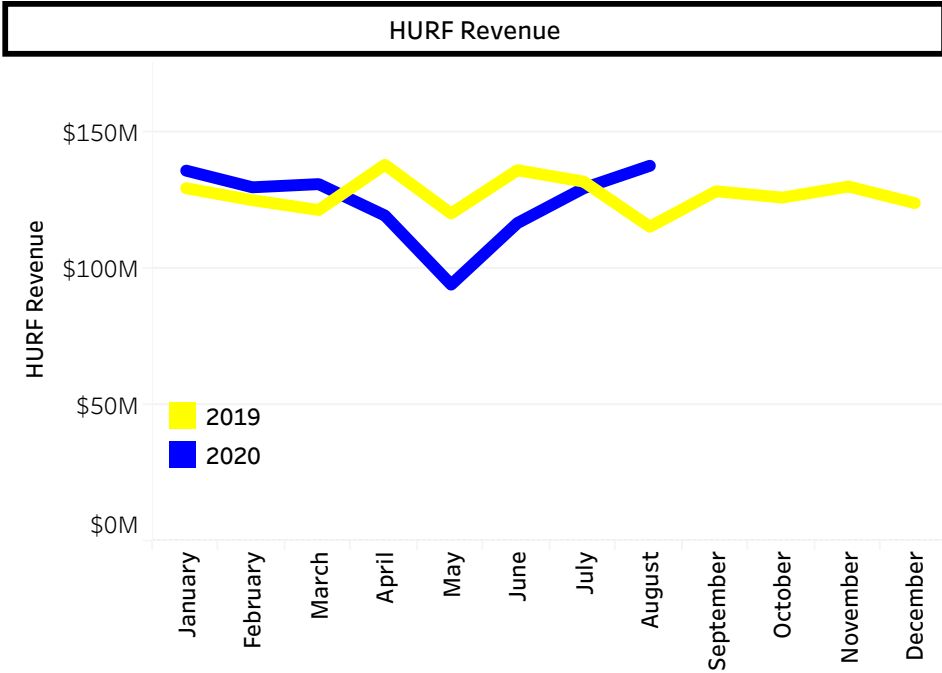
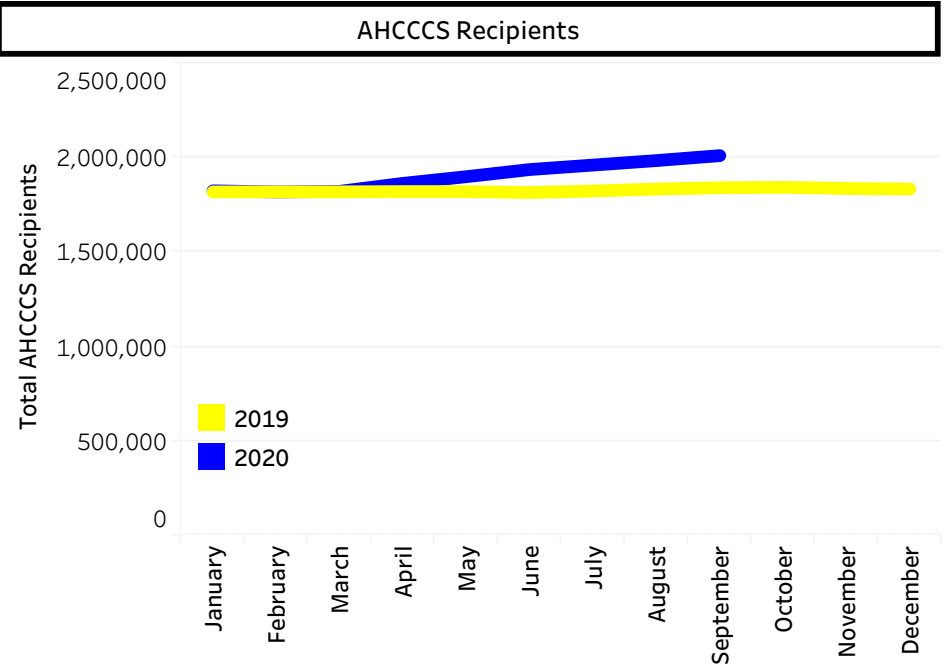
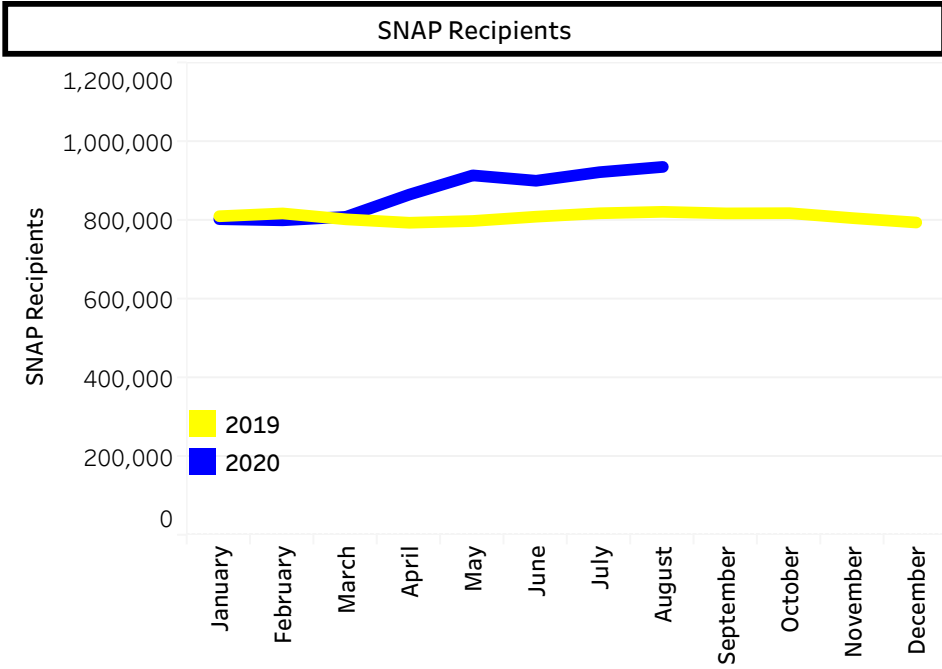


Reported Unemployment Insurance Initial Claims and Continued Claims do not include claims associated with the federally funded Pandemic Unemployment Assistance (PUA) program.

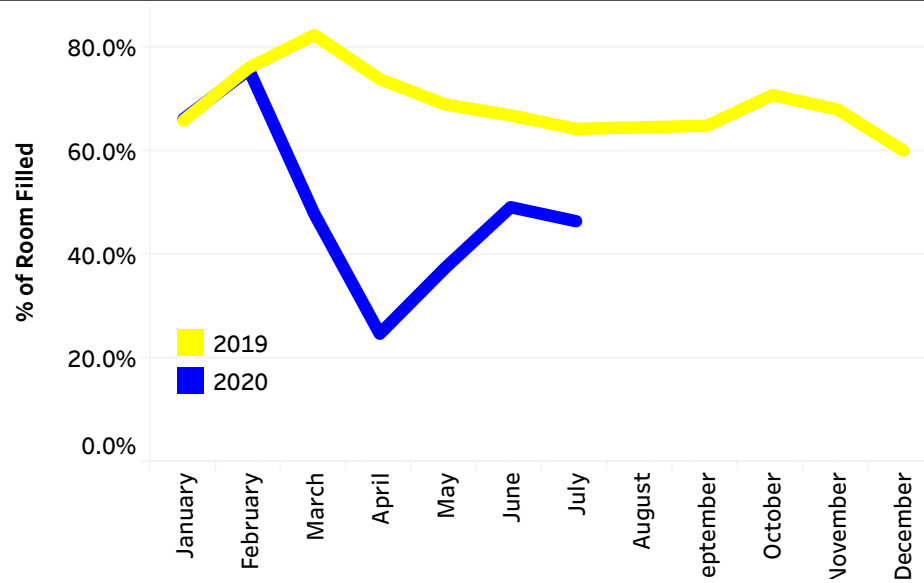
Continued Unemployment Insurance Weekly Claims



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



Arizona Hotel Occupancy



Arizona OpenTable Daily Reservations

