



January 18, 2008

TO: House and Senate Appropriations Committee Members

FROM: Senator Bob Burns, Senate Appropriations Committee Chairman *RB*
Representative Russell Pearce, House Appropriations Committee Chairman *RCP*

RE: Appropriations Chairmen's Options - FY 2009 Budget Shortfall

Our Appropriations Committees will be meeting next week to start discussions on addressing a projected FY 2009 budget deficit of more than \$1.7 billion. We will be meeting jointly in House Hearing Room 1. Members should plan on full day meetings for Tuesday, January 22 through Friday, January 25, with breaks only for floor sessions on Tuesday through Thursday.

Our Committees began discussing the current financial crisis last week by reviewing options to address the FY 2008 projected deficit of nearly \$1 billion. As with our approach regarding the FY 2008 deficit, we thought it was important as chairmen to provide you with our options to address the FY 2009 shortfall as a starting point. Attached to this letter you will find a spreadsheet delineating those options, along with details for each specific item. In addition, the document again includes other options available to the Legislature in resolving the FY 2009 shortfall.

We would note that this shortfall is not expected to disappear quickly. Based on JLBC's consensus revenue forecasting process, without permanent action the deficit is expected to remain at \$1.7 billion or more through FY 2011. If we choose to address the FY 2008 and FY 2009 deficits by primarily using one-time savings and gimmicks, we will find ourselves with major shortfalls in FY 2010 and FY 2011 and without one-time sources of funding to help. It is important that we take significant permanent steps now or this budget crisis will continue.

Please let us know if you have any questions.

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^{1/} Includes the agencies listed above plus the following agencies: Arizona Department of Administration, Office of Administrative Hearings, Arizona Department of Agriculture, Arizona Commission on the Arts, Attorney General, State Capital Postconviction Public Defender Office, Corporation Commission, Department of Emergency and Military Affairs, State Board of Equalization, State Department of Financial Institutions, Department of Fire, Building and Life Safety, Arizona Geological Survey, Office of the Governor, Governor's Office of Strategic Planning & Budgeting, Arizona Historical Society, Prescott Historical Society of Arizona, Department of Insurance, Department of Juvenile Corrections, Auditor General, House of Representatives, Joint Legislative Budget Committee, Legislative Council, Arizona State Library, Archives & Public Records, Senate, Department of Liquor Licenses & Control, Board of Medical Student Loans, Department of Mines & Mineral Resources, Arizona Pioneers' Home, Department of Racing, Radiation Regulatory Agency, State Real Estate Department, Department of State-Secretary of State, and Department of Weights and Measures.

**General Fund
Detailed List of Changes by Agency**

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	3/ JLBC Baseline FY 09 Changes	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
OPERATING SPENDING CHANGES										
DOA - Arizona Department of Administration	\$33,312,200									
DOA - Standard/Technical						0				
DOA - ENSCO					B11	(4,556,300)				
DOA - Lump Sum Reduction		(2,361,800)			C67		(2,361,800)			
			30,950,400						26,394,100	
OAH - Office of Administrative Hearings	1,283,300									
OAH - Standard/Technical						69,400				
OAH - Enacted Adjustment						(69,400) *				
OAH - Lump Sum Reduction		(128,300)			C67		(128,300)			
			1,155,000						1,155,000	
AGR - Department of Agriculture	12,481,600									
AGR - Standard/Technical						586,100				
AGR - Enacted Adjustment						(364,100) *				
AGR - Lump Sum Reduction		(1,248,000)			C67		(1,248,200)			
			11,233,600						11,455,400	
AXS - AHCCCS	1,269,136,000									
AXS - Standard/Technical						0				
AXS - Formula Growth					B23	197,690,700				
AXS - KidsCare Parents Statutory Expiration					B46	(9,628,700)				
AXS - Accelerate KidsCare Parents Statutory Expiration				(3,296,300)	C4	X				0
AXS - Eliminate One-time 2-1-1 Equipment					B36	(600,000)				
AXS - Eliminate 2-1-1 Call Center Program		(3,422,400)			C3		(2,822,400)			
AXS - Eliminate One-time Healthcare Group Subsidy					B34	(8,000,000)				
AXS - Rollback FY 08 Healthcare Group Subsidy Increase				(8,000,000)	C6	X				0
AXS - Eliminate One-time HPV Vaccine					B40	(2,685,300)				
AXS - Rollback FY 08 HPV Vaccine Funding Increase		(2,869,100)			C2	X	(183,800)			
AXS - Enacted Outlier Methodology Revision					B40	(5,664,200)				
AXS - Revise Outlier Payment Methodology		(5,943,800)			C3		(14,098,500)			
AXS - Tobacco Tax Revenue Offset					B24	26,418,000				
AXS - Eliminate Adult Dental Services		(444,400)			C1		(1,700,000)			
AXS - Eliminate Temporary Medical Coverage Program		(2,783,300)			C1		(8,350,000)			
AXS - Reduce KidsCare Children Eligibility to 175% FPL		(1,164,900)			C1		(11,232,300)			
AXS - Rollback '08 Pregnant Women 150% Eligibility		(600,000)			C2		(2,020,000)			
AXS - Eliminate Dual Eligible Part D Copay Subsidy		(696,300)			C2		(2,089,000)			
AXS - Rollback FY 08 Graduate Medical Education Increase		(3,000,000)			C2		(3,000,000)			
AXS - Eliminate Hospital Residency Loan Program		(1,000,000)			C3		(1,000,000)			
AXS - Rollback FY 08 DES IT Eligibility Project Increase		(1,300,000)			C4		(1,300,000)			
AXS - Rollback FY 08 Claims Computer System Increase		(500,000)			C4		(500,000)			

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
AXS - Lump Sum Reduction		(11,902,800)			C4			(11,902,800)		
AXS - Eliminate Ticket to Work Program				(793,300)	C4					(2,785,400)
AXS - Implement DRA Copayments				0	C5					(1,600,000)
AXS - Implement DRA Premiums				(300,000)	C5					(900,000)
AXS - Revise Non-Emergency Transportation Services				--	C5					--
AXS - Eliminate Critical Access Hospital Subsidy				(573,400)	C5					(580,100)
AXS - Revert Unspent FY 07 Hospital Residency Loan				(1,000,000)	C6	X				0
AXS - Require Maricopa & Pima Counties to Pay 100% of ALTCS Growth				(7,026,800)	C6					(22,351,500)
			1,233,509,000						1,406,467,700	
ART - Arizona Commission on the Arts	2,127,600									
ART - Standard/Technical							39,500			
ART - Enacted Adjustment							(39,500) *			
ART - Lump Sum Reduction		(212,800)			C67			(212,800)		
			1,914,800						1,914,800	
ATT - Attorney General	24,651,900									
ATT - Standard/Technical							2,327,300			
ATT - Enacted Adjustment							(3,269,000) *			
ATT - Lump Sum Reduction		(2,456,200)			C67			(2,456,200)		
			22,195,700						21,254,000	
BIO - Biomedical Research Commission	1,000,000									
BIO - Enacted Adjustment							0 *			
BIO - Rollback FY 08 Cord Blood Banks Increase		(1,000,000)			C8			(1,000,000)		
			0						0	
CPD - State Capital Postconviction Defender Office	737,900									
CPD - Standard/Technical							16,200			
CPD - Enacted Adjustment							(16,200) *			
CPD - Lump Sum Reduction		(73,800)			C67			(73,800)		
			664,100						664,100	
CHA - State Board for Charter Schools	1,129,500									
CHA - Standard/Technical							37,600			
CHA - Enacted Adjustment							(78,500) *			
CHA - Postpone 3 FTE Positions		0			C9	X		(262,400)		
			1,129,500						826,200	
COM - Department of Commerce	15,925,100									
COM - Standard/Technical							202,900			
COM - Enacted Adjustment							(202,900) *			
COM - Rollback FY 08 International Trade Funding Increase		(700,000)			C10			(700,000)		
COM - Rollback FY 08 GADA Increase		(2,000,000)			C10	X		(2,000,000)		
COM - Rollback CEDC Fund Shift		(750,000)			C11			(750,000)		
COM - Lump Sum Reduction		(1,247,500)			C67			(1,247,500)		
COM - Eliminate Business Attraction & Related Staff				(1,080,800)	C12					(1,080,800)
			11,227,600						11,227,600	

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
CCO - Arizona Community Colleges	167,744,800									
CCO - Operating State Aid Formula						B53	689,000			
CCO - Fund No Operating Enrollment Growth in FY 09				0		C15				(689,000)
CCO - Capital Outlay State Aid Formula						B53	(20,000)			
CCO - Equalization Aid Formula						B54	5,497,600			
CCO - Cap Equalization Program at FY 08		0				C14		(5,497,600)		
CCO - Tribal Community Colleges						B54	16,700			
CCO - Eliminate Tribal College Funding		(1,944,000)				C15		(1,960,700)		
CCO - Fund Dual Enrollment at 50%		0				C13		(2,154,200)		
CCO - Eliminate Dual Enrollment Capital Funding		0				C13		(723,200)		
CCO - Suspend Capital Outlay		(20,054,000)				C13		(20,034,000)		
CCO - Eliminate Hold Harmless Provision		0				C14		(920,700)		
CCO - Rollback Northland Public Safety Funding		(1,000,000)				C15	X	(1,000,000)		
CCO - Rollback Out of County Reimbursement Subsidy				(1,200,000)		C16				(1,200,000)
			144,746,800						141,637,700	
COR - Corporation Commission	5,857,400									
COR - Standard/Technical							314,900			
COR - Enacted Adjustment							(314,900) *			
COR - Lump Sum Reduction		(546,000)				C67		(546,000)		
			5,311,400						5,311,400	
DOC - Department of Corrections	910,277,200									
DOC - Standard/Technical							0			
DOC - 4,000 New State Beds						B59	18,534,100			
DOC - 2,000 New Private Beds						B61	17,967,600			
DOC - Water and Wastewater Projects						B60	345,300			
DOC - Annualize 2,060 Provisional Beds						B61	11,547,300			
DOC - Population Growth						B60	4,445,500			
DOC - Health Care						B60	4,831,000			
DOC - Equipment and Van Pool One-time Funding						B60	(947,200)			
DOC - Rollback FY 08 Van Pool & Equipment Funding		(1,900,000)				C17		(1,000,000)		
DOC - Reduce Unfilled Indiana Beds		(12,637,000)				C17		(12,572,800)		
DOC - Lump Sum Reduction		(2,981,900)				C67		(2,981,900)		
DOC - Reduce Unused Oklahoma Bed Funding				(2,134,400)		C17				0
DOC - Revert Unspent FY 07 Sex Offender GPS \$				(634,300)		C18	X			0
DOC - Reduce Unused Sex Offender GPS Monitoring Monies				(375,000)		C18	X			(375,000)
			892,758,300						950,446,100	
JUS - Arizona Criminal Justice Commission	2,202,000									
JUS - Standard/Technical							0			
JUS - Enacted Adjustment - County Meth							2,000,000 *			
JUS - Rollback FY 09 County Meth Monies		0				C19	X	(2,000,000)		
JUS - Revert Unspent FY 07 County Meth Monies				(502,700)		C19	X			0
JUS - Enacted Adjustment - Info System							(100,000)			
JUS - Rollback FY 08 Information System Increase		(900,000)				C19	X	(800,000)		

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
JUS - Lump Sum Reduction		(99,400)			C67			(99,400)		
			1,202,600						1,202,600	
SDB - AZ State Schools for the Deaf and the Blind	22,010,400									
SDB - Standard/Technical							1,386,600			
SDB - Enacted Adjustment							(1,329,100) *			
			22,010,400						22,067,900	
DES - Department of Economic Security	794,336,400									
DES - Standard/Technical							0			
DES - Lease-Purchase Savings					B78		(443,200)			
DES - DD Title 19 Long Term Care					B81		35,215,400			
DES - Eliminate One-time Funding					B94		(8,100)			
DES - General Assistance Caseload					B88		(1,106,700)			
DES - General Assistance Caseload Savings				(1,209,200)	C23	X				0
DES - Eliminate General Assistance Program		(1,826,400)			C21			(1,954,100)		
DES - TANF Cash Benefits Caseloads					B88		8,405,300			
DES - TANF Cash Benefits Caseload Decline				(2,978,900)	C24	X				0
DES - Rollback FY 08 Eligibility System Upgrade Increase		(1,000,000)			C21			(1,000,000)		
DES - Rollback FY 08 Document Management Increase		(500,000)			C21			(500,000)		
DES - Reduce Unused Healthy Families Funding		(3,000,000)			C21			(3,000,000)		
DES - Rollback FY 08 Independent Living Stipend Increase		(1,000,000)			C22			(1,000,000)		
DES - Rollback Joint Substance Abuse Increase		(2,000,000)			C22			(2,000,000)		
DES - Eliminate Summer Youth Employment and Training		(1,250,000)			C22			(1,250,000)		
DES - Rollback FY 08 Visually Impaired Services Increase		(500,000)			C22			(500,000)		
DES - Rollback FY 08 Respite Care Increase		(500,000)			C23			(500,000)		
DES - Lump Sum Reduction		(47,055,200)			C67			(47,055,200)		
DES - Rollback FY 08 Adult Services Increase				(1,500,000)	C23					(1,500,000)
DES - Rollback Backfill for Child Support Enforcement				(3,141,300)	C23					(3,141,300)
DES - Rollback FY 08 Children Services Backfill				(13,530,800)	C24					(13,530,800)
DES - Reduce Childcare Eligibility to 145% FPL				(3,287,900)	C24					(9,863,600)
			735,704,800						777,639,800	
ADE - Arizona Department of Education	4,363,465,100									
ADE - Standard/Technical							0			
ADE - Basic State Aid and Other Formula Growth					B117		177,470,100			
ADE - Teach America One-time Funding					B129		(1,000,000)			
ADE - Eliminate Teach America Funding				(1,000,000)	C31	X				0
ADE - Physical Education One-time Funding					B128		(110,000)			
ADE - Professional Development One-time Funding					B132		(150,000)			
ADE - Reading Grants - Non-Title I One-time Funding					B129		(1,000,000)			
ADE - Rollback FY 08 Reading First Initiative Increase				(1,000,000)	C30	X				0
ADE - Technology Grants One-time Funding					B128		(1,000,000)			
ADE - Rollback FY 08 Technology Grants Increase				(1,000,000)	C30	X				0
ADE - Payment Restructuring (Permanent Rollover)		0			C25	X		(300,000,000)		
ADE - No 2% Inflation for FY 09 (except transportation)		0			C25			(100,724,400)		

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
ADE - Cap TAPBI Program		0			C26			(2,725,000)		
ADE - Cap JTED State Aid at FY 08 Level		0			C27			(7,566,900)		
ADE - Phase Out Career Ladder Program		0			C27			(6,200,000)		
ADE - Phase Out "Teacher Experience Index"		0			C27			(8,112,600)		
ADE - Eliminate Remaining 50% of Rapid Decline		0			C27			(1,500,000)		
ADE - Student Count and QTR Savings		(30,000,000)			C28	X		0		
ADE - Desegregation Hard Cap		0			C28			(785,000)		
ADE - Rollback FY 08 Teacher Training Increase		(2,000,000)			C28			(2,000,000)		
ADE - Rollback FY 08 Math or Science Initiative Increase		(2,500,000)			C29			(2,500,000)		
ADE - Lump Sum Reduction		(9,935,400)			C67			(9,935,400)		
ADE - Rollback FY 08 Kindergarten Group B Weight Increase				0	C29					(80,000,000)
ADE - Rollback FY 08 Discretionary Inflation				(15,333,300)	C29					(47,380,000)
ADE - Revert Unspent FY 07 Information Technology Monies				(2,500,000)	C30	X				0
ADE - Revert Unspent FY 07 E-Learning Pilot Monies				(2,800,000)	C31	X				0
			4,319,029,700						4,095,625,900	
EMA - Department of Emergency & Military Affairs	14,581,600									
EMA - Standard/Technical							251,300			
EMA - Enacted Adjustment							(298,400) *			
EMA - Lump Sum Reduction		(836,100)			C67			(836,100)		
			13,745,500						13,698,400	
DEQ - Department of Environmental Quality	32,979,000									
DEQ - Standard/Technical							417,700			
DEQ - Enacted Adjustment							(667,700) *			
DEQ - Set WQARF at \$10 Million		(5,000,000)			C32			(5,000,000)		
DEQ - Rollback FY 08 Surface Water Permitting Increase		(530,500)			C32			(530,500)		
DEQ - Lump Sum Reduction		(1,744,900)			C67			(1,744,900)		
			25,703,600						25,453,600	
OEO - Governor's Office of Equal Opportunity	260,800									
OEO - Standard/Technical							15,600			
OEO - Enacted Adjustment							(15,600)			
			260,800						260,800	
EQU - State Board of Equalization	672,900									
EQU - Standard/Technical							19,400			
EQU - Enacted Adjustment							(19,400) *			
EQU - Lump Sum Reduction		(67,300)			C67			(67,300)		
			605,600						605,600	
EXE - Board of Executive Clemency	1,153,500									
EXE - Standard/Technical							66,100			
EXE - Enacted Adjustment							(66,100) *			
			1,153,500						1,153,500	
BAN - Dept of Financial Institutions	4,081,800									
BAN - Standard/Technical							0			

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
BAN - Automation Project Completion					B134		(75,000)			
BAN - Lump Sum Reduction		(408,200)			C67			(408,200)		
			3,673,600						3,598,600	
BFS - Department of Fire, Building & Life Safety	3,922,100									
BFS - Standard/Technical							132,600			
BSF - Enacted Adjustment							(158,100) *			
BSF - Lump Sum Reduction		(392,200)			C67			(392,200)		
			3,529,900						3,504,400	
GEO - Arizona Geological Survey	1,151,900									
GEO - Standard/Technical							78,000			
GEO - Enacted Adjustment							(78,000) *			
GEO - Lump Sum Reduction		(115,200)						(115,200)		
			1,036,700						1,036,700	
GTA - Government Information Technology Agy	2,000,000									
GTA - Standard/Technical							0			
GTA - Enacted Adjustment							0 *			
GTA - Eliminate Arizona E-Health Initiative		(1,500,000)			C33			(1,500,000)		
			500,000						500,000	
GOV - Office of the Governor	7,476,900									
GOV - Standard/Technical							342,100			
GOV - Enacted Adjustment							(342,100)			
GOV - Lump Sum Reduction		(735,800)			C67			(735,800)		
			6,741,100						6,741,100	
OSP - Gov's Ofc of Strategic Planning & Budgeting	2,313,600									
OSP - Standard/Technical							103,700			
OSP - Enacted Adjustment							(103,700) *			
OSP - Lump Sum Reduction		(231,400)			C67			(231,400)		
			2,082,200						2,082,200	
DHS - Department of Health Services	583,432,200									
DHS - Standard/Technical							0			
DHS - Eliminate One-time Equipment					B136		(37,100)			
DHS - Title XIX Caseload					B136		47,615,400			
DHS - IMD Waiver					B165		(2,000,000)			
DHS - Lease-Purchase Payment					B169		1,635,100			
DHS - Reduce Community Health Centers Funding		(4,500,000)			C34			(4,500,000)		
DHS - Rollback FY 08 Senior Food Program Increase		(600,000)			C34			(600,000)		
DHS - Eliminate Health Crisis Fund Deposit		(1,000,000)			C34			(1,000,000)		
DHS - Reduce Health Care Licensure Funding		(1,395,900)			C34			(1,395,900)		
DHS - Consolidate Poison Control Centers		(550,000)			C35			(550,000)		
DHS - Reduce High Risk Perinatal Services Funding		(1,800,000)			C35			(1,800,000)		
DHS - Reduce Laboratory Services Funding		(820,000)			C35			(820,000)		
DHS - Rollback FY 08 Contract Compliance Increase		(2,461,100)			C36			(2,461,100)		
DHS - Rollback Youth Meth Prevention Funding		(500,000)			C36			(500,000)		

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
DHS - Lump Sum Reduction		(23,851,200)			C67			(23,851,200)		
DHS - Shift Tuberculosis Funding to Counties				(1,410,500)	C36					(1,410,500)
DHS - Rollback FY 08 Vaccines Increase				(2,226,100)	C37					(2,226,100)
DHS - Reduce Abstinence Funding				(500,000)	C37					(500,000)
DHS - Reduce Alzheimer's Research Funding				(2,000,000)	C37					(2,000,000)
DHS - Eliminate Women's Services				(501,500)	C37					(501,500)
DHS - Re-institute 50% Rural RTC Cost Sharing				(1,600,000)	C38					(1,600,000)
DHS - Eliminate Medicare Part D Dual Copay Subsidy				(267,500)	C38					(802,600)
			545,954,000						593,167,400	
AZH - Arizona Historical Society	4,521,300									
AZH - Standard/Technical							122,500			
AZH - Enacted Adjustment							(122,500) *			
AZH - Lump Sum Reduction		(333,500)			C67			(333,500)		
			4,187,800						4,187,800	
PAZ - Prescott Historical Society	780,700									
PAZ - Standard/Technical							46,700			
PAZ - Enacted Adjustment							(46,700) *			
PAZ - Lump Sum Reduction		(78,100)			C67			(78,100)		
			702,600						702,600	
CIA - Arizona Commission of Indian Affairs	237,700									
CIA - Standard/Technical							14,400			
CIA - Enacted Adjustment							(14,400) *			
			237,700						237,700	
INS - Department of Insurance	7,800,800									
INS - Standard/Technical							435,000			
INS - Enacted Adjustment							(435,000) *			
INS - Lump Sum Reduction		(780,100)			C67			(780,100)		
			7,020,700						7,020,700	
SPA - Judiciary - Supreme Court	18,412,600									
SPA - Standard/Technical							0			
SPA - Eliminate One-time Funding					B171		(23,000)			
SPA - Continue Time Payment Fee Surcharge					C39					
SPA - Lump Sum Reduction		(1,100,000)			C67			(1,100,000)		
			17,312,600						17,289,600	
COA - Judiciary - Court of Appeals	14,127,800									
COA - Standard/Technical - Division I							0			
COA - Standard/Technical - Division II							0			
COA - Eliminate One-time Funding					B177		(39,000)			
COA - Lump Sum Reduction		0			C67			0		
			14,127,800						14,088,800	
SUP - Judiciary - Superior Court	95,681,100									
SUP - Standard/Technical							0			
SUP - 2 New Judgeships					B179		179,200			

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SUP - Adult Standard Probation Shift, \$1.2 M					B179		0			
SUP - Defensive Driving Equivalency Surcharge		0			C39			0		
SUP - Remove 30K Judgeship Mandate		0			C39			0		
SUP - Revert Unused FY 07 Sex Offender GPS Funds				(413,600)	C39	X				0
SUP - FY 08 Probation Caseload Savings				(4,073,800)	C39					(3,877,300)
SUP - Lump Sum Reduction				(4,258,000)	C67					(4,258,000)
			95,681,100						95,860,300	
DJC - Department of Juvenile Corrections	81,449,800									
DJC - Standard/Technical					B185		0			
DJC - Lump Sum Reduction		(1,054,200)			C67			(1,054,200)		
			80,395,600						80,395,600	
LAN - State Land Department	27,329,500									
LAN - Standard/Technical							631,000			
LAN - Enacted Adjustment							(1,411,700) *			
LAN - Rollback FY 08 Trust Land Increase		(775,000)			C41			(775,000)		
LAN - Lump Sum Reduction		(2,355,500)			C67			(2,355,500)		
LAN - Rollback FY 08 Community Protection Deposit				(1,000,000)	C41	X				0
			24,199,000						23,418,300	
LEM - Law Enforcement Merit System Council	79,300									
LEM - Standard/Technical							5,100			
LEM - Enacted Adjustment							(5,100) *			
			79,300						79,300	
Legislature										
AUD - Auditor General	18,791,500									
AUD - Standard/Technical							599,600			
AUD - Enacted Adjustment							(899,600) *			
AUD - Lump Sum Reduction		(1,879,200)			C67			(1,879,200)		
			16,912,300						16,612,300	
HOU - House of Representatives	14,276,500									
HOU - Standard/Technical							421,700			
HOU - Enacted Adjustment							(421,700) *			
HOU - Lump Sum Reduction		(1,236,300)			C67			(1,236,300)		
			13,040,200						13,040,200	
JLBC - Joint Legislative Budget Committee	3,040,900									
JLBC - Standard/Technical							92,300			
JLBC - Enacted Adjustment							(92,300) *			
JLBC - Lump Sum Reduction		(304,100)			C67			(304,100)		
			2,736,800						2,736,800	
LEG - Legislative Council	5,717,100									
LEG - Standard/Technical							141,000			
LEG - Enacted Adjustment							(141,000) *			
LEG - Lump Sum Reduction		(571,700)			C67			(571,700)		
			5,145,400						5,145,400	

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
LIBR - AZ State Library, Archives & Public Records	7,787,600									
LIBR - Standard/Technical							251,300			
LIBR - Enacted Adjustment							(251,300) *			
LIBR - Lump Sum Reduction		(778,800)			C67			(778,800)		
			7,008,800						7,008,800	
SEN - Senate	9,476,300									
SEN - Standard/Technical							283,300			
SEN - Enacted Adjustment							(283,300) *			
SEN - Lump Sum Reduction		(853,200)			C67			(853,200)		
			8,623,100						8,623,100	
LIQ - Department of Liquor Licenses & Control	3,646,200									
LIQ - Standard/Technical							112,100			
LIQ - Enacted Adjustment							(112,100) *			
LIQ - Lump Sum Reduction		(212,100)			C67			(212,100)		
			3,434,100						3,434,100	
MSL - Board of Medical Student Loans	1,500,000									
MSL - Standard/Technical							0			
MSL - Enacted Adjustment							0 *			
MSL - Lump Sum Reduction		(150,000)			C67			(150,000)		
			1,350,000						1,350,000	
MIN - State Mine Inspector	1,884,800									
MIN - Standard/Technical							0			
MIN - Abandoned Mine Safety					B191		132,000			
MIN - One-time Equipment					B191		(132,000)			
			1,884,800						1,884,800	
MMR - Department of Mines & Mineral Resources	950,800									
MMR - Standard/Technical							110,900			
MMR - Enacted Adjustment							(110,900) *			
MMR - Lump Sum Reduction		(95,100)			C67			(95,100)		
			855,700						855,700	
NAV - AZ Navigable Steam Adjudication Comm.	180,000									
NAV - Standard/Technical					B193		0			
			180,000						180,000	
NUR - State Board of Nursing	167,300									
NUR - Standard/Technical							1,300			
NUR - Enacted Adjustment							(1,300) *			
			167,300						167,300	
SPB - Arizona State Parks Board	28,212,200									
SPB - Standard/Technical							312,200			
SPB - Enacted Adjustment							187,800 *			
SPB - General Fund Offset - Land Conservation Fund Interest		(5,500,000)			C42			(5,500,000)		
SPB - Rollback FY 08 General Fund SPEF Offset		(1,000,000)			C42			(1,500,000)		
SPB - Lump Sum Reduction		(671,200)			C67			(671,200)		

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
			21,041,000						21,041,000	
PER - Personnel Board	370,800									
PER - Standard/Technical							12,900			
PER - Enacted Adjustment							(12,900) *			
			370,800						370,800	
PIO - Arizona Pioneers' Home	1,260,000									
PIO - Standard/Technical							24,000			
PIO - Enacted Adjustment							(24,000) *			
PIO - Lump Sum Reduction		(126,000)			C67			(126,000)		
			1,134,000						1,134,000	
POS - Commission for Postsecondary Education	7,427,300									
POS - Standard/Technical							6,500			
POS - Enacted Adjustment							(6,500) *			
			7,427,300						7,427,300	
DPS - Department of Public Safety	177,708,000									
DPS - Standard/Technical							0			
DPS - Elimination of One-time Equipment					B196		(218,700)			
DPS - Shift Highway Patrol to HURF		(106,000,000)			C43			(106,000,000)		
DPS - Local Law Enforcement Reimbursement for DPS Lab		(640,000)			C43			(640,000)		
DPS - Lump Sum Reduction		(2,930,100)			C67			(2,930,100)		
			68,137,900						67,919,200	
RAC - Arizona Department of Racing	2,851,100									
RAC - Standard/Technical							103,200			
RAC - Enacted Adjustment							(103,200) *			
RAC - Lump Sum Reduction		(285,100)			C67			(285,100)		
			2,566,000						2,566,000	
RAD - Radiation Regulatory Agency	2,249,700									
RAD - Standard/Technical							63,600			
RAD - Enacted Adjustment							(9,000) *			
RAD - Lump Sum Reduction		(165,800)			C67			(165,800)		
			2,083,900						2,138,500	
ARP - Arizona Rangers' Pensions	13,400									
ARP - Standard/Technical							0			
ARP - Enacted Adjustment							300 *			
			13,400						13,700	
REA - State Real Estate Department	4,614,000									
REA - Standard/Technical							251,000			
REA - Enacted Adjustment							(175,500)			
REA - Lump Sum Reduction		(461,400)			C67			(461,400)		
			4,152,600						4,228,100	
REV - Department of Revenue	76,942,100									
REV - Standard/Technical							2,504,600			
REV - Enacted Adjustment							(4,242,900) *			

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
UNI - Standard/Technical							0			
UNI - Rollback FY 08 Financial Aid Increase		(2,880,000)			C50			(2,880,000)		
UNI - Rollback FY 08 WICHE Increase		0			C50			(544,300)		
UNI - Rollback FY 08 Math & Science Increase		(2,250,000)			C50			(2,250,000)		
UNI - Lump Sum Reduction		(776,300)			C67			(776,300)		
			14,691,700						14,147,400	
UNI - ASU - Main Campus	416,764,800									
UNI - Standard/Technical							0			
UNI - ASU Main Enrollment Formula					B236		3,944,300			
UNI - ASU Main - No FY 09 Enrollment Growth Funding				0	C51					(3,944,300)
UNI - ASU Biomedical Campus Phx					B238		(5,250,000)			
UNI - ASU Main - Rollback FY 08 Biomedical Campus Design				(5,250,000)	C52	X				0
UNI - ASU Main - Lump Sum Reduction		(41,676,500)			C67			(41,676,500)		
UNI - ASU Main - Rollback FY 08 Student & Faculty Retention				(15,064,000)	C51					(15,064,000)
UNI - ASU Main - Revert back to 22 to 1 to 0.5 Formula				0	C51					(522,500)
UNI - ASU Main - Fund 45-Day Enrollment Count				0	C52					(2,507,800)
UNI - ASU Main - Rollback FY 08 Water Institute				0	C52					(400,000)
UNI - ASU Main - Rollback FY 08 Biomedical Informatics				(2,000,000)	C52					(2,000,000)
			375,088,300						373,782,600	
UNI - ASU - East Campus	25,915,900									
UNI - Standard/Technical							0			
UNI - ASU East Enrollment Formula					B242		6,093,400			
UNI - ASU East - No FY 09 Enrollment Growth Funding				0	C54					(6,093,400)
UNI - ASU East - Lump Sum Reduction		(2,591,600)			C67			(2,591,600)		
UNI - ASU East - Revert back to 22 to 1 to 0.5 Formula				0	C54					(534,400)
UNI - ASU East - Fund 45-Day Enrollment Count				0	C54					(1,485,500)
			23,324,300		C54				29,417,700	
UNI - ASU - West Campus	53,604,400									
UNI - Standard/Technical							0			
UNI - ASU West Enrollment Formula					B247		3,191,900			
UNI - ASU West - No FY 09 Enrollment Growth Funding				0	C55					(3,191,900)
UNI - ASU West - Lump Sum Reduction		(5,360,400)			C67			(5,360,400)		
UNI - ASU West - Revert back to 22 to 1 to 0.5 Formula				0	C55					(234,100)
UNI - ASU West - Fund 45-Day Enrollment Count				0	C55					(962,900)
UNI - ASU West - Rollback FY 08 Criminal Justice				(1,000,000)	C56					(1,000,000)
			48,244,000						51,435,900	
UNI - Northern Arizona University	160,868,800									
UNI - Standard/Technical							0			
UNI - NAU Enrollment Growth					B251		6,499,800			
UNI - NAU - No FY 09 Enrollment Growth Funding				0	C57					(6,499,800)
UNI - NAU - Lump Sum Reduction		(16,086,900)			C67			(16,086,900)		
UNI - NAU - Rollback FY 08 Student & Faculty Retention				(4,736,000)	C57					(4,736,000)

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
UNI - NAU - Revert back to 22 to 1 to 0.5 Formula				0	C57					(480,500)
UNI - NAU - Fund 45-Day Enrollment Count				0	C58					(3,035,100)
UNI - NAU - Rollback FY 08 Water Institute				0	C58					(400,000)
UNI - NAU - Rollback FY 08 Health Professions Increase				(4,000,000)	C58					(4,000,000)
			144,781,900						151,281,700	
UNI - UA - Main Campus	362,389,200									
UNI - Standard/Technical							0			
UNI - UA Main Enrollment Formula					B256		1,117,800			
UNI - UA Main - No FY 09 Enrollment Growth Funding				0	C59					(1,117,800)
UNI - UA Main Biomedical Campus Phx					B257		(5,250,000)			
UNI - UA Main - Rollback FY 08 Biomedical Campus Design				(5,250,000)	C60	X				0
UNI - UA Main - Lump Sum Reduction		(36,238,900)			C67			(36,238,900)		
UNI - UA Main - Rollback FY 08 Student & Faculty Retention				(10,000,000)	C59					(10,000,000)
UNI - UA Main - Revert back to 22 to 1 to 0.5 Formula				0	C59					(140,800)
UNI - UA Main - Fund 45-Day Enrollment Count				0	C60					(2,768,200)
UNI - UA Main - Rollback FY 08 Water Institute				0	C60					(400,000)
UNI - UA Main - Rollback UA South Increase				(1,200,000)	C61					(1,200,000)
			326,150,300						322,018,100	
UNI - UA - Health Sciences Center	80,954,200									
UNI - Standard/Technical							0			
UNI - UA - HSC Enrollment Formula					B261		(108,400)			
UNI - UA - HSC - Lump Sum Reduction		(8,095,400)			C67			(8,095,400)		
UNI - UA - HSC - No FY 09 Enrollment Growth Funding				0	C62					0
UNI - UA - HSC - Rollback FY 08 Telemedicine Increase				(1,000,000)	C62					(1,000,000)
UNI - UA - HSC - Rollback FY 08 Pharmacy Increase				(1,500,000)	C63					(1,500,000)
UNI - UA - HSC - Rollback FY 08 Medical Campus Increase				(6,000,000)	C63					(6,000,000)
			72,858,800		C63				72,750,400	
VSC - Department of Veterans' Services	9,284,800									
VSC - Standard/Technical							177,300			
VSC - Enacted Adjustment							(1,064,200) *			
VSC - Rollback FY 08 Benefit Counselors Increase				(985,400)	C64					(928,400)
VSC - Lump Sum Reduction				(928,500)	C67					(928,500)
			9,284,800						8,397,900	
WAT - Department of Water Resources	24,074,600									
WAT - Standard/Technical							648,100			
WAT - Enacted Adjustment							93,100 *			
WAT - Rollback New Water Protection Fund Deposit		(1,000,000)			C65			(2,000,000)		
WAT - Shift Assured & Adequate Water Program Costs		(1,100,000)			C65			(1,100,000)		
WAT - Lump Sum Reduction		(2,097,500)			C67			(2,097,500)		
WAT - Rollback FY 08 Drought Office Increase				(500,000)	C65					(491,200)
WAT - Rollback FY 08 Rural Water Studies Increase				(500,000)	C66					(500,000)
WAT - Rollback FY 08 Adjudication Support Increase				(1,000,000)	C66					(1,000,000)
			19,877,100						19,618,300	

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.#	2/ One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
WEI - Department of Weights & Measures	1,710,800									
WEI - Standard/Technical							59,200			
WEI - Enacted Adjustment							(70,600) *			
WEI - Lump Sum Reduction		(171,100)			C67			(171,100)		
			1,539,700						1,528,300	
OTH - Other										
OTH - Unallocated '08 Adjustments	536,500		536,500				(536,500)		0	
OTH - 21st Century Fund Deposit - Enacted	25,000,000		25,000,000				0 *		25,000,000	
COM - Delay FY 08 Arizona 21st Century Fund		(25,000,000)	(25,000,000)		C10	X		(25,000,000)	(25,000,000)	
COM - Revert Unused FY 07 21st Century Fund Monies			0	(11,300,000)	C11	X			0	0
OTH - FY 08 Supplementals - Title 19	64,072,300		64,072,300				(64,072,300)		0	
OTH - Administrative Adjustments	96,000,000		96,000,000				(33,879,200)		62,120,800	
OTH - Revertments	(95,570,500)		(95,570,500)				(6,969,900)		(102,540,400)	
TOTAL - OPERATING SPENDING CHANGES	\$10,708,984,700	(\$615,345,800)	\$10,093,638,900	(\$173,277,400)			\$427,094,500	(\$1,382,784,600)	\$9,753,294,600	(\$293,457,500)
CAPITAL SPENDING CHANGES (One-time)										
ADOA Building Renewal	0		0				0		0	
One-time ADOA System FY '08 Funding	14,227,500		14,227,500				(14,227,500)		0	
Renovate Old Health Lab for Ag Lab - Enacted	2,207,000		2,207,000		B269		0 *		2,207,000	
Eliminate ADOA Old Health Lab Renovation Project		(2,207,000)	(2,207,000)		C70	X		(2,207,000)	(2,207,000)	
Yuma Welcome Center - Enacted	1,000,000		1,000,000		B271		0 *		1,000,000	
Eliminate Yuma Welcome Center Funding		(2,798,000)	(2,798,000)		C70	X		(1,000,000)	(1,000,000)	
DPS Microwave Tower - Enacted	1,500,000		1,500,000		B270		0 *		1,500,000	
DES - Navajo Multipurpose Building - Enacted	1,000,000		1,000,000		B269		0 *		1,000,000	
Eliminate DES Navajo Multipurpose Facility Project		0	0		C70	X		(1,000,000)	(1,000,000)	
Move Southern Arizona Veterans' Home Funding to FY 09		(10,000,000)	(10,000,000)		C70	X		10,000,000	10,000,000	
Eliminate DOC Locks Project			0	(10,045,300)	C71	X			0	0
Eliminate DJC HVAC & Electrical Renovations			0	(885,000)	C71	X			0	0
TOTAL - CAPITAL SPENDING CHANGES	\$19,934,500	(\$15,005,000)	\$4,929,500	(\$10,930,300)			(\$14,227,500)	\$5,793,000	\$11,500,000	\$0
TOTAL - ALL SPENDING CHANGES	\$10,728,919,200	(\$630,350,800)	\$10,098,568,400	(\$184,207,700)			\$412,867,000	(\$1,376,991,600)	\$9,764,794,600	(\$293,457,500)
FUND TRANSFERS (One-time)										
DOA - Arizona Department of Administration									0	
DOA - Automation Operations Fund			0		C72	X		(748,500)	(748,500)	
DOA - Certificate of Participation Fund			0		C72	X		(1,266,700)	(1,266,700)	
DOA - Construction Insurance Fund			0		C72	X		(3,970,200)	(3,970,200)	
DOA - Motor Vehicle Pool Revolving Fund			0		C72	X		(3,037,500)	(3,037,500)	
DOA - Retiree Accumulated Sick Leave Fund			0		C72	X		(3,283,900)	(3,283,900)	
DOA - Risk Management Revolving Fund			0		C73	X		(6,114,400)	(6,114,400)	

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DOA - Special Employee Health Insurance Trust Fund			0		C73	X		(18,537,800)	(18,537,800)	
DOA - Emergency Telecommunication Services Revolving Fund			0		C73	X			0	(12,542,800)
AGR - Department of Agriculture										
AGR - Livestock and Crop Conservation Fund			0		C75	X		(910,600)	(910,600)	
ART - Arizona Commission on the Arts										
ART - Arts Endowment Fund			0		C76	X			0	(5,115,900)
ATT - Attorney General										
ATT - Anti-Racketeering Revolving Fund			0		C77	X			0	(5,716,800)
COM - Department of Commerce										
COM - CEDC Fund			0		C78	X		(3,434,700)	(3,434,700)	
COM - GADA Revolving Fund			0		C78	X		(5,125,000)	(5,125,000)	
COM - Job Training Fund			0		C78	X		(17,857,100)	(17,857,100)	
COM - Military Installation Fund			0		C79	X		(5,280,000)	(5,280,000)	
COM - Oil Overcharge Fund			0		C79	X		(1,125,000)	(1,125,000)	
ROC - Registrar of Contractors										
ROC - Registrar of Contractors Fund			0		C80	X		(1,966,300)	(1,966,300)	
COR - Corporation Commission										
COR - Utility Regulation Revolving Fund			0		C81	X		(1,575,000)	(1,575,000)	
DOC - Department of Corrections										
DOC - Special Services Fund			0		C82	X		(519,800)	(519,800)	
COS - Board of Cosmetology										
COS - Board of Cosmetology Fund			0		C83	X		(1,091,800)	(1,091,800)	
HEA - Commission for the Deaf and the Hard of Hearing										
HEA - Telecommunication Fund for the Deaf			0		C84	X		(1,453,600)	(1,453,600)	
DEN - Board of Dental Examiners										
DEN - Dental Board Fund			0		C85	X		(1,292,100)	(1,292,100)	
DES - Department of Economic Security										
DES - Long Term Care System Fund (Non-Federal Matched)			0		C86	X		(3,032,100)	(3,032,100)	
ADE - Arizona Department of Education										
ADE - Special Education Fund			0		C87	X		(9,000,000)	(9,000,000)	

	FY 2008	08 Chairmen Options	Revised Total ^{1/} FY 2008	08 Other Options	Pg.# ^{2/}	One- Time	JLBC Baseline FY 09 Changes ^{3/}	09 Chairmen Options	Revised Total ^{4/} FY 2009	09 Other Options
REV - Estate and Unclaimed Property Fund			0		C99	X		(1,132,800)	(1,132,800)	
SFB - School Facilities Board										
SFB - Emergency Deficiencies Correction Fund			0		C100	X		(1,124,200)	(1,124,200)	
SFB - School Improvement Revenue Bond Debt Service Fund			0		C100	X		(11,940,400)	(11,940,400)	
DOT - Department of Transportation										
DOT - Economic Strength Project Fund			0		C101	X		(4,435,200)	(4,435,200)	
DOT - Motor Vehicle Liability Insurance Enforcement Fund			0		C101	X		(2,658,300)	(2,658,300)	
DOT - State Aviation Fund			0		C101	X		(9,948,100)	(9,948,100)	
DOT - Transportation Department Equipment Fund			0		C101	X		(1,363,900)	(1,363,900)	
DOT - Vehicle Inspection and Title Enforcement Fund			0		C102	X		(883,400)	(883,400)	
Other									0	
OTH - Budget Stabilization Fund Transfer		(350,000,000)	(350,000,000)		C103	X		0	0	
TOTAL - FUND TRANSFERS	0	(350,000,000)	(350,000,000)	0			0	(230,884,400)	(230,884,400)	(48,716,300)
REVENUE CHANGES										
REV - Ongoing Revenue	9,388,555,400		9,388,555,400				24,092,400		9,412,647,800	
REV - One-time Revenue	367,447,000		367,447,000				(367,447,000)		0	
OTH - Set FY 09 Urban Revenue Sharing at Regular Rate		0	0		C105			7,191,200	7,191,200	
OTH - Eliminate FY 09 Urban Revenue Sharing Special Distribution		0	0		C105			10,549,800	10,549,800	
OTH - Reduce Urban Revenue Sharing Distribution		0	0		C105			104,124,000	104,124,000	
OTH - Lottery - Redirect New Homeless Transfer to General Fund		1,000,000	1,000,000		C106			1,000,000	1,000,000	
TOTAL - REVENUE CHANGES	\$9,756,002,400	\$1,000,000	\$9,757,002,400	\$0			(\$343,354,600)	\$122,865,000	\$9,535,512,800	\$0
ENDING BALANCE	(\$972,916,800)	\$981,350,800	\$8,434,000	\$184,207,700			(\$1,729,138,400)	\$1,730,741,000	\$1,602,600	\$342,173,800

* Already enacted

^{1/} Includes '08 Chairmen Options and excludes '08 Other Options.
Book.

^{3/} Represents changes based on funding formulas, technical revisions and one-time funding.

^{4/} Includes JLBC Baseline '09 Changes and '09 Chairmen Options and excludes '09 Other Options.

**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 1/
WITH ONE-TIME FINANCING SOURCES**

	FY 2008 Current	Change	FY 2008 Chairmen's Total	FY 2009 JLBC Baseline <u>2/</u>	Change	FY 2009 Chairmen's Total
REVENUES						
Ongoing Revenues	\$10,073,094,300	\$1,000,000	\$10,074,094,300	\$10,173,825,200	\$1,000,000	\$10,174,825,200
Enacted Tax Law Changes	0	0	0	(33,500,000)	0	(33,500,000)
Urban Revenue Sharing	(684,538,900)	0	(684,538,900)	(727,677,400)	121,865,000	(605,812,400)
Revised On-going Revenues	9,388,555,400	1,000,000	9,389,555,400	9,412,647,800	122,865,000	9,535,512,800
One-time Revenues						
Balance Forward	377,947,000	0	377,947,000	0	0	0
Corporate Consolidated Returns	(55,500,000)	0	(55,500,000)	0	0	0
Unclaimed Property Revenue	45,000,000	0	45,000,000	0	0	0
Budget Stabilization Fund Transfer	0	350,000,000	350,000,000	0	0	0
Fund Transfers	0	0	0	0	230,884,400	230,884,400
Subtotal One-time Revenues	367,447,000	350,000,000	717,447,000	0	230,884,400	230,884,400
Total Revenues	\$9,756,002,400	\$351,000,000	\$10,107,002,400	\$9,412,647,800	\$353,749,400	\$9,766,397,200
EXPENDITURES						
Operating Budget Appropriations	10,575,582,200			11,145,698,800		
--Ongoing Reductions		(466,118,700)			(637,254,900)	
--One-time Reductions		(86,995,500)			(714,729,700)	
Revised Operating Budget Total			10,022,468,000			9,793,714,200
FY 2008 Supplementals	64,072,300	0	64,072,300	0	0	0
Administrative Adjustments	96,000,000	0	96,000,000	62,120,800	0	62,120,800
Revertments	(95,570,500)	0	(95,570,500)	(102,540,400)	0	(102,540,400)
Subtotal Ongoing Expenditures	10,640,084,000	(553,114,200)	10,086,969,800	11,105,279,200	(1,351,984,600)	9,753,294,600
One-time Expenditures						
Capital Outlay	19,934,500	(15,005,000)	4,929,500	5,707,000	5,793,000	11,500,000
21st Century Fund Transfer	25,000,000	(25,000,000)	0	25,000,000	(25,000,000)	0
Other Major One-time Expenditures <u>3/</u>	43,900,700	(37,231,600)	6,669,100	5,800,000	(5,800,000)	0
Subtotal One-time Expenditures	88,835,200	(77,236,600)	11,598,600	36,507,000	(25,007,000)	11,500,000
Total Expenditures	10,728,919,200	(\$630,350,800)	\$10,098,568,400	11,141,786,200	(\$1,376,991,600)	\$9,764,794,600
Ending Balance <u>4/</u>	(972,916,800)	\$981,350,800	\$8,434,000	(1,729,138,400)	\$1,730,741,000	\$1,602,600
Ongoing Fund (Structural) Balance <u>5/</u>	(\$1,251,528,600)	\$467,118,700	(\$784,409,900)	(\$1,692,631,400)	\$760,119,900	(\$932,511,500)

1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.

2/ JLBC Baseline represents cost of funding formulas under the 4 sector consensus revenue forecast. The starting point of the Baseline is the FY 2008 current status and not the Chairmen's FY 2008 options.

3/ Details of Major One-time Expenditures can be found on page 7 of the FY 2009 JLBC Baseline Summary.

4/ This calculation reflects the difference between total revenues and total expenditures.

5/ This calculation reflects the difference between ongoing revenues and expenditures.

Arizona Health Care Cost Containment System

Chairmen's Options

Eliminate Adult Dental Services

FY 08 Savings: \$444,400

FY 09 Savings: \$1,700,000

The FY 2008 budget included an increase of \$1 million and added a footnote allowing AHCCCS to provide preventive dental services for adult long-term care members. This footnote permits AHCCCS to provide these services, but does not make preventive dental care for adult long-term care members a statutory requirement. While only \$1.8 million in state match monies were appropriated for this purpose, AHCCCS now plans to spend approximately \$2 million in state match monies on adult dental services in FY 2008 through an increase in the monthly capitation rate. Of this amount, approximately \$1.2 million is from the General Fund and \$800,000 is from county funds. Coverage of this new service began on October 1, 2007.

Eliminating the program would result in General Fund savings of approximately \$1.7 million and \$1.3 million in county funds (and \$9.1 million in Total Funds) in FY 2009 due to annualization and caseload growth. A portion of the \$1 million appropriation in FY 2008 has been expended. This option assumes a March 1, 2008 implementation, as it may require revising a General Appropriation Act footnote.

Eliminate Temporary Medical Coverage Program

FY 08 Savings: \$2,783,300

FY 09 Savings: \$8,350,000

This program provides temporary medical coverage for persons who have previously been enrolled in AHCCCS and who are now receiving federal disability insurance (SSDI) benefits but are not yet eligible for Medicare. SSDI benefits would normally raise an individual's income above eligibility limits for AHCCCS. This program allows a person to continue to receive health benefits until that person becomes eligible for Medicare after a period of 24 months. The FY 2007 budget appropriated \$6.5 million for this program and the FY 2008 budget included an increase of \$1.9 million for annualization. As of

December 2007, approximately 520 people were enrolled in this program. This is much lower than the 1,390 people AHCCCS estimated would be enrolled by April 2007 and, as a result, FY 2007 costs were significantly below forecast. Although \$6.5 million was appropriated from the General Fund for this program in FY 2007, only \$1.7 million was actually spent. Although caseloads remain below forecast, FY 2008 costs have been significantly higher than anticipated and AHCCCS has created a waiting list for this program.

Eliminating this program would result in General Fund savings of \$2.8 million (and Total Funds of \$3.4 million) in FY 2008 for 4 months of savings and \$8.4 million from the General Fund (and \$10.3 million in Total Funds) in FY 2009 for a full year of savings. Statute allows the AHCCCS Director to stop processing applications for the program if funding is insufficient without requiring a statutory change. Eliminating this program would require a statutory change.

Reduce KidsCare Children Income Eligibility Limit to 175% FPL

FY 08 Savings: \$1,164,900

FY 09 Savings: \$11,232,300

The FY 2008 budget included \$29.2 million from the General Fund (and \$133.2 million in Total Funds) for services and administration for the KidsCare Children program. The KidsCare program, also referred to as the Children's Health Insurance Program (CHIP), provides health coverage to children in families with incomes below 200% of the federal poverty line (FPL), but above the levels required for the regular AHCCCS program. KidsCare is an optional program that is not federally mandated. However, achieving this savings would require a statutory change. As of December 2007, 64,115 children were enrolled in the KidsCare program.

Reducing the KidsCare income eligibility limit to 175% FPL requires a statutory change. Implementing that change by March 1, 2008 would result in General Fund savings of approximately \$1.2 million (and Total Fund savings of \$4.9 million) in FY 2008 and \$11.2 million from the General Fund (and \$46.9 million

in Total Funds) in FY 2009. Based on an AHCCCS analysis from last year, it is estimated that approximately 30% of KidsCare Children enrollees, 19,235 children, are between 175% and 200% FPL.

Nationally, 9 states currently have income eligibility limits that are below 200% FPL. Of those states, 5 have an income limit of 185% FPL, 1 has an income limit of 175% FPL, and 3 have limits below 175% FPL.

Rollback FY 2008 SOBRA Pregnant Women 150% Eligibility Increase

FY 08 Savings: \$600,000
FY 09 Savings: \$2,020,000

The FY 2008 budget increased the income limit for pregnant women from 133% federal poverty line (FPL) to 150% FPL and added \$1.8 million from the General Fund for this purpose. Returning the income limit to 133% FPL would require a statutory change and, therefore, would result in \$600,000 in General Fund savings (and \$1.8 million in Total Fund savings) if implemented on March 1, 2008 and \$2 million from the General Fund (and \$5.9 million in Total Funds) for a full year of savings in FY 2009 due to annualization and program growth. It is estimated that 1,128 women would be eligible for coverage under this expanded income limit, although only 677 are expected to receive services in FY 2008.

Rollback FY 2008 HPV Vaccine Funding Increase

FY 08 Savings: \$2,869,100
FY 09 Savings: \$183,800

The FY 2008 budget included \$2.9 million from the General Fund to provide the human papillomavirus (HPV) vaccine to AHCCCS members ages 21-26. This vaccine protects against 4 strains of HPV, which are estimated to cause 70% of cervical cancer cases. The vaccine is given in a series of 3 doses over a period of 6 months. Although funding was appropriated for this purpose, providing the vaccine to AHCCCS members ages 21-26 is not a statutory requirement.

All but \$183,800 of the FY 2008 General Fund appropriation was labeled as one-time. AHCCCS estimated that \$2.9 million from the General Fund would provide the vaccine to

approximately 15,000 women on the existing caseload in FY 2008. The ongoing funding would provide the vaccine to approximately 1,000 women per year in future years. The FY 2008 funding assumed that 30% of currently eligible members would request the vaccine. The ongoing funding would provide the vaccine to those who become newly eligible each year, of which 30% are expected to request the vaccine.

AHCCCS implemented this benefit on October 1, 2007. Eliminating this funding would result in General Fund savings of \$2.9 million (and Total Fund savings of \$8.5 million) in FY 2008 and \$183,800 from the General Fund (and \$538,600 in Total Funds) in FY 2009 as a result of the one-time expenditures.

Eliminate Dual Eligible Part D Copay Subsidy

FY 08 Savings: \$696,300
FY 09 Savings: \$2,089,000

Beginning in FY 2007, the budget added monies to help pay the prescription drug copayments of low income individuals qualifying for both Medicare and Medicaid, known as "dual eligibles." Prior to the federal government taking over prescription drug costs from the state for dual eligibles on January 1, 2006, these individuals did not pay for their prescriptions. As part of the benefit, however, recipients make copayments for prescription drugs ranging from \$1.00 to \$5.35, depending on the class of the drug as well as the recipient's income.

For June 2007, AHCCCS estimated 99,827 dual eligible members. Eliminating the dual eligible copay subsidy as of March 1, 2008 would result in General Fund savings of \$696,300 for 4 months of savings in FY 2008 and \$2.1 million for a full year of savings in FY 2009 based on AHCCCS' actual FY 2007 copay expenditures. This amount includes the copay subsidy for both Acute Care and Long-Term Care members.

Rollback FY 2008 Graduate Medical Education Increase

FY 08 Savings: \$3,000,000
FY 09 Savings: \$3,000,000

The FY 2008 budget included an increase of \$3 million from the General Fund and \$6 million in Federal Funds to increase Graduate Medical Education (GME) payments. It is estimated that

this additional FY 2008 appropriation will fund an additional 95 residency slots. A.R.S. § 36-2903.01 gives priority for this funding to programs established or expanded after July 1, 2006 and to programs in counties with a population of less than 500,000 people at the time the residency program was established. A.R.S. § 36-2903.01 was also amended to allow local governments to provide funding for the state match for GME in order to receive Federal Funds to support additional residency positions.

Before the increases for GME in the FY 2008 budget, the base included \$11.5 million from the General Fund for GME. This amount includes a \$4 million increase first added in the FY 2007 budget.

Eliminate Hospital Residency Loan Program

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

The FY 2008 budget included \$1 million for the Hospital Residency Loan Program. The program is intended to fund start-up and ongoing costs for residency programs through interest-free loans of up to \$500,000 per hospital. As these loans are to be repaid within 10 years, in theory this program should eventually become self-supporting. The FY 2007 budget also included \$1 million for this program. Due to the amount of time it has taken AHCCCS to formalize application procedures, no loans have been awarded to date. Eliminating this funding would result in savings of \$1 million in FY 2008 and FY 2009. AHCCCS has subsequently indicated that \$400,000 of the FY 2008 appropriation has been committed.

This amount is in addition to a separate option to revert the \$1 million from the FY 2007 budget that has not yet been expended.

Revise Outlier Payment Methodology

FY 08 Savings: \$5,943,800

FY 09 Savings: \$14,098,500

The FY 2008 budget instructed AHCCCS to revise the methodology used to pay hospital claims with significantly high operating costs known as outliers. These claims are paid by applying a cost-to-charge ratio (CCR) that is used to approximate the hospital's actual cost of providing the services. Prior to this year, these CCRs had not been updated since 1998, which

has resulted in AHCCCS reimbursing hospitals at higher rates.

Laws 2007, Chapter 263 instructed AHCCCS to use the most recent urban and rural average CCRs to pay outlier claims and to phase-in the use of these updated CCRs over a 3-year period. This revision resulted in \$5.6 million in General Fund savings in FY 2008 and is estimated to yield an additional \$5.6 million in General Fund savings in FY 2009.

Achieving this savings would require a statutory change. If the outlier methodology were further revised to include the use of hospital specific CCRs and the new methodology was fully implemented on March 1, 2008, this would result in additional General Fund savings of \$5.9 million (and Total Fund savings of \$17.7 million) in FY 2008. For FY 2009, this would result in General Fund savings of \$14.1 million (and Total Fund savings of \$42.3 million) beyond the \$11.2 million in General Fund savings already included in the FY 2009 baseline. FY 2009 General Fund savings from revising the outlier payment methodology would total \$25.3 million (and Total Funds savings would be \$75 million).

Eliminate 2-1-1 Call Center Support

FY 08 Savings: \$3,422,400

FY 09 Savings: \$2,822,400

The FY 2008 budget provided \$3.4 million from the General Fund and 11.2 FTE Positions for support of 2-1-1. The online version of 2-1-1 provides referrals to available health and human services in Arizona. The telephone version of 2-1-1 can also be used to communicate updates during emergencies, but is not yet operational on a regular basis. Of the budgeted amount, \$2,822,400 was considered to be ongoing funding. This money will be used to establish state infrastructure capacity to support locally-run call centers. This infrastructure will include call center connectivity projects such as internet connectivity and databases, call center support and referral services, and marketing and community relations activities. It was the intent that local governments would provide the funding for the actual call centers and the associated personnel. To date, no local call centers have been established. Eliminating this funding would result in General Fund savings of \$3.4 million in FY 2008 and \$2.8 million in FY 2009.

However, AHCCCS has already spent \$516,300 of its FY 2008 appropriation for 2-1-1.

Rollback FY 2008 DES IT Eligibility Project Increase

FY 08 Savings: \$1,300,000
FY 09 Savings: \$1,300,000

The FY 2008 budget provided \$1.3 million from the General Fund and 11 FTE Positions (plus matching Federal Funds) for upgrades to the Department of Economic Security (DES) eligibility system. Additional funding of \$1 million from the General Fund was included in the DES budget for this purpose. These monies are part of a \$45 million Total Fund multi-year IT upgrade project to replace the current case management/eligibility determination system used by DES for Medicaid, TANF, General Assistance and other welfare programs. Expenditures from this line include equipment, internal IT support, and contracted programming and system development. Eliminating this funding would result in savings of \$1.3 million from the General Fund (and \$2.6 million in Total Funds) in FY 2008 and FY 2009. Some of the FY 2008 appropriation may have already been expended.

Rollback FY 2008 Claims Computer System Increase

FY 08 Savings: \$500,000
FY 09 Savings: \$500,000

The FY 2008 budget provided \$500,000 from the General Fund and 2.4 FTE Positions (plus matching Federal Funds) for replacement of the claims computer system used by AHCCCS to pay provider claims for fee-for-service charges. Expenditures from this line include equipment, internal IT support, and contracted programming and system development. Eliminating this funding would result in savings of \$500,000 from the General Fund (and \$2.1 million in Total Funds) in FY 2008 and FY 2009. Some of the FY 2008 appropriation may have already been expended.

Lump Sum Reduction

FY 08 Savings: \$11,902,800
FY 09 Savings: \$11,902,800

See Lump Sum Reduction section for any exemptions.

Other Options

Eliminate Ticket to Work Program

FY 08 Savings: \$793,300
FY 09 Savings: \$2,785,400

The Ticket to Work program allows individuals receiving Supplemental Security Income (SSI) to work and retain their AHCCCS health coverage. This program serves individuals who meet SSI eligibility criteria, who are aged 16-64, and who have earned income below 250% FPL. As of December 1, 2007 approximately 1,073 members were enrolled in this program. Premiums of \$0 to \$35 monthly are used to offset the cost of the program. Discontinuing this program would require a statutory change. Implementing this change on March 1, 2008 would result in General Fund cost savings of approximately \$793,300 (and \$2.4 million in Total Fund savings) for 4 months of savings in FY 2008 and \$2.8 million from the General Fund (and \$8.4 million in Total Funds) for a full year of savings in FY 2009.

Accelerate KidsCare Parents Statutory Expiration

FY 08 Savings: \$3,296,300
FY 09 Savings: \$0

The FY 2008 budget continued the KidsCare Parents program until June 30, 2008. The program provides healthcare coverage for parents up to 200% FPL. Revenue from monthly premiums and enrollment fees are collected from participants and used to offset the cost of the program. As of December 2007, 13,086 parents were enrolled in the KidsCare Parents program. Achieving this savings prior to July 2008 would require a statutory change. Accelerating the expiration of this program to March 1, 2008 would result in General Fund savings of \$3.3 million (and Total Funds savings of \$13.2 million) in FY 2008. This General Fund savings is composed of \$3.1 million from service expenditures and \$152,000 from administration. .

Implement DRA Copayments

FY 08 Savings: \$0

FY 09 Savings: \$1,600,000

In December 2006, AHCCCS issued a report on the fiscal impact of implementing the cost sharing provisions included in the federal Deficit Reduction Act (DRA). Cost sharing in any form is limited to 5% of family income applied to certain households with incomes above 100% of the Federal Poverty Level (FPL). These cost sharing efforts can only be applied to certain groups of AHCCCS enrollees. There are 3 different copayments that could be implemented: general service copayments (ranging from 10%-20% of the service cost depending on income level), non-preferred prescription drug copayments (ranging from \$3 to 20% of the cost of the drug depending on income level), and copayments for non-emergency use of the emergency room (\$3-\$6 depending on income level).

Implementing copayments would result in estimated net General Fund revenues of \$1.6 million in FY 2009 and in each year thereafter. AHCCCS estimated one-time start-up costs for copayments at \$0.5 million from the General Fund. These start-up costs have not been included in the savings estimate. AHCCCS' one-time start-up costs include computer enhancements to implement a copayment system and to enhance the premium billing system to allow AHCCCS to track total cost sharing to ensure that costs do not exceed 5% of family income.

Implement DRA Premiums

FY 08 Savings: \$300,000

FY 09 Savings: \$900,000

In December 2006, AHCCCS issued a report on the fiscal impact of implementing the cost sharing provisions included in the federal Deficit Reduction Act (DRA). Cost sharing in any form is limited to 5% of family income applied to certain households with incomes above 100% of the Federal Poverty Level (FPL). These cost sharing efforts can only be applied to certain groups of AHCCCS enrollees. Premiums would vary based on other cost sharing expenses in order to comply with the 5% cap.

AHCCCS estimated net ongoing revenues of \$0.9 million to the General Fund each year. If premiums were implemented on March 1, 2008 this would result in General Fund savings of \$300,000 in FY 2008. AHCCCS estimated one-time start-up costs for premiums at \$5.1 million from the General Fund. These start-up costs have not been included in the savings estimate. Start-up costs include enhancements to the AHCCCS and Department of Economic premium billing systems and purchasing hardware to support premium processing and ensure that total cost sharing does not exceed 5% of family income.

Revise Non-Emergency Transportation Services

FY 08 Savings: To be determined

FY 09 Savings: To be determined

AHCCCS is federally mandated to provide emergency transportation services to AHCCCS members. In addition, AHCCCS is required to cover some non-emergency, also known as medically necessary, transportation services. Non-emergency transportation is provided when free transportation is unavailable and the recipient is unable to arrange or pay for transportation; the service requires prior authorization and must be medically necessary and ordered in writing by a network provider.

For calendar year 2006, AHCCCS spent \$15.1 million from the General Fund (and \$45.4 million in Total Funds) on non-emergency transportation. This is in addition to the \$31.8 million from the General Fund (and \$95.4 million in Total Funds) spent on emergency transportation during this time period. Cost savings could be realized by using a transportation brokerage program and requiring members to make copayments for non-emergency transportation services.

Eliminate Critical Access Hospital Subsidy

FY 08 Savings: \$573,400

FY 09 Savings: \$580,100

The program was started in FY 2002; it provides reimbursement to small rural hospitals that are designated as critical access hospitals (CAH). Currently, there are 10 such hospitals in Arizona receiving funding. Elimination of this program would require a statutory change. The federal Medicare Modernization Act provides additional

federal funding to hospitals to offset the costs of emergency care for unauthorized immigrants; however, it is unknown at this time how much of these monies may go to these 10 hospitals. These 10 hospitals also receive funding under the Rural Hospital Reimbursement (RHR) line item. Eight hospitals are also receiving funding under Disproportionate Share Payments (DSH). *Table 1* on the following page lists all payments to hospitals that receive CAH payments. Eliminating this program would result in General Fund savings of \$573,400 in FY 2008 and \$580,100 in FY 2009 due to an anticipated change in the Federal Medical Assistance Percentage. With federal matching funds, the Total Funds impact would be \$1.7 million.

Revert Unspent FY 2007 Hospital Residency Loan Program Increase

FY 08 Savings: \$1,000,000

FY 09 Savings: \$0

The FY 2007 budget included \$1 million for the Hospital Residency Loan Program. The program is intended to fund start-up and ongoing costs for residency programs through interest-free loans of up to \$500,000 per hospital. As these loans are to be repaid within 10 years, in theory this program should eventually become self-supporting. Due to the amount of time it has taken AHCCCS to formalize application procedures, no loans have been awarded to date. However, the full General Fund appropriation has been deposited into the Hospital Residency Loan Program Fund and is exempt from lapsing. AHCCCS has subsequently indicated that all \$1 million from the FY 2007 appropriation has been committed.

Rollback FY 2008 Healthcare Group Subsidy Increase

FY 08 Savings: \$8,000,000

FY 09 Savings: \$0

The FY 2008 budget added a subsidy of \$8 million for Healthcare Group (HCG). The FY 2008 budget designated this funding as one-time. This program was intended to be self-sufficient with revenues from monthly premium collections being used to cover the cost of the program. In spring 2007, HCG announced that it was running an annual deficit. Laws 2007, Chapter 263 (the Health and Welfare BRB) included numerous reforms to the HCG program including capping

the number of businesses that may participate, adjusting reimbursement rates for HCG contractors, establishing a HCG study committee, and instructing the Department of Insurance to conduct a financial examination of HCG. We are awaiting information on how the loss of this subsidy would impact monthly premiums. As of November 2007, 25,334 people were enrolled in HCG medical plans.

Require Maricopa and Pima Counties to Pay 100% of ALTCs Growth

FY 08 Savings: \$7,026,800

FY 09 Savings: \$22,351,500

In FY 1998, the state began to share in the costs of the ALTCs program, and funds at least 50% of the State Match growth from year to year. In FY 2008, the state's budgeted share of the ALTCs State Match for ALTCs services is \$146 million, and JLBC Staff currently estimates that the state share would increase by \$22.5 million to \$168 million in FY 2009. If the state required Maricopa and Pima Counties to pay for 100% of their growth from FY 2007 levels, the state would save approximately \$7 million in FY 2008 and \$22.3 million in FY 2009. The FY 2009 estimate includes \$15.3 million in savings due to anticipated program growth in FY 2009 and the \$7 million in FY 2008 base savings. The savings would lead to increased costs to Maricopa and Pima Counties of approximately \$17.5 million and \$4.9 million, respectively, over a 2-year period. Achieving this savings would require a statutory change.

Table 1

Payments to Selected Rural Hospitals FY 2007

<u>Hospital</u>	<u>SFY 07 CAH</u>	<u>SFY 07 DSH</u>	<u>SFY 07 RHR</u>	<u>Hospital Total</u>
Benson Hospital	\$ 86,496	\$ 8,668	\$ 97,358	\$ 192,522
Carondelet Holy Cross Hospital	208,858	166,585	345,280	720,723
Cobre Valley Community Hospital	172,941	10,974	650,305	834,220
Copper Queen Community Hospital	96,944	-	87,295	184,239
Northern Cochise Community Hospital	107,398	42,994	81,155	231,547
Page Hospital	233,668	534,573	900,465	1,668,706
Sage Memorial Hospital	164,566	196,271	258,043	618,880
Southeast Arizona Medical Center	218,464	16,140	139,566	374,170
Wickenburg Regional Hospital	69,799	-	32,739	102,538
Winslow Memorial Hospital	<u>340,866</u>	<u>71,209</u>	<u>898,921</u>	<u>1,310,996</u>
SFY 2007 Total	\$1,700,000	\$1,047,414	\$3,491,127	\$6,238,541

Chairmen's Options

Rollback FY 2008 Cord Blood Banks Increase

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

Laws 2007, Chapter 263 appropriates \$1 million each year from FY 2008 through FY 2012 to establish centralized public repositories of diverse types of human stem cells of nonembryonic origin for public use. The Arizona Biomedical Research Commission is responsible for establishing a competitive grant process for these repositories, otherwise known as "cord blood banks." The Requests for Proposals deadline is February 4, 2008.

Chairmen's Options

Postpone 3 FTE Positions

FY 08 Savings: \$0

FY 09 Savings: \$262,400

The agency's FY 2009 budget provides an increase of 3 FTE Positions and \$262,400 from the General Fund for additional contract renewal and service resources. The increase was primarily related to 15-year charter school renewals, which were expected to occur starting in FY 2009. The agency now indicates, however, that those renewals will begin in FY 2010. This option would delay funding the new FTE Positions until at least FY 2010.

Chairmen's Options

Rollback of FY 2008 International Trade Funding Increase

FY 08 Savings: \$700,000

FY 09 Savings: \$700,000

The FY 2008 budget included an increase of \$700,000 and 1 FTE Position from the General Fund in the International Trade Office Special Line Item for the establishment of new business attraction and investment programs in Canada, Germany, and China. The funds will also be used to strengthen the current international trade programs in the United Kingdom, Japan, and Mexico; and to encourage public and private partners in Arizona to coordinate foreign investment activities with the agency. In FY 2008, the budget provided a total of \$2,064,000 and 7 FTE Positions for the International Trade Offices, representing a 53% increase from the FY 2007 amount.

Rollback FY 2008 GADA Increase

FY 08 Savings: \$2,000,000

FY 09 Savings: \$2,000,000

The FY 2008 budget provides an increase of \$2 million from the General Fund for a one-time deposit into the Greater Arizona Development Authority (GADA) Revolving Fund. An additional one-time deposit of \$2 million is appropriated for FY 2009. GADA utilizes the monies in the GADA Revolving Fund to issue tax-exempt bonds, which allows localities to receive lower-than-market interest rates for infrastructure projects. GADA is authorized to provide funding, through the sale of bonds, for "infrastructure," defined as "any facility located in this state for public use and owned by a political subdivision, special district or Indian tribe that retains ultimate responsibility for its operation and maintenance." In addition to cities, towns and counties, specific special districts are eligible applicants to GADA; including improvement districts, fire districts, and regional transportation authorities. Typical projects could include roads, jails, and firehouses.

GADA receives payments from borrowers which are then passed on to the appropriate lenders; however, GADA is ultimately responsible for the debt service incurred on the bonds that it issues. If borrowers are delinquent, GADA can access state-shared revenues to fulfill the local debt obligations pursuant to A.R.S. § 41-1554.06 L.

Due to GADA's position as an infrastructure bond guarantor and issuer, this one-time funding will allow GADA to expand its lending capacity. The Department of Commerce estimates the total funds available in the GADA Fund to be \$20.5 million for FY 2008 which represents a \$2.4 million increase over the FY 2007 total. GADA leverages its Revolving Fund money at a ratio of 30 to 1, which allows the agency to issue an additional \$60 million in bonds with the FY 2008 money and \$120 million including FY 2009 monies.

As of November 8, 2007, the GADA Revolving Fund supports \$347.0 million in bond issuances compared to \$244.1 million as of September 2006. Based on GADA's leverage ratio, this leaves approximately \$8.93 million in uncommitted capital. Of this amount, \$6.93 million is from their base and the other \$2 million is from the FY 2008 appropriation. At the 30 to 1 ratio, GADA could support \$267.9 million in new projects with the existing \$8.93 million in uncommitted capital. The Department of Commerce anticipates committing this base amount within the next 2 years.

Delay FY 2008 Arizona 21st Century Fund

FY 08 Savings: \$25,000,000

FY 09 Savings: \$25,000,000

The FY 2008 budget appropriates \$25 million from the General Fund for deposit into the Arizona 21st Century Competitive Initiative Fund, which represents a \$(10) million decrease from the FY 2007 startup appropriation. There will also be an annual \$25 million deposit into the fund for FY 2009 – FY 2011. On October 2, SFAz received a pledge of \$25 million from the Stardust Charitable Fund, which will meet the dollar-for-dollar match requirement for FY 2008.

The FY 2008 funds would be spent in a similar manner to FY 2007. Last year, the expenditure

plan included 10-15 research partnerships between industry and research performing institutions, 11-50 competitive advantage award grants to assist Arizona researchers in securing grant funding from federal agencies, and up to 80 students receiving fellowships of up to \$50,000 to conduct research.

SFAz has submitted a budget proposal for FY 2008, which is included in *Table 1* below along with the FY 2007 budget and expenditures.

Rollback CEDC Fund Shift

FY 08 Savings: \$750,000
FY 09 Savings: \$750,000

The FY 2008 budget shifted \$750,000 and 4 FTE Positions from the CEDC Fund to the General Fund. This fund shift includes 2 components; \$500,000 and 4 FTE Positions, and \$250,000 in the International Trade Offices Special Line Item. This funding shift would permit increased issuance of non-appropriated grants and loans by the CEDC to businesses expanding or locating in Arizona, by moving some administrative costs to the General Fund. In FY 2007, the CEDC Fund provided \$719,200 in grants and loans. The estimates for FY 2008 and FY 2009 are \$1 million for both programs per year.

The estimated revenues for the CEDC Fund for FY 2008 are \$3.6 million with an estimated balance forward of \$8.4 million. In FY 2008, \$2.3 million of this \$3.6 million is set aside for the department's operating budget. The remaining \$1.3 million could be used for grants and loans.

The FY 2008 General Fund operating budget for the Department of Commerce is \$4.2 million. As a result, the fund shift could be increased to \$1.3 million, since there would be sufficient General Fund monies to offset.

Lump Sum Reduction

FY 08 Savings: \$1,247,500
FY 09 Savings: \$1,247,500

See Lump Sum Reduction section for any exemptions.

Other Options

Revert Unused FY 2007 21st Century Fund Monies

FY 08 Savings: \$11,300,000
FY 09 Savings: \$0

The FY 2007 budget allocated \$35 million to the 21st Century Competitive Initiative Fund, which represented the initial deposit into the fund. Of this \$35 million, \$23.7 million was expended leaving a fund balance of \$11.3 million. The monies from this fund are utilized by the Department of Commerce and the Commerce and Economic Development Commission to contract with the non-profit corporation, Science Foundation Arizona (SFAz), to build medical, scientific, and engineering research programs and infrastructure for the purpose of promoting statewide economic development. All grants require a dollar for dollar matching from a private funding source. As detailed below, SFAz is proposing to expend the \$11.3 million in FY 2008.

Table 1				
\$ IN MILLIONS				
<u>Expenditure Categories</u>	<u>FY 2007 Original Allocation</u>	<u>FY 2007 Unexpended Amount</u>	<u>FY 2008 \$25 Million Allocation</u>	<u>FY 2008 Including '07 Balance</u>
Public-Private Research	\$18.0	\$5.8	\$10.3	\$16.1
Federal Research Leverage	5.0	0.0	2.0	2.0
Small Business Seed Capital	2.0	0.0	5.0	5.0
Graduate Research Fellowships	4.0	2.3	5.0	7.3
K-12 Student Programs	1.5	1.6	1.0	2.6
K-12 Teacher Internships	2.0	1.5	1.0	2.5
Other Discretionary Grants	2.0	0.0	0.0	0.0
Management Studies	0.5	0.1	0.7	0.8
Total	\$35.0	\$11.3	\$25.0	\$36.3

Eliminate Business Attraction and Related Staff

FY 08 Savings: \$1,080,800

FY 09 Savings: \$1,080,800

The Auditor General's 2003 Performance Audit and Sunset Review of the Department of Commerce noted that the Legislature could eliminate this function or as an alternative, retain only its role as a primary source of contact for companies seeking to relocate to Arizona. Business Attraction acts as the primary statewide contact for businesses seeking information on locating to or expanding within the state. The Office of Innovation focuses exclusively on technology-focused entrepreneurs.

According to the Auditor General report, many of the services provided by these 2 offices are available from other local and private development companies. There are over 300 local and statewide economic development organizations throughout Arizona providing assistance to businesses. The report also indicates that the impact of the program may be limited since "The most important factors in economic growth (labor costs, availability of skilled labor, and natural resources, energy cost, and climate) are beyond the control of state and local governments."

In FY 2006, the Department of Commerce reported that its Business Attraction programs had recruited 10 businesses to rural areas in both FY 2005 and FY 2006. Additionally, Commerce reported that these programs created 7,400 jobs in FY 2005 and 8,076 jobs in FY 2006, and aided in the relocation and expansion of 37 businesses in FY 2005 and 45 in FY 2006.

In FY 2008, Commerce will receive \$1,080,800 for these efforts, \$539,500 from the General Fund and \$541,300 from the Commerce and Economic Development Commission (CEDC) Fund. The estimate is based on a FY 2003 audit conducted by the Office of the Auditor General; Commerce has been unable to provide more up-to-date information. General Fund savings would be realized by allocating CEDC monies to programs in Commerce that currently are appropriated by the General Fund and reducing the agency's GF appropriation accordingly.

Arizona Community Colleges

Chairmen's Options

Fund Dual Enrollment at 50%

FY 08 Savings: \$0
FY 09 Savings: \$2,154,200

Dual enrollment refers to high school students who are enrolled in community college courses for both high school and community college credit. Community colleges and K-12 districts typically count the same student for Average Daily Membership and FTSE purposes and, thus, are receiving double state aid. Dual enrollment, however, allows students to earn advance college credit, which may better prepare the student for future college coursework and may save the state money if the student goes on to attend a state university.

This option would fund Operating State Aid for dual enrolled FTSE at 50%. A.R.S. § 15-1466 would have to be amended in order to implement this option. The table on the following page shows the savings associated with funding Operating aid 50% for dual enrolled students by district.

Fund Dual Enrollment at 50%	
<u>District</u>	<u>FY 2009</u>
Cochise	\$ 50,300
Coconino	110,200
Gila	33,000
Graham	24,400
Maricopa	1,567,700
Mohave	58,900
Navajo	146,200
Pima	88,800
Pinal	11,700
Yavapai	59,400
Yuma/LaPaz	<u>3,600</u>
Total	\$2,154,200

Eliminate Dual Enrollment Capital Funding

FY 08 Savings: \$0
FY 09 Savings: \$723,200

Statute currently provides FTSE funding for both Operating and Capital Outlay. Included in the FTSE count are dual enrolled students. These are high school students enrolled in a course for college credit taken at their high school.

This option would eliminate dual enrollment funding for Capital Outlay, since dual enrollment courses are primarily taught at the high school campus. A.R.S. § 15-1466.01 would have to be notwithstanding or amended in order to implement this option. The table below shows the savings associated with suspending Capital Outlay funding for dual enrolled students by district.

FY 2009 Capital Outlay - Dual Enrollment Savings	
<u>District</u>	<u>Capital Outlay</u>
Cochise	\$15,800
Coconino	45,600
Gila	13,700
Graham	10,100
Maricopa	494,200
Mohave	24,400
Navajo	60,500
Pima	28,000
Pinal	4,800
Yavapai	24,600
Yuma/LaPaz	<u>1,500</u>
Total	\$723,200

Suspend Capital Outlay

FY 08 Savings: \$20,054,000
FY 09 Savings: \$20,034,000

Capital Outlay State Aid provides community college districts with funds for capital, land, building, and equipment needs. The statutory formula appropriates per capita funding to districts based on the district's size and the most recent year's actual audited FTSE. The formula multiplies \$210/FTSE for districts with 5,000 or less FTSE or \$160/FTSE for districts with greater than 5,000 FTSE.

The option would suspend capital outlay funding in FY 2008 and FY 2009 and would require a statutory change. Districts were appropriated \$20.1 million in FY 2008 for Capital Outlay State Aid. Districts would receive an estimated \$20 million FY 2009. These amounts represent approximately 2% of their total budgets. The estimated FY 2009 amount is lower because of declining enrollments. The Capital Outlay State Aid formula does not hold harmless districts with declining FTSE. Districts currently have the ability to also generate funds for capital purposes

through local property taxes and tuition and fee payments. In FY 2008, districts generated \$64.5 million in secondary property taxes for capital outlay purposes. The table below shows Capital Outlay formula funding by district.

Suspend Capital Outlay State Aid		
<u>District</u>	<u>FY 2008</u>	<u>Est. FY 2009</u>
Cochise	\$ 1,060,600	\$ 1,095,000
Coconino	423,800	430,900
Gila	133,400	158,100
Graham	510,100	504,200
Maricopa	11,204,000	11,129,800
Mohave	591,200	601,900
Navajo	505,700	483,800
Pima	3,198,900	3,169,100
Pinal	797,600	802,800
Yavapai	703,900	759,800
Yuma/LaPaz	924,800	898,600
Total	\$20,054,000	\$20,034,000

Eliminate Hold Harmless Provision

FY 08 Savings: \$0
FY 09 Savings: \$920,700

Operating State Aid provides community college districts with funds for continuing operating and maintenance expenses. The statutory formula adjusts state aid in an amount that reflects only growth in FTSE enrollment count. This enrollment adjustment is calculated by multiplying the increase in the most recent year's actual FTSE for each district by the average state aid per FTSE appropriated in the current fiscal year. Based on current estimates, the FY 2009 average per FTSE operating amount is \$1,015. The formula "holds harmless" districts with declining FTSE enrollment, as the formula does not adjust state aid downward for these districts.

The FY 2006 Higher Education Budget Reconciliation Bill (Laws 2005, Chapter 330) amended the Operating State Aid formula to prohibit a district from receiving growth funding unless the district's most recent audited FTSE count exceeds its highest audited FTSE count recorded from and after FY 2004. As a result, districts that begin to recoup some prior year enrollment losses cannot get enrollment growth funding until they exceed their post 2004 enrollment ceiling.

This option would eliminate hold harmless, and adjust state aid downward for districts that

decline in any one year. The table below includes an estimate of FY 2009 enrollment losses and the savings from eliminating the hold harmless provision.

FY 2009 Hold Harmless Savings		
<u>District</u>	<u>Change in FTSE</u>	<u>Hold Harmless Savings</u>
Graham	(28)	\$ 28,400
Maricopa	(464)	471,000
Navajo	(104)	105,600
Pima	(186)	188,800
Yuma/LaPaz	(125)	126,900
Total	(907)	\$920,700

Cap Equalization Program at FY 2008

FY 08 Savings: \$0
FY 09 Savings: \$5,497,600

Equalization Aid is paid to community college districts with property tax bases that are less than the minimum assessed value or "equalization floor" specified in A.R.S. § 15-1402. The statutory formula adjusts Equalization Aid each year according to growth in actual assessed valuation for the 2 most recent years for all rural districts. The lower a district's assessed valuation is from the equalization floor, the more Equalization Aid funding a district receives. This option would cap Equalization Aid in FY 2009 at the FY 2008 level. *Table 1* on the following page shows that this option would result in an estimated savings of approximately \$5.5 million in FY 2009.

Tables 2 and 3 on the following page compare Equalization Aid and total state aid amounts. *Table 2* displays estimated *total* Equalization Aid and State Aid for FY 2009. *Table 3* displays the total *increases* in Equalization Aid and state aid for FY 2009.

Equalization Aid remains a large part of state aid for those districts receiving the monies. Additionally, increases in Equalization Aid represent a large part of the increases in total state aid for those districts. As FTSE levels remain constant, and assessed valuation in rural districts continues to grow, the largest formula funding increase is in Equalization Aid.

This option would require a statutory change. It was also utilized in FY 2003, where aid was capped at FY 2002 levels.

Table 1
Cap Equalization at FY 2008 Level

District	FY 2008	FY 2009 Est.	Cap Savings
Cochise	\$4,669,700	\$6,055,700	\$1,386,000
Graham	13,146,500	15,338,900	2,192,400
Navajo	4,305,200	5,591,800	1,286,600
Yuma/ LaPaz	<u>1,372,400</u>	<u>2,005,000</u>	<u>632,600</u>
Total	\$23,493,800	\$28,991,400	\$5,497,600

Table 2
Equalization vs. Total State Aid FY 2009

District	Equalization	Total State	% of Total
Cochise	\$6,055,700	\$15,770,300	38%
Graham	15,338,900	21,213,500	72%
Navajo	5,591,800	10,487,900	53%
Yuma/ LaPaz	<u>2,005,000</u>	<u>8,626,300</u>	<u>23%</u>
Total	\$28,991,400	\$56,098,000	52%

Table 3
Equalization Increase vs. Total State Aid Increase FY 2009

District	Equalization Increase	Total State Increase	% of Total Increase
Cochise	\$1,386,000	\$1,638,600	85%
Graham ^{1/}	2,192,400	2,186,500	100%
Navajo ^{1/}	1,286,600	1,264,700	102%
Yuma / LaPaz ^{1/}	<u>632,600</u>	<u>606,400</u>	<u>104%</u>
Total	\$5,497,600	\$5,696,200	97%

^{1/} These districts have declining enrollment; therefore, they generate more Equalization Aid than enrollment funding.

Eliminate Tribal College Funding

FY 08 Savings: \$1,944,000
FY 09 Savings: \$1,960,700

A.R.S. § 42-5031.01 provides tribal community colleges with funding for maintenance, renewal, and capital expenses. Laws 2007, Chapter 265 altered this funding to allow any qualifying tribal community college to receive \$1.75 million, or 10% of the Transaction Privilege Tax revenues collected from sources located on Indian reservations, whichever is less. Chapter 265 repealed the statute which limited distribution of these monies to Diné College. As a result, Tohono O’odham is now eligible to receive funding.

Based on projected collections, Diné would continue to be capped at \$1.75 million and Tohono O’odham would receive an estimated \$0.2 million in new funding in FY 2008. Actual amounts will depend on FY 2008 collections. The projected increase in FY 2009 is due to an

estimated 8.6% increase for Tohono based on JLBC FY 2008 forecast for sales tax. This option would eliminate the funding in either FY 2008 or FY 2009 and would require a statutory change.

Rollback Northland Public Safety Funding

FY 08 Savings: \$1,000,000
FY 09 Savings: \$1,000,000

Laws 2007, Chapter 225 appropriated \$1 million from the General Fund in FY 2008 for a public safety facility in the Navajo Community College District. The facility is to be constructed at Northland Pioneer Community College. Additionally, a General Appropriation Act footnote indicated that it was the intent of the Legislature that this funding be continued in FY 2009. This option would eliminate funding for the facility in FY 2008 and FY 2009.

Other Options

Fund No Operating Enrollment Growth in FY 2009

FY 08 Savings: \$0
FY 09 Savings: \$689,000

A.R.S. § 15-1466 provides each community college district with Operating State Aid funding, intended for continuing operating and maintenance expenses. The Operating State Aid formula adjusts state aid in an amount that reflects only growth in the Full Time Student Equivalent (FTSE) enrollment count. For FY 2009, districts with recent enrollment growth would receive an additional \$0.7 million for Operating State Aid based on an increase of 679 FTSE, or 3.2% enrollment growth for those districts who reported increased FTSE numbers.

This option would eliminate enrollment growth funding in FY 2009, and would require a statutory change. Enrollment growth funding is calculated by multiplying the increase in the most recent year’s actual FTSE for each district by the average state aid per FTSE appropriated in the current fiscal year. For FY 2009, the last actual FTSE data was from FY 2007. A district only receives growth funding if its most recent audited FTSE count exceeds its highest audited FTSE count recorded from and after FY 2004. The table below displays estimated Operating State Aid increases by district for FY 2009 apart from this option.

Eliminate FY 2009 Enrollment Increase	
<u>District</u>	<u>Operating</u>
Cochise	\$218,200
Coconino	34,500
Gila	119,700
Graham	--
Maricopa	--
Mohave	21,300
Navajo	--
Pima	--
Pinal	25,400
Yavapai	269,900
Yuma/LaPaz	--
Total	\$689,000

Rollback Out of County Reimbursement Subsidy

FY 08 Savings: \$1,200,000

FY 09 Savings: \$1,200,000

Laws 2007, Chapter 225 provided a total of \$1.2 million in one-time monies from the General Fund for Out of County Reimbursement Subsidy. This funding is provided to partially offset the cost to counties that are not part of an established community college district. The funding is appropriated to Apache, Greenlee, and Santa Cruz Counties. Counties are still responsible for paying the entirety of the reimbursement amount. Of the total \$1.2 million appropriation, Apache received \$0.5 million, Greenlee \$0.5 million, and Santa Cruz \$0.2 million. These monies are used by the counties at their own discretion. This option would eliminate funding for the subsidy in FY 2008 and FY 2009.

Chairmen's Options

Reduce Unfilled Indiana Beds

FY 08 Savings: \$12,637,000

FY 09 Savings: \$12,572,800

Laws 2007, Chapter 255 (General Appropriation Act), appropriates \$91,412,800 to ADC for the Provisional Beds Special Line Item (SLI) in FY 2008. The Provisional Beds SLI includes \$29,514,200 to fund the annual per diem payments for 1,260 medium security provisional beds located at the Newcastle Facility in the State of Indiana. The 1,260 provisional beds are privately-operated, non-permanent, rented beds that serve as an overflow for state-operated beds.

Due to ADC concerns about staffing and program services and an April 24 disturbance at the facility, the department ceased transferring additional inmates to Indiana beyond the 630 (of the 1,260) beds currently occupied. At this time, it is unclear how many, if any, additional inmates will be transferred to the facility. According to news reports, the State of Indiana does not plan to open up any additional housing units to Arizona inmates beyond those currently at the facility due to Indiana's need for the remaining beds. At the current occupancy level, the per diem payments associated with this facility in FY 2008 would total approximately \$14,626,800, resulting in a savings of approximately \$14,887,400. Factoring in the marginal cost incurred by ADC to house the 630 inmates that would have otherwise been housed in Indiana reduces the savings to \$12,637,000.

The annual cost to house 630 inmates at the Indiana facility in FY 2009 totals \$14,716,800. Based on the current appropriation and marginal costs to be incurred by ADC, the FY 2009 savings is estimated to be \$12,572,800.

Rollback FY 2008 Van Pool and Equipment Funding

FY 08 Savings: \$1,900,000

FY 09 Savings: \$1,000,000

Laws 2007, Chapter 255 (General Appropriation Act), appropriates \$1.9 million to ADC for Van

Pool and Equipment replacement in FY 2008. This amount includes \$1 million in ongoing funds for equipment replacement and \$900,000 in one-time funding to replace van pool vehicles. The equipment to be replaced includes motor pool, kitchen, laundry, office, facility and personal security equipment. This option would rollback \$1 million in ongoing funding and \$900,000 in one-time funding in FY 2008, however, the actual amount of savings in FY 2008 is dependent upon how much, if any, of the \$1.9 million the department has expended or encumbered to date. In FY 2009, this option would rollback the \$1 million in ongoing funding.

Lump Sum Reduction

FY 08 Savings: \$2,981,900

FY 09 Savings: \$2,981,900

See Lump Sum Reduction section for any exemptions.

Other Options

Reduce Unused Oklahoma Bed Funding

FY 08 Savings: \$2,134,400

FY 09 Savings: \$0

Laws 2007, Chapter 255 (General Appropriation Act), appropriates \$91,412,800 to ADC for the Provisional Beds Special Line Item (SLI) in FY 2008. These beds are privately-operated, non-permanent, rented beds that serve as an overflow for state-operated beds. In FY 2008, the department received partial year funding of \$30,732,200 for 2,060 new provisional beds, including 720 additional beds at the Diamondback facility in Watonga, Oklahoma and 1,340 beds at the Great Plains facility in Hinton, Oklahoma. These beds were budgeted to be phased-in at 105 per week beginning in July 2007; however, ADC has not phased-in the beds as funded. Through November 30, 2007, the department has accrued a one-time savings of \$2,134,400 in FY 2008 due to deviations in loading the 2,060 provisional beds. The savings could be greater if further delays occur in loading the beds. The annualized cost for all 2,060 beds is estimated to be \$42,279,500.

Revert Unspent FY 2007 Sex Offender GPS
Monitoring Monies

FY 08 Savings: \$634,300

FY 09 Savings: \$0

A.R.S. § 41-1604.08 requires global position system (GPS) monitoring of inmates released on parole, community supervision or other release after being convicted of a dangerous crime against children, specifically sex offenses. In FY 2007, the department was appropriated \$750,000 in non-lapsing (through June 30, 2008) monies for costs associated with GPS monitoring. Of this amount, ADC expended approximately \$115,700 (of the \$750,000) for GPS monitoring of inmates released on parole, community supervision or other release. This option would revert the remaining \$634,300 in unexpended, non-lapsing, monies the department received for the GPS monitoring of inmates in FY 2007. Beyond the unexpended, non-lapsing, monies for FY 2007, the department's base budget includes another \$750,000 for GPS monitoring in FY 2008. The estimated cost to operate the GPS monitoring program in FY 2008 is \$375,000.

On average, approximately 66 offenders were monitored per month in FY 2007, however, the actual number of offenders monitored by month ranged from 9 to 151. In total, the department reports the GPS monitoring of offenders resulted in 36,057 violations, however, information relating to any actions the department took as a result of these violations are unknown. As a result, it is difficult to assess the effectiveness of the program. In addition to the funding received by ADC, the Judiciary also received funding for GPS monitoring of those convicted of sex offenses.

Reduce Unused Sex Offender GPS Monitoring
Monies

FY 08 Savings: \$375,000

FY 09 Savings: \$375,000

A.R.S. § 41-1604.08 requires global position system (GPS) monitoring of inmates released on parole, community supervision or other release after being convicted of a dangerous crime against children, specifically sex offenses. In FY 2008, the department was appropriated \$750,000 for costs associated with GPS monitoring. In addition to these monies, ADC has \$634,300 in unexpended, non-lapsing (through June 30, 2008), monies from FY 2007.

Currently, the department estimates the annual cost to conduct the GPS monitoring program to be \$375,000 through FY 2009. As a result, this option would reduce funding for the program to the department's estimated cost to operate the program, resulting in an annual savings of \$375,000. On average, this level of funding, would allow the department to track up to 85 offenders per day during each fiscal year as the GPS monitoring of offenders is out-sourced to a third party vendor at a cost of \$12 per day, per offender. In September 2007, the department reported tracking an average of 73 offenders per month. In addition to the funding received by ADC, the Judiciary also received funding for GPS monitoring of those convicted of sex offenses.

Chairmen's Options

Rollback FY 2009 County Meth Monies

FY 08 Savings: \$0
FY 09 Savings: \$2,000,000

The FY 2009 budget includes \$2 million from the General Fund to establish grants to counties for methamphetamine interdiction. These monies are appropriated to ACJC, which allocates the monies to counties based on population. Statute requires that these monies be used for increased methamphetamine interdiction efforts, including investigation, training, prosecution, abuse treatment or education. Laws 2006, Chapter 337 established a one-time, non-lapsing FY 2007 appropriation of \$3 million from the General Fund to establish grants to counties for methamphetamine interdiction. As of September 30, 2007, \$2.5 million of the FY 2007 appropriation has been spent; \$2.0 million of the funding has been used to fund the AZ Meth Project, a prevention program, modeled after the Montana Meth Project, whose goal is to reduce first-time methamphetamine use among Arizona youth. The effectiveness of the Arizona Meth Project has not yet been assessed; however the Montana Meth Project had the following effects:

- Decreased Montana from a rank of 5th in the nation for meth abuse to 38th
- Decreased teen meth use by 50%
- Decreased Adult meth use by 70%
- Decreased meth related crime by 53%

The remaining spent monies have been used for school meth education programs, drug task forces, and meth treatment programs. It is anticipated that the FY 2009 appropriation will be used for the continued support of these interdiction efforts.

Rollback FY 2008 Information System Increase

FY 08 Savings: \$900,000
FY 09 Savings: \$800,000

ACJC received a one-time appropriation of \$900,000 in FY 2008 and \$800,000 in FY 2009 to fund enhancements to the Arizona Disposition

Reporting System, a software product that facilitates the movement of criminal justice data submitted by law enforcement through the court system. This funding would allow for more automation of data entry as defendants proceed through the state's judicial system. This background data is stored centrally at the Department of Public Safety. As of September 30, 2007, none of the FY 2008 appropriation has been spent.

Lump Sum Reduction

FY 08 Savings: \$99,400
FY 09 Savings: \$99,400

See Lump Sum Reduction section for any exemptions.

Other Options

Revert Unspent FY 2007 County Meth Monies

FY 08 Savings: \$502,700
FY 09 Savings: \$0

Laws 2006, Chapter 337 included a one-time appropriation of \$3 million from the General Fund to establish grants to counties for methamphetamine interdiction. These monies are appropriated to ACJC, which allocates the monies to counties based on population. Statute requires that these monies be used for increased meth interdiction efforts, including investigation, training, prosecution, abuse treatment or education. In the first quarter of FY 2008, financial expenditures and obligations by the Arizona counties total \$2.5 million. Of this amount, 9 counties spent a total of \$2.0 million on the Arizona Meth Project, a prevention program, modeled after the Montana Meth Project, whose goal is to reduce first-time methamphetamine use among Arizona youth. Maricopa County has taken on the role of project coordinator and has finalized intergovernmental agreements with other counties to use Chapter 337 funding for the project. The effectiveness of the Arizona Meth Project has not yet been assessed; however the Montana Meth Project had the following effects:

- Decreased Montana from a rank of 5th in the nation for meth abuse to 38th
- Decreased teen meth use by 50%
- Decreased Adult meth use by 70%
- Decreased meth related crime by 53%

The remaining \$503,400 of the spent funds was used on school meth education programs, drug task forces, and treatment programs. The remaining unspent funds total \$502,700 and are unencumbered as of the end of the 1st quarter of FY 2008.

Additional monies were not appropriated in FY 2008, but the original appropriation was non-lapsing. In FY 2008, counties will continue to expend their allocations. It has taken a substantial amount of time to develop the advertising campaign associated with the Arizona Meth Project. As a result, participating counties have not spent their allotment of monies.

Chairmen's Options

Eliminate General Assistance Program

FY 08 Savings: \$1,826,400

FY 09 Savings: \$1,954,100

This option would eliminate the state's Temporary Assistance for Needy Families General Assistance Program. The total appropriation in FY 2008 is \$3.1 million. Based on current estimates, however, full-year FY 2008 expenditures are expected to be approximately \$1,851,800. If savings from elimination of this program were to begin on March 1, 2008, this option would result in FY 2008 savings of approximately \$1.8 million, or the amount of the total appropriation less the amount of the estimated expenditures for the first 8 months of the fiscal year. Current estimates of FY 2009 spending for the program are about \$2 million. Eliminating the program would result in savings of that full amount.

This program provides financial assistance to persons who are unemployable because of a physical or mental disability. Eligibility is limited to 12 months out of every 36-month period. The program serves as a "bridge" to Supplemental Security Income (SSI). Laws 2002, Chapter 329, modified the program so that only persons DES expects to qualify for SSI will be eligible to receive General Assistance. Currently, the program funds about 1,300 clients at an average monthly benefit of \$152. Eliminating the program to achieve these savings would require a statutory change.

Rollback FY 2008 Eligibility System Upgrade Increase

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

The FY 2008 budget provided \$1 million General Fund to the DES as part of a \$45 million total fund multi-year information technology upgrade project to replace the current case management/eligibility determination system used by the division for Medicaid, TANF, General Assistance, and other welfare programs. DES' current eligibility systems are as much as 3

decades old. DES is expected to seek \$12.7 million from the General Fund over the project's lifetime. The remaining costs would be covered by non-appropriated federal monies and pass-through monies from AHCCCS. DES has expended approximately \$65,000 on this project as of November 7, 2007.

Rollback FY 2008 Document Management Increase

FY 08 Savings: \$500,000

FY 09 Savings: \$500,000

These monies are part of a \$5 million Total Fund multi-year project to implement an agencywide electronic document management system. Currently, much of the agency's work is paper-intensive. DES has been piloting an electronic document management system in its Family Assistance programs in Maricopa County; the U.S. Department of Agriculture encouraged expansion of the initiative in a recent review.

DES is expected to seek \$2.2 million from the General Fund over the project's lifetime, with remaining monies provided by non-appropriated Federal Funds. In FY 2008, the money expands the existing pilot program in Maricopa County to the Food Stamp program statewide, and future year funding would expand the program to the rest of the agency. As of November 7, 2007, approximately \$75,000 had been expended from this appropriation.

Reduce Unused Healthy Families Funding

FY 08 Savings: \$3,000,000

FY 09 Savings: \$3,000,000

This option would reduce the unused portion of the FY 2008 General Fund appropriation for the Healthy Families program to reflect actual spending levels. The Healthy Families program provides contracted services to children less than 5 years of age and members of their families and is designed to prevent child abuse or neglect and promote child development and wellness.

In both FY 2006 and FY 2007, the program was appropriated \$13.8 million but only used \$10.8 million. After this reduction, funding for this

program would total \$10.8 million and the program would serve approximately 4,250 clients.

Rollback FY 2008 Independent Living Stipend Increase

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

The budget provided a \$1 million General Fund increase to DES in FY 2008 to increase the monthly stipend provided to about 320 former foster youth between 18 and 21 now living independently and either employed or enrolled in a postsecondary program. The increase raised the stipend from \$558 to \$795. In addition to the \$1 million increase, the FY 2008 budget also provided 2 case managers and \$0.1 million from the General Fund in the Commission for Postsecondary Education to work with existing DES case managers in providing education resources for these youth. As of November 7, 2007, DES has spent approximately \$311,000. Eliminating the increase would not require a permanent statutory formula change.

Rollback Joint Substance Abuse Increase

FY 08 Savings: \$2,000,000

FY 09 Savings: \$2,000,000

This option would rollback the \$2 million in additional permanent General Fund monies appropriated to the Joint Substance Abuse Treatment Fund (JSATF) in FY 2008. Monies in the fund pay for services for parents, guardians, or custodians whose substance abuse is a significant barrier to preserving the family. The monies also pay for services to recipients of Temporary Assistance for Needy Families (TANF) monies whose substance abuse is a significant barrier to maintaining or obtaining employment.

The FY 2007 budget increased General Fund support for the program from \$3 million to \$5 million. This adjustment was labeled as one-time. The Legislature decided to retain the \$2 million General Fund increase in the FY 2008 budget. Removing the additional \$2 million General Fund appropriation would remove funding to serve about 800 individuals. After this reduction, the appropriation to JSATF would total \$5 million, \$3 million from the General Fund and \$2 million from the federal TANF Block Grant, and would serve approximately 2,000 clients.

Eliminate Summer Youth Employment and Training

FY 08 Savings: \$1,250,000

FY 09 Savings: \$1,250,000

The Summer Youth Employment and Training Program received \$1.25 million in FY 2008, up from \$1 million in FY 2007. The program is intended for at-risk youth. These monies are distributed directly to city and county governments according to statute and they supplement federal Workforce Investment Act (WIA) monies. Funding for this program was eliminated in FY 2006 and reinstated in FY 2007. The counties and cities receiving the money do not report service figures to DES. DES distributed these FY 2008 funds to the local governments in July 2007. The table below shows the funding distribution per the formula in A.R.S. § 11-1042.

Summer Youth Employment and Training Allocations		
<u>Locality</u>	<u>FY 2007</u>	<u>FY 2008</u>
Maricopa County	\$ 175,000	\$ 218,750
Phoenix	235,000	293,750
Mesa	115,000	143,750
Pima County	275,000	343,750
All other counties (by population)	<u>200,000</u>	<u>250,000</u>
Total	\$1,000,000	\$1,250,000

Rollback FY 2008 Visually Impaired Services Increase

FY 08 Savings: \$500,000

FY 09 Savings: \$500,000

These monies assist severely disabled individuals in living more independently by purchasing technology assistance, adaptive aids and devices, home modifications, and independent living skills training. In FY 2008, it was estimated to provide independent living services to 9,100 clients, provide 10,900 eye exams and 7,300 pairs of glasses. The option would reduce funding for the Independent Living Rehabilitation Services line item to FY 2007 levels of \$2.5 million. At the time of appropriation and at then-current costs, the FY 2007 appropriation was estimated to provide services to about 7,600 clients, 9,200 eye exams, and 6,100 pairs of glasses.

Rollback FY 2008 Respite Care Increase

FY 08 Savings: \$500,000
FY 09 Savings: \$500,000

The FY 2008 budget added \$500,000 and 1 FTE Position from the General Fund in for a new Lifespan Respite Care program. Respite care is short-term care and supervision services that are provided to an individual to relieve the individual’s caregiver. The services in this program are provided to children or adults with special needs who do not currently qualify for other publicly funded respite services. We are awaiting information on any year-to-date expenditures.

Lump Sum Reduction

FY 08 Savings: \$47,055,200
FY 09 Savings: \$47,055,200

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Adult Services Increase

FY 08 Savings: \$1,500,000
FY 09 Savings: \$1,500,000

The FY 2008 budget provided an additional increase of \$1.4 million from the General Fund for Independent Living Support which will allow an additional 600 individuals to receive home care services. The FY 2008 budget also provided an increase of \$121,600 and 1 FTE Position to hire a Director for the state’s Long Term Care Ombudsman program.

Rollback Backfill for Child Support Enforcement

FY 08 Savings: \$3,141,300
FY 09 Savings: \$3,141,300

The FY 2008 budget provided an increase of \$3.1 million from the General Fund in FY 2008 to backfill lost Federal Funds associated with the passage of the federal Deficit Reduction Act of 2005 (DRA). As of October 1, 2007, federal incentive payments can no longer be used as a source of state matching funds to draw down federal child support monies. The federal monies received by DCSE generally match state funds

at a ratio of 66% federal to 34% state. Elimination of this appropriation produces a total savings of \$3.1 million, but would prevent the state from receiving approximately \$6.1 million in federal matching funds.

A footnote in the FY 2007 General Appropriation Act authorized DES to use revenues in excess of the appropriated monies deposited into the Child Support Enforcement Administration (CSEA) Fund toward operating expenditures. Programs that were scheduled to receive the additional CSEA monies were begun in early FY 2007 or late FY 2006, suggesting that it was known during the budget process for FY 2008 that further funds would be available. However, DES did not notify the Legislature of revenues of approximately \$3 million until after the backfill was appropriated, even though the monies could have been used to offset the cost to the General Fund.

General Assistance Caseload Savings

FY 08 Savings: \$1,209,200
FY 09 Savings: \$0

This program provides financial assistance to persons who are unemployable because of a physical or mental disability. Eligibility is limited to 12 months out of every 36-month period. The program serves as a “bridge” to Supplemental Security Income (SSI). Laws 2002, Chapter 329 modified the program so that only persons DES expects to qualify for SSI will be eligible to receive General Assistance. Currently, the program funds about 1,300 clients at an average monthly benefit of \$152.

The FY 2008 appropriation of \$3.1 million was based on paying a monthly benefit of \$154 to 2,440 clients (with offsetting SSI payments), which was based on estimated FY 2007 caseloads. Actual FY 2007 caseloads were much lower, and as a result, the estimated average monthly caseload for FY 2008 is 1,422. This caseload amount will result in expenditures \$1.2 million below the FY 2008 appropriation.

These savings have already been incorporated into the FY 2009 JLBC Baseline.

TANF Cash Benefits Caseload Decline

FY 08 Savings: \$2,978,900

FY 09 Savings: \$0

Monies in this program provide financial assistance on a temporary basis to dependent children in their homes or in the homes of responsible caretaker relatives. The FY 2008 appropriation of \$125.1 million was estimated to serve 84,700 recipients at an average benefit of \$122.58 per month. TANF caseloads actually had declined to 78,876 by June 2007, however. Estimating 5.8% annualized caseload growth for the rest of FY 2008 results in estimated expenditures of \$122.2 million for a savings of \$3 million in FY 2008. If the caseload grows at 5.8% during FY 2009, the program would require \$131.5 million in FY 2009.

If caseloads grow at an annualized rate of 12.5% instead of 5.8% during the remainder of the fiscal year, there would be no available TANF savings. During the economic downturn of FY 2001 to FY 2004, caseloads increased by 45.6% in 26 months, or 21% on an annualized basis.

These savings have already been incorporated into the FY 2009 JLBC Baseline.

Rollback FY 2008 Children Services Backfill

FY 08 Savings: \$13,530,800

FY 09 Savings: \$13,530,800

The FY 2008 budget provided \$13.5 million to backfill costs previously covered by federal monies that were eliminated by the Federal Deficit Reduction Act (DRA). This represents 8% of the budget in the relevant line items in the Division of Children, Youth and Families budget, and 2.7% of the overall division budget, including Federal Funds. From FY 2006 to FY 2007, Federal Funds increased by \$5.6 million.

The DRA eliminated the federal reimbursement of Child Protective Services (CPS) administrative costs associated with unlicensed relative foster care placements. DES estimates that 2,800 children are eligible for federal participation under Title IV-E but are in unlicensed relative placements. Under the DRA, these children are no longer eligible for federal reimbursement of DES CPS and relative administrative costs. These costs include CPS caseworkers, Attorney General legal expenses, training for staff and foster

families, and a proportionate share of total agency administration.

Reduce Childcare Eligibility to 145% FPL

FY 08 Savings: \$3,287,900

FY 09 Savings: \$9,863,600

The state's child care program helps eligible families pay a portion of child care costs when parents or children partake in DES eligible activities. This option would eliminate subsidies to families above 145% of the Federal Poverty Level (FPL). Currently, families at 165% FPL are eligible to receive child care subsidies. A family of 4 at 145% FPL makes \$29,900 annually, while a family of 4 at 165% FPL earns \$34,000.

This option would eliminate services to about 3,200 children receiving \$260 each in subsidies monthly. The median cost for child care for 3 to 5 year olds, according to the 2006 Child Care Market Rate Survey, is \$28 per day, or approximately \$588 per month. Implementing this change on March 1, 2008 would result in savings of about \$3.3 million. In FY 2009, the full year's savings would be \$9.9 million.

The state's child care program received \$198.5 million for child care subsidies and quality set-aside activities in FY 2008, \$84.5 million of which is from the General Fund.

Chairmen's Options

Payment Restructuring (Permanent Rollover)

FY 08 Savings: \$0

FY 09 Savings: \$300,000,000

This option would permanently reschedule the last Basic State Aid payment to school districts starting in FY 2009, so that it would occur on July 1 of the subsequent fiscal year rather than June 15 of the current fiscal year. This would defer approximately \$300 million in FY 2009 Basic State Aid costs to FY 2010. The option differs from past "K-12 Rollovers" because it would permanently change the payment schedule in A.R.S. § 15-973 instead of notwithstanding it on a temporary basis. It therefore would permanently shift forward by 2 weeks (to July 1) the K-12 state aid payment that currently is due on June 15. This would eliminate the need for 13 payments to be made in a subsequent fiscal year in order to restore the current payment schedule, as that schedule would no longer apply. In FY 2006, for example, \$191 million was added to that year's budget for a second June payment (13th payment for the year) to pay off an existing rollover and restore the current statutory payment schedule. That 13th payment would not have been required under this option.

The option, however, would still require approximately \$300 million to be added to the FY 2010 budget. This increase would fund the July 1st obligation from the prior fiscal year plus 11 new payments. In comparison, only 11 months of payments would have been funded under the option during FY 2009. This \$300 million amount would be in addition to normal Basic State Aid cost increases for enrollment growth and inflation, which typically average about \$200 million per year. The estimated \$300 million savings for this option for FY 2009 equals approximately 1/12th of the total estimated General Fund cost of Basic State Aid for school districts for FY 2009.

This option assumes that the rollover would be implemented in FY 2009 in order to help balance the FY 2009 budget by deferring the last FY 2009 Basic State Aid payment to FY 2010. It could instead be implemented in FY 2008 to help

balance the FY 2008 budget by deferring the last FY 2008 Basic State Aid payment to FY 2009. The latter option, however, would make a potential FY 2009 deficit worse because the amount rolled over from FY 2008 would have to be added to the FY 2009 budget in addition to 11 months worth of new payments in FY 2009.

If a school district has insufficient late-June fund balances, it may have to issue warrants (essentially short-term loans) during the last 2 weeks of each fiscal year in order to cover costs that otherwise would be funded with the rescheduled monies. This would cause it to incur 2 weeks worth of interest costs each year on those warrants. We believe that the use of warrants has been minimal, at best, during prior rollovers. The estimated interest cost if school districts statewide issued \$300 million in warrants each year for 2 weeks at an assumed 5% interest rate, however, is \$576,900. A.R.S. § 15-910(M) would permit school districts to fund this cost with local property tax revenues.

Charter schools do not have authority to issue warrants and are excluded from this option. Including charter schools would increase the estimated savings by about 10%, to roughly \$330 million.

A K-12 rollover of \$191 million was included in the FY 2003 budget. As noted above, that rollover was paid off in FY 2006.

No 2% Inflation for FY 2009 (except transportation)

FY 08 Savings: \$0

FY 09 Savings: \$100,724,400

This option would keep unchanged for FY 2009 the K-12 per pupil "base level" defined in A.R.S. §15-901(B)(2), but increase by 2% the transportation "route mile" funding levels established in A.R.S. §15-945 and charter school additional assistance funding levels established in A.R.S. §15-185(B)(4). It would save an estimated \$100,724,400 relative to the cost of increasing base level, route mile and charter school additional assistance funding all by 2% for FY 2009, which is estimated at \$108,036,400. Increasing only route mile and additional assistance funding by 2% is estimated to cost \$7,312,000.

A.R.S. §15-901.01 (as enacted by Proposition 301 from the November 2000 General Election) requires “the base level or other components of the revenue control limit” to be increased each year for inflation (*please see below*). Differing legal opinions have existed regarding the interpretation of that phrase since it became law. In October 2001, Legislative Council opined that it required the Legislature to increase *either* the base level or route mile funding rates each year. In November 2001, however, the Attorney General opined that it required *both* items to be increased annually. Since FY 2002 (the first year of implementation for Proposition 301), both the base level and route mile funding rates have been increased each year by at least 2%. Charter school additional assistance funding levels also have been increased by at least 2% annually since FY 2002.

15-901.01. Inflation adjustments

If approved by the qualified electors voting at a statewide general election, for fiscal years 2001-2002 through 2005-2006, the legislature shall increase the base level or other components of the revenue control limit by two per cent. For fiscal year 2006-2007 and each fiscal year thereafter, the legislature shall increase the base level or other components of the revenue control limit by a minimum growth rate of either two per cent or the change in the GDP price deflator, as defined in section 41-563, from the second preceding calendar year to the calendar year immediately preceding the budget year, whichever is less, except that the base level shall never be reduced below the base level established for fiscal year 2001-2002.

Cap TAPBI Program

FY 08 Savings: \$0

FY 09 Savings: \$2,725,000

The Technology Assisted Project Based Instruction (TAPBI) program seeks to improve student achievement through expanded use of on-line K-12 coursework. Students who take TAPBI courses do so either from home using the Internet or from computers located in traditional classrooms. In either case, their host site includes them in its Average Daily Membership (ADM) count, which generates funding for them under the same Basic State Aid formula that is used to fund public school pupils in general. TAPBI students who would attend public schools even without the program do not increase statewide

Basic State Aid costs. Home school and private school pupils who enroll in TAPBI, however, do increase those costs because they would not be included in their host site's funded ADM count apart from the program.

This option would cap TAPBI participation by current non-public school pupils during FY 2009 at the FY 2008 level. It would result in an estimated savings of \$2.7 million in FY 2009, as described below.

Under current law, up to 20% of new TAPBI students each year can come from outside of the public school system (A.R.S. § 15-808, Subsection B). Data on the actual percentage of TAPBI participants who come from outside of public schools are not available. For FY 2007, however, the 14 existing TAPBI sites collectively added 2,916 Average Daily Membership (ADM) pupils statewide according to current ADE data. If 20% of those pupils (the maximum allowable percentage) came from outside the public school system, they would have accounted for 583 of the 2,916 new students ($2,916 \times 20\% = 583$) that year. This option assumes that TAPBI sites in FY 2009 would collectively add 500 new ADM pupils from outside of public schools. If so, capping enrollment of such pupil in TAPBI programs for FY 2009 would save an estimated \$2.7 million in K-12 formula costs (500 “non-public school” ADM increase \times \$5,450 estimated average formula cost per pupil = \$2.7 million).

Two school districts and 2 charter schools have participated in TAPBI since 1998: Deer Valley Unified, Mesa Unified, Sequoia Choice (Arizona Distance Learning) and Arizona Virtual Academy (formerly part of PPEP TEC charter school). The program added 10 additional school districts and charter schools (5 each) in FY 2004 due to a program expansion authorized by Laws 2003, Chapter 241. No change in program participants has occurred since FY 2004.

An October 2007 Auditor General report indicates that the program was over funded by \$6.4 million in FY 2006 because funding for individual students who attend both a TAPBI and non-TAPBI site is not being prorated between the 2 sites. Recapturing those monies, however, does not appear to be feasible at the present time because the audit also indicates that “ADE's computer system cannot perform the (prorated) allocation.”

Cap JTED State Aid at FY 2008 Level

FY 08 Savings: \$0

FY 09 Savings: \$7,566,900

Joint Technological Education Districts (JTEDs) will receive an estimated \$75.8 million in state aid for FY 2008 under current ADE estimates. That total includes the impact of funding state aid for JTEDs at 91.8% for FY 2008, as required on a one-year basis by the K-12 Education BRB for FY 2008. For FY 2009, the JLBC Staff currently estimates that fully funding state aid for JTEDs would cost approximately \$83.4 million, or \$7.6 million more than the adjusted FY 2008 amount. Capping JTED state aid in FY 2009 at the FY 2008 level therefore would forego an estimated \$7.6 million increase in JTED formula costs for FY 2009 under current law.

The \$7.6 million savings estimate assumes that no additional JTEDs would begin operating in FY 2009 and that existing JTEDs would experience 3% average enrollment growth, a 2% increase in per pupil funding, and 13% growth in local property tax funding for FY 2009 apart from this option.

Phase Out Career Ladder Program

FY 08 Savings: \$0

FY 09 Savings: \$6,200,000

This option would phase out Career Ladder funding over 8 years by reducing program funding by approximately 12% per year from FY 2009 through FY 2016. The option assumes that about 12% of Career Ladder teachers leave the profession each year based on national teacher turnover rate data. It therefore is intended to eliminate program funding primarily through attrition. The estimated first-year state savings of the option is \$6.2 million, which would equal approximately 12% of the \$49.4 million projected state cost of the program for FY 2009 under current law. Local property taxes for Career Ladder programs also would decrease by 12% under the option relative to current law, for an estimated local property tax savings of \$4.9 million in FY 2009. (Apart from the option, local property taxes would generate an estimated \$38.8 million in funding for Career Ladder programs in FY 2009.)

The Career Ladder program provides additional state and local funding to participating school

districts in order to provide their teachers with opportunities for professional advancement based on performance. Districts that participate in the program receive 5.5% more "base level" funding than non-participants, but are required to increase their "Qualifying Tax Rate" by 22 cents (to \$3.42 per \$100 of net assessed value for FY 2008) in order to help fund the program with local property taxes. A total of 28 school districts currently participate in the program. The program has been closed to new participants since FY 1994.

Phase Out "Teacher Experience Index"

FY 08 Savings: \$0

FY 09 Savings: \$8,112,600

The "Teacher Experience Index" (TEI) is a "weight" in the Basic State Aid formula that provides higher per pupil funding for school districts whose teachers as a whole have more years of experience than the statewide average. This option would phase out the index over 8 years. The lowest effective TEI is "1.0," so that districts with below average years of teacher experience do not lose money (otherwise their TEI's would be less than the statewide average of 1.0, which would give them a "negative" weight). The estimated statewide cost of the TEI for FY 2009 is \$64,900,900 and the estimated first-year savings for this option equals 1/8th of that total, or \$8,112,600. The latter estimate assumes that about 1/8th (12%) of existing teachers statewide would retire or otherwise cease employment at their current school district in FY 2009 based on national teacher turnover rate data.

Eliminate Remaining 50% of Rapid Decline

FY 08 Savings: \$0

FY 09 Savings: \$1,500,000

Basic State Aid funding for most school districts is based on their Average Daily Membership (ADM) counts from either the current or prior school year (whichever is higher). School districts that lose more than 5% of their ADM count in a given year, however, may instead base their funding on adjusted ADM counts from 2 years prior, which gives them more funding. This additional funding is called "Rapid Decline" and is authorized by A.R.S. § 15-942. The General Appropriation Act for FY 2008 funds Rapid Decline at 50% for an estimate savings of \$1.5

million. This option would eliminate the remaining 50% of Rapid Decline funding starting in FY 2009, for an additional \$1.5 million savings.

Typically 40 to 50 school districts qualify for Rapid Decline funding in any given fiscal year, although the mix of eligible districts varies. The amount of funding received per district tends to be small. In FY 2007, for example, only 4 of 43 qualifying districts received more than \$100,000 in Rapid Decline funding. Those districts were Colorado City Unified, Tanque Verde Unified, Tuba City Unified and the Maricopa County Regional District.

Student Count and QTR Savings

FY 08 Savings: \$30,000,000

FY 09 Savings: \$0

The K-12 Basic State Aid program is currently projected to have a surplus of approximately \$65 million for FY 2008 due to lower than projected enrollment growth and higher than projected Qualifying Tax Rate (QTR) revenues for FY 2008. This option would utilize \$30 million of that total as a budget option with the remaining \$35 million being reflected in the statewide revertment estimate for FY 2008. The estimated \$65 million total includes \$46 million from lower than projected student count growth and \$19 million from higher than projected QTR revenues for FY 2008.

The estimated \$46 million savings from student counts includes \$29 million from lower than budgeted district enrollment growth in FY 2007 (which affects formula costs in FY 2008) and \$17 million from lower than budgeted charter enrollment growth in FY 2008. Preliminary FY 2008 enrollment data are available only for charter schools at this time, as only charters are funded based on current year data only. Preliminary FY 2008 counts for school districts will not become available until at least March 2008.

The possible \$30 million savings from this issue could be realized by reducing the FY 2008 Basic State Aid appropriation by \$30 million. If not ex-appropriated, these monies could be transferred by ADE to other programs.

The \$65 million total projected savings for this issue would continue for FY 2009, as they would permanently lower baseline costs for Basic State Aid. Those savings, however, have already been

accounted for in the current JLBC Baseline for ADE for FY 2009.

Desegregation Hard Cap

FY 08 Savings: \$0

FY 09 Savings: \$785,000

This option would cap K-12 desegregation spending in FY 2009 at the FY 2008 level of approximately \$207.7 million statewide. Apart from a "hard cap," desegregation spending would be expected to grow by about \$6.1 million in FY 2009 (same as in FY 2008) under the existing session law "soft cap," which permits funding increases for enrollment growth and inflation. Under the current "soft cap," the state would fund about \$785,000 of the estimated \$6.1 million increase in FY 2009 through the Homeowner's Rebate (\$6.1 million increase X 33% funded with homeowner property taxes X 39% homeowner's rebate = \$785,000). That \$785,000 cost would be avoided under the option, resulting in a state savings.

The Homeowner's Rebate is authorized under A.R.S. § 15-972, which requires the state to pay a portion of homeowner's primary property taxes for schools. Desegregation programs are funded with primary property taxes, so qualify for Homeowner's Rebate funding.

Rollback FY 2008 Teacher Training Increase

FY 08 Savings: \$2,000,000

FY 09 Savings: \$2,000,000

Laws 2006, Chapter 350 provided \$1 million from the General Fund in FY 2007 to fund a new "Teacher Training" program and required the department to distribute the monies to the Arizona K-12 Center for use in providing teacher mentor programs. (The Arizona K-12 Center is affiliated with Northern Arizona University and is located in downtown Phoenix.) The FY 2008 budget provides a \$2 million increase for the program, providing it with \$3 million total for the year. The additional funding for FY 2008 is intended to increase the number of mentor teachers serving under the program. This option would rollback the FY 2008 increase, returning the program to its FY 2007 funding level of \$1 million.

Program monies are primarily used to hire substitute teachers for participants, so they can

have release time for mentoring activities and related training. A portion also is used for training costs and for mentor stipends. Detailed information on program expenditures, however, is not currently available.

Rollback FY 2008 Math or Science Initiative Increase

FY 08 Savings: \$2,500,000
FY 09 Savings: \$2,500,000

The General Appropriation Act for FY 2008 provided \$2.5 million in first-time funding from the General Fund in FY 2008 for a new "Math or Science Initiatives" program. The purpose of the program is "to promote improved pupil achievement in mathematics or science by providing supplemental funding for innovative mathematics or science programs" (A.R.S. §15-720.01, Subsection A). A.R.S. § 15-720.01 requires the State Board of Education to develop application procedures, selection criteria and minimum performance standards for the program. As of late December 2007, State Board of Education staff indicate that the FY 2008 monies have not yet been allocated, but anticipate that they will be allocated early in 2008.

Lump Sum Reduction

FY 08 Savings: \$9,935,400
FY 09 Savings: \$9,935,400

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Kindergarten Group B Weight Increase

FY 08 Savings: \$0
FY 09 Savings: \$80,000,000

Laws 2006, Chapter 353 established a new Kindergarten "Group B" weight in A.R.S. § 15-943. The new weight was set at 0.835 for FY 2007 and 1.352 for FY 2008 and subsequent years. This option would roll back the FY 2008 weight increase starting in FY 2009, which would reduce General Fund costs in FY 2009 by approximately \$80.0 million.

Funding generated by Group B weights is unrestricted in nature, so monies generated by the Kindergarten weight do not have to be spent on Kindergarteners. Districts that wish to use Kindergarten Group B weight monies to fund voluntary full-day Kindergarten, however, may do so pursuant to A.R.S. § 15-901.02.

A.R.S. § 15-943 would have to be amended in order to implement this option.

Rollback FY 2008 Discretionary Inflation

FY 08 Savings: \$15,333,300
FY 09 Savings: \$47,380,000

This option would permanently roll back the \$46 million (approximately 1%) discretionary "base level" increase that was included in the FY 2008 budget. That increase was provided in addition to the 2% increase required by A.R.S. § 15-901.01 (*see language below*), so was discretionary in nature. The savings from this option is estimated at \$15.3 million in FY 2008 (\$46 million X 33% (for last 4 months of fiscal year only) = \$15.3 million) and \$47.4 million in FY 2009 (\$46 million X 1.03 adjustment for FY 2009 enrollment growth = \$47.4 million).

The \$46 million appropriation funded an additional 1% (rounded from 0.98%) "base level" increase in FY 2008. That additional 1% increase, plus the 2% "base level" adjustment provided for Proposition 301 inflation, resulted in a net "base level" increase of 3% (rounded from 2.98%) in FY 2008. This option would reduce the net FY 2008 "base level" increase to approximately 2.65%.

The FY 2008 "base level" amount of \$3,226.88 (which reflected the 3% increase) was established in the K-12 Budget Reconciliation Bill (Laws 2007, Chapter 264, Section 7). That bill would have to be amended in order to implement this option.

15-901.01. Inflation adjustments

If approved by the qualified electors voting at a statewide general election, for fiscal years 2001-2002 through 2005-2006, the legislature shall increase the base level or other components of the revenue control limit by two per cent. For fiscal year 2006-2007 and each fiscal year thereafter, the legislature shall increase the base level or other components of the revenue control limit by a minimum growth rate of either

two per cent or the change in the GDP price deflator, as defined in section 41-563, from the second preceding calendar year to the calendar year immediately preceding the budget year, whichever is less, except that the base level shall never be reduced below the base level established for fiscal year 2001-2002.

Fund 140 Day Enrollment Count

FY 08 Savings: \$0

FY 09 Savings: \$--

The Basic State Aid formula currently is funded based on "Average Daily Membership" (ADM) counts through the first 100 days of the school year. This option instead would fund Basic State Aid on 140 day ADM counts. This would be expected to reduce statewide Basic State Aid costs because students who drop out of school after the 100th day would no longer receive full-year funding. The savings from this option is unknown, as data that compare ADM counts for 140 versus 100 days are not available.

A footnote in the General Appropriation Act for FY 2006 required ADE to provide a report by February 1, 2007 comparing the ADM count of each school district and charter school in the state through the first 100 and 140 days of the 2005-2006 school year. ADE has submitted some 140 day counts, but the report appears to have significant data problems.

Elementary schools (which typically grow through the end of a school year) would tend to receive more funding under this option, but high school districts generally would receive less. This is because high school ADM counts tend to decline through the end of a school year. Funding results would be mixed for "unified" districts, which serve both K-8 and high school pupils.

Rollback FY 2008 Reading First Initiative Increase

FY 08 Savings: \$1,000,000

FY 09 Savings: \$0

The K-12 Education BRB for FY 2008 provided \$1 million in first-time funding from the General Fund in FY 2008 for a new "Reading First Initiative" program. The Arizona Department of Education is required to distribute the monies as grants to schools for expanding the Reading First program authorized under the federal No Child Left

Behind Act of 2001. The federal Reading First program seeks to ensure that every Arizona child will learn to read proficiently by third grade and remain a proficient reader through the twelfth grade.

ADE indicates that 12 school districts have applied for and received \$82,000 apiece for the program for FY 2008, for total pass-through funding of \$984,000. ADE reports that the remaining \$16,000 is for technical assistance and that a contract has been issued for those services.

Rollback FY 2008 Technology Grants Increase

FY 08 Savings: \$1,000,000

FY 09 Savings: \$0

The K-12 Education BRB for FY 2008 provided \$1 million in one-time funding from the General Fund in FY 2008 for a new "Technology Grants" program. It also requires the State Board of Education, in collaboration with the Department of Education, to establish an instructional technology systems pilot program under parameters specified in A.R.S. § 15-901.04, as established by the bill. A.R.S. § 15-901.04 requires the Department of Education to select one school that provides instruction in any combination of Kindergarten programs and Grades 1-8 to participate in the program, after review and approval by the State Board of Education. It also specifies that program monies shall be used to significantly increase academic performance at the pilot site through an upgrading of instructional technology systems and through teacher training on the use of those technologies.

The State Board of Education (SBE) approved the application process for the program in late October 2007 and schools have until mid-January 2008 to apply for the grant. The SBE is expected to award the grant at either its January 28 or February 25, 2008 meeting.

Revert Unspent FY 2007 Information Technology Monies

FY 08 Savings: \$2,500,000

FY 09 Savings: \$0

The General Appropriation Act (GAA) for FY 2007 provided \$2.5 million in one-time monies from the General Fund (non-lapsing through FY 2008) to

improve access to currently-collected K-12 education data. Footnotes in the FY 2007 GAA stipulated that 1) the monies were not to be used to expand data collection or hire additional staff and 2) ADE was required to present to the JLBC a timeline for project implementation (which it did at the November 2007 JLBC meeting). ADE spent only \$6,300 on the program during FY 2007, so virtually all of the \$2.5 million appropriation carried forward into FY 2008. The program did not receive additional funding in the FY 2008 budget. ADE anticipates that "Phase I" of the "Education Data Warehouse" will be operational by January 2008. "Phase I" will provide access to "student level" data only. ADE is expected to request funding to implement "Phases II & III" of the project in FY 2009, which would add teacher and course level data to the data warehouse.

Revert Unspent FY 2007 E-Learning Pilot Monies

FY 08 Savings: \$2,800,000

FY 09 Savings: \$0

Laws 2006, Chapter 375 provided \$3.0 million in one-time monies from the General Fund (non-lapsing with no ending date) to fund a 3-year eLearning pilot program focusing on mathematics instruction provided through a digital curriculum. Chapter 375 also established an eLearning task force and required it to submit an actionable request for proposals by December 15, 2006 to begin operating the pilot program in FY 2008. That deadline was not met, but the K-12 Education BRB for FY 2008 extended all program deadlines by one year, so the pilot program is now expected to begin in FY 2009 rather than FY 2008. ADE reports that only \$2,700 in program monies were spent in FY 2007, so virtually all of the original \$3.0 million appropriation remains available for use in FY 2008 and future years. The K-12 Education BRB allows program monies to be spent through FY 2011. The FY 2008 budget continues the original \$3.0 million one-time appropriation, but does not provide additional funding. ADE is permitted to spend 5% of program monies on administration.

On August 22, 2007, the Information Technology Authorization Committee (ITAC) gave the Project Investment Justification (PIJ) for the program an "Approval with Conditions," with the condition being only that ADE amend the PIJ if the best and final cost exceeded the PIJ estimate by

more than 10%. The PIJ proposes project expenditures of \$30,000 in FY 2007, \$180,000 in FY 2008, \$1,949,300 in FY 2009 and \$418,700 in both FY 2010 & FY 2011, for a total cost of \$2,996,700.

This budget option assumes that only planning monies would be spent through FY 2008. In FY 2009, the PIJ anticipates that approximately \$1.5 million would be spent to purchase 1,200 notebook computers and that a 3-year contract for ongoing project costs would begin at an estimated annual cost of \$360,000.

Laws 2006, Chapter 375 required JLBC review of both the draft Request for Proposals (RFP) for the project and also its final contract. The JLBC gave the draft RFP for the project a favorable review on September 20, 2007. As of late December 2007, ADE indicates that it plans to submit the final contract for JLBC review early in 2008.

Eliminate Alternative Teacher Development Funding

FY 08 Savings: \$1,000,000

FY 09 Savings: \$0

Laws 2006, Chapter 359 provided \$2.0 million in one-time funding from the General Fund in FY 2007 to establish an alternative teacher development program in order to accelerate the placement of highly qualified teachers in low income schools. For FY 2008, the program received \$1.0 million in one-time funding from the General Fund through the General Appropriation Act. Based on requirements stipulated in A.R.S. § 15-552, as established by Chapter 359, the Arizona Department of Education (ADE) awarded both FY 2007 and FY 2008 funding for the program to Teach America, which is a non-profit organization that was established nationally in 1990 and in Arizona in 1994. The program is also supported with private donations.

In FY 2007, approximately 170 Teacher America members taught in Arizona schools, serving about 14,500 students in schools in the Phoenix area. Program funding is used to defray the cost of teacher training, recruiting and other fees. Detailed information on program expenditures is not currently available.

Department of Environmental Quality

Chairmen's Options

Set WQARF at \$10 Million

FY 08 Savings: \$5,000,000

FY 09 Savings: \$5,000,000

This option would reduce the annual transfer to the Water Quality Assurance Revolving Fund (WQARF) from the Corporate Income Tax (CIT). A.R.S. § 49-282 sets this transfer at \$15 million annually, but session law lowered this amount to \$10 million from FY 2002 through FY 2005 and \$11 million for FY 2006. In FY 2007, WQARF funding was restored to the full level required by statute. The \$15 million funding level has been continued for FY 2008 and FY 2009. This \$5 million option would set the funding level at \$10 million again.

The WQARF program is designed to monitor and remediate contaminated groundwater at specific sites. The majority of its funding comes from the transfer of CIT monies. The WQARF registry lists 35 contaminated sites, all of which were investigated and had Potential Responsible Party (PRP) searches in FY 2007. The Department of Environmental Quality (DEQ) reports that remediation was carried out at 17 sites in 2007, with 11 of the sites progressing on the path from site identification to delisting. It is unclear to what degree this process was accelerated by the restoration of full funding to the program. In FY 2007, the program received \$6.6 million in fees and other revenue in addition to the \$15 million CIT transfer. Actual program expenditures in FY 2007 totaled \$16.5 million, with a carry forward into FY 2008 of \$11.9 million.

Rollback FY 2008 Surface Water Permitting Increase

FY 08 Savings: \$530,500

FY 09 Savings: \$530,500

This option would reduce surface water staffing to its FY 2007 level. DEQ was appropriated an increase of \$530,500 and 8 FTE Positions from the General Fund in FY 2008 and FY 2009 for additional surface water permit staff.

Surface water permits are issued to wastewater treatment plants and municipal storm water

systems as part of the Arizona Pollution Discharge Elimination System. The recent increase in funding was designed to allow DEQ to reduce the time needed to issue permits and to increase the inspection rate for the 7,000 permit sites in the state. We are awaiting information on any year-to-date expenditures.

Lump Sum Reduction

FY 08 Savings: \$1,744,900

FY 09 Savings: \$1,744,900

See Lump Sum Reduction section for any exemptions.

Government Information Technology Agency

Chairmen's Options

Eliminate Arizona E-Health Initiative

FY 08 Savings: \$1,500,000

FY 09 Savings: \$1,500,000

This option would eliminate the Arizona E-Health Initiative, for a General Fund savings of \$1.5 million. The Arizona E-Health Initiative program provides information technology (IT) grants to rural health care providers throughout the state to establish electronic health records and facilitate the exchange of medical records in rural areas. It was established by Laws 2006, Chapter 350 with \$1.5 million from the General Fund. This level of funding was continued for FY 2008 and FY 2009. Seven organizations, with requests from \$125,000 to \$375,000, received one-time funding from the \$1.5 million FY 2007 allocation. Of the 7 awards, 4 went to organizations in Cochise County, while Santa Cruz, Pima, and Coconino County organizations each received a single award. Applications for new grants were taken through the end of the calendar year 2007, with final awards expected to be announced in early calendar year 2008. The following is a summary of the awards for FY 2007:

Mariposa Community Health Center, Inc. – \$375,000 – To implement electronic medical records in coordination with other community health centers throughout Southern and Southwestern Arizona. Primary location: Nogales.

Chiricahua Community Health Centers, Inc. – \$250,000 – To enhance electronic health record implementation, and facilitate required electronic exchange of data with state agencies for collaboration with community health centers stretching from far Northern Arizona (including the Navajo Reservation) through the Prescott area to Southeastern Arizona. Primary location: Elfrida.

Copper Queen Community Hospital – \$150,000 – Expansion and enhancement of home health services to patients throughout Southeastern Arizona. Primary location: Bisbee.

Benson Hospital – \$200,000 – Deployment of coordinated electronic health records system, including connectivity to external pharmacies and upgrading of hospital IT infrastructure. Primary location: Benson.

Community Behavioral Health Services – \$200,000 – Deployment of electronic medical records system to behavioral health facilities across Northern and Northwestern Arizona. Primary location: Page.

Northern Cochise Community Hospital – \$200,000 – Replacement of obsolete hospital core information technology system with state-of-the-art system that will enhance hospital operational efficiency and support future deployment of electronic health records. Primary location: Willcox.

Marana Health Center – \$125,000 – Development of an integrated electronic health records system. Primary location: Marana.

Department of Health Services

Chairmen's Options

Reduce Community Health Centers Funding

FY 08 Savings: \$4,500,000

FY 09 Savings: \$4,500,000

Community Health Centers received an additional \$3.0 million in FY 2007 and \$1.5 million in FY 2008 from the Medically Needy Account of the Tobacco Tax. Returning funding to FY 2006 levels would decrease funding to approximately \$10.5 million and would free up \$4.5 million of General Fund monies.

Monies in the Community Health Centers Special Line Item provide grants to 19 community health centers throughout the state for the provision of primary health care services to uninsured persons below 200% of the Federal Poverty Level. The current funding is anticipated to pay for approximately 109,000 visits per year. This option would eliminate compensation for approximately 33,000 visits.

As of November 30, the department had expended \$5.2 million of the total \$15.0 million appropriation.

Rollback FY 2008 Senior Food Program Increase

FY 08 Savings: \$600,000

FY 09 Savings: \$600,000

General Fund monies were first appropriated in FY 2008 for this Special Line Item, which consists of 2 programs: The Arizona Commodity Supplemental Food Program (CSFP) and the Seniors' Farmers Market Program. Both programs provide food for seniors who are 60 years and above who make up to 130% FPL.

- The Arizona CSFP receives approximately \$1 million from the federal government for administration of this program and \$4 million worth of food through the United States Department of Agriculture. Federal funding for this program provides food baskets for approximately 14,000 seniors per month (baskets are worth about \$50-\$60 retail). State funding provides an additional 1,000 baskets per month.

- Funding for the Seniors' Farmers Market Program provides coupon books to seniors worth \$30 and may be redeemed for food at local farmers' markets. DHS is in the process of trying to obtain federal matching funds for this program. If obtained, 8,300 seniors will receive this service annually; otherwise, only 3,300 will be served.

As of November 30, the department had not spent any monies from this appropriation.

Eliminate Health Crisis Fund Deposit

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

The Health Crisis Fund receives an annual allocation of \$1 million from the Medically Needy Account of the Tobacco Tax and Health Care Fund. This money can be allocated at the Governor's discretion to address health issues. Medically Needy Account monies are used for Title XIX costs in AHCCCS and Behavioral Health, which are also paid for out of the General Fund. This option to eliminate the Health Crisis Fund deposit frees up Medically Needy Account monies, which can be used to offset General Fund Title XIX costs in both FY 2008 and FY 2009. In FY 2007, 4 health crises were declared and \$670,000 was authorized. The chart below provides a breakdown of authorized amounts in FY 2007.

<u>Executive Order</u>	<u>Funding Purpose</u>	<u>FY 2007 Authorized Amount</u>
2006-16	Promote influenza control & management	\$ 75,000
2007-11	Mitigate the effects of sudden cardiac arrest	\$200,000
2007-13	Congenital Syphilis Education Campaign	\$100,000
2007-14	Tuberculosis control interventions	\$295,000

Reduce Health Care Licensure Funding

FY 08 Savings: \$1,395,900

FY 09 Savings: \$1,395,900

This option would reduce the assurance and licensure funding from \$12.2 million to \$10.8 million. It would return the program to its FY 2006

funding level. Funding added in FY 2007 and FY 2008 increased the number of appropriated FTE Positions as follows: 9 in the Assisted Living Division, 1.6 in the Behavioral Health Division, 11 in the Child Care Division, 0.7 in the Long Term Care Division, and 1.6 in the Behavioral Health Division.

The chart below provides information on the renewal backlogs, the surveyor to provider ratio for each division, the vacancy rate, and refunds given. The "Renewal Backlog" refers to the number of facilities whose licenses expire prior to DHS conducting a renewal survey. "Total Refunds Given" refers to the refunds that the department must provide when a new facility submits an application for a new license but does not receive a license within 180 days.

	Beginning FY 2007	Ending FY 2007 (preliminary)	FY 2008 Projected
Assisted Living			
Renewal Backlog	254	316	165
Surveyor/Provider Ratio	1/87	1/65	1/69
Vacancy Rate	22%	0%	--
Behavioral Health			
Renewal Backlog	177	70	85
Surveyor/Provider Ratio	1/66	1/58	1/58
Vacancy Rate	21%	14%	--
Child Care			
Renewal Backlog	361	344	100
Surveyor/Provider Ratio	1/70	1/61	1/59
Vacancy Rate	20%	5%	--
Long-Term Care			
Renewal Backlog	53	9	12
Surveyor/Provider Ratio	1/5	1/5	1/5
Vacancy Rate	16%	26%	--
Medical Services			
Renewal Backlog	207	228	212
Surveyor/Provider Ratio	1/65	1/58	1/62
Vacancy Rate	25%	13%	--
Total Refunds Given	\$311,600	\$234,800	\$117,000

As of November 30, the department had expended \$5.4 million of the total \$12.2 million appropriation.

Consolidate Poison Control Centers

FY 08 Savings: \$550,000
FY 09 Savings: \$550,000

Two separate poison control centers are located in Arizona. The Good Samaritan Hospital in Phoenix serves residents of Maricopa County and receives approximately 325 calls per day.

The University of Arizona Poison Control Center serves the rest of the state and receives about 200-230 new calls per day.

This option would consolidate the 2 centers into 1, thus reducing administrative costs associated with operation of 2 centers. This option reduces total funding for Poison Control Centers by 25%.

As of November 30, the department had expended \$318,800 of the total \$2.2 million appropriation.

Reduce High Risk Perinatal Services Funding

FY 08 Savings: \$1,800,000
FY 09 Savings: \$1,800,000

This option would reduce the High Risk Perinatal funding from \$5.4 million to \$3.6 million. This option would return the program to its FY 2006 funding level.

In FY 2008, the department plans to spend the \$5.4 million as follows:

- \$3.1 million for home visits to families who have infants born at risk of having developmental problems.
- \$423,000 to provide training to physicians in Arizona to use a screening tool to better detect developmental problems in infants and provide developmental assessments for enrolled infants when there are concerns about developmental delays.
- \$510,000 to cover transportation costs for critically ill newborns and pregnant women at risk of preterm delivery.
- \$1.4 million to pay for contracts with hospitals and doctors for care of critically ill newborns.

As of November 30, DHS had expended \$1.2 million of the total \$5.4 million appropriation.

Reduce Laboratory Services Funding

FY 08 Savings: \$820,000
FY 09 Savings: \$820,000

This option would reduce the Laboratory Services Special Line Item funding from \$5.3 million to \$4.5 million. This option would return the program to its FY 2006 funding level. The FY 2007 budget added an additional \$820,000 to the Laboratory Services Special Line Item for increased expenses associated with both the Phoenix and

Flagstaff laboratories. Specifically, monies were designated for higher than estimated utility expenses at the Phoenix lab and relocation and equipment expenses for the Flagstaff lab. Monies also included funding for an additional 4.6 FTE Positions.

As of November 30, DHS had expended \$2.1 million of the total \$5.3 million appropriation.

Rollback FY 2008 Contract Compliance Increase

FY 08 Savings: \$2,461,100

FY 09 Savings: \$2,461,100

The FY 2008 General Appropriation Act added 44 FTE Positions to improve contract monitoring and oversight and to evaluate contract compliance among the Regional Behavioral Health Authorities. In particular, monies were appropriated to improve contract compliance associated with the *Arnold v. Sarn* and *JK v. Gerard* lawsuits. Of the positions added, DHS intends to hire 5 additional field auditors to ensure that the stipulations of the *Arnold v. Sarn* exit criteria are being met. An additional 3 positions will specifically be responsible for overseeing the *JK v. Gerard* settlement. The remaining positions will provide general contract compliance oversight throughout Arizona not specifically related to either of the 2 lawsuits.

DHS reports that there are 30 new FTE Positions which have already been hired or are in the final stages of being hired. They anticipate that all 44 FTE Positions will be in place by February. DHS also reports that they anticipate spending approximately \$417,600 in General Fund monies by January 1, 2008 and \$1.1 million in General Fund monies by the end of FY 2008. DHS has requested the appropriation of an additional 28 FTE Positions in FY 2009. If appropriated, DHS reports that they will spend their entire \$2.5 million General Fund appropriation; otherwise, they estimate that only \$1.4 million will be spent.

In addition to General Fund monies, DHS receives approximately \$2 in federal matching dollars for every \$1 of General Fund monies spent.

Rollback Youth Meth Prevention Funding

FY 08 Savings: \$500,000

FY 09 Savings: \$500,000

In FY 2007, the budget added \$500,000 for substance abuse prevention programming for children. The FY 2008 General Appropriation Act continued this funding.

In FY 2007, funding was awarded to 16 Boys' and Girls' Clubs throughout the state to provide a specialized curriculum. The Boys' and Girls' Clubs partnered with several dozen organizations for curriculum delivery. It is not known whether additional monies are contributed by program partners.

During FY 2007, 9,719 youths and teens participated in this educational program. Participants are asked about their perception and knowledge of methamphetamine before and after the curriculum is taught. A 13-40% increase in knowledge, varying by age, was reported in FY 2007. Participants, however, are not asked whether they have used methamphetamine.

As of November 30, the department had not spent any monies from this appropriation.

Lump Sum Reduction

FY 08 Savings: \$23,851,200

FY 09 Savings: \$23,851,200

See Lump Sum Reduction section for any exemptions.

Other Options

Shift Tuberculosis Funding to Counties

FY 08 Savings: \$1,410,500

FY 09 Savings: \$1,410,500

This program provides General Fund reimbursement to hospitals and physicians for the care of hospitalized tuberculosis (TB) patients and for assistance to all county health departments for local TB control programs. The program also provides directly-observed therapy to patients at risk not to complete treatment. In FY 2008, the program received an increased appropriation of \$400,000. General Fund monies

for this program are in addition to funding provided by individual counties.

In calendar year 2006, local health departments had 315 active TB cases and 602 suspected cases, which were treated early-on but later ruled out to have TB. Additionally, local health departments screened and/or evaluated 10,785 individuals for TB as part of work, immigration, refugee, or day care screening requirements. This work was supported by both state and local funding sources.

This option would eliminate General Fund support for this program and require counties to pay the full amount. As of November 30, DHS had expended \$155,200 from this appropriation.

Rollback FY 2008 Vaccines Increase

FY 08 Savings: \$2,226,100

FY 09 Savings: \$2,226,100

The vaccines program provides funding for uninsured and underinsured children and adults to receive vaccines which are not funded by federal monies. This option would reduce vaccine funding to FY 2007 levels, approximately \$8.2 million.

Additional monies were awarded in FY 2008 to provide the human papillomavirus vaccine (HPV) to adolescent girls and adults, along with additional funding for the increased cost of other vaccines. DHS makes decisions on which vaccines to purchase based on demand, costs, and funding availability. Because vaccine prices vary considerably between types of vaccines and DHS determines which vaccines to purchase, it is unknown how many people this would impact.

As of November 30, the department had expended \$1.9 million of the total \$10.4 million appropriation.

Reduce Abstinence Funding

FY 08 Savings: \$500,000

FY 09 Savings: \$500,000

This option would reduce abstinence funding from \$1.5 million to \$1 million. It would return the program to its FY 2006 funding level. In addition to the \$1 million of General Funds, the program would also receive an additional \$1.2 million

from Federal Funds. As of November 30, DHS had expended \$246,900 from this appropriation.

In FY 2007, a total of 13,191 youth and 893 parents were served due to the state and Federal Funds. The additional funding was used to expand abstinence education services in unserved or underserved areas of the state, accounting for 1,868 youth and 60 adults being served. The expanded appropriation was also used to provide additional services, special youth development events, and educational materials to already existing projects. Funds were also used to support the design and implementation of a non-randomized experimental evaluation with one of the abstinence providers.

Reduce Alzheimer's Research Funding

FY 08 Savings: \$2,000,000

FY 09 Savings: \$2,000,000

This option would reduce Alzheimer's research funding from \$4 million to \$2 million annually. Monies for Alzheimer's research are distributed to universities, hospitals, and research centers in Arizona through a competitive grant process. In order to be eligible, recipients must provide dollar for dollar matching monies. At \$2 million, this option would return the program to its FY 2006 funding level. As of November 30, DHS had expended \$1 million of the total \$4 million appropriation.

Eliminate Women's Services

FY 08 Savings: \$501,500

FY 09 Savings: \$501,500

The FY 2007 budget provided \$0.5 million from the General Fund to create a new Special Line Item for Women's Services. Monies from this line item are used to provide funding for grants to nonprofit agencies whose primary function is to assist pregnant women in seeking alternatives to abortion. Grants are awarded to the agencies in the amount of \$20,000 each (23 grants in total). The department may utilize no more than 10% of the monies for administrative costs.

As of November 30, DHS had expended \$129,300 of this appropriation.

Re-institute 50% Rural RTC Cost Sharing

FY 08 Savings: \$1,600,000

FY 09 Savings: \$1,600,000

Prior to FY 2007, rural counties were required to pay 50% of the cost of restoration to competency (RTC) patients that they sent to the State Hospital. The FY 2007 Health and Welfare BRB eliminated all costs to rural counties for RTC services provided by the hospital. In addition, the FY 2007 General Appropriation Act appropriated \$1.6 million from the General Fund to provide for the costs incurred by the state in treating rural counties' RTC patients. DHS reports that the full \$1.6 million was spent in FY 2007. There were approximately 6,100 patient days from rural counties in FY 2007 at a cost of approximately \$3.2 million to the state, comparable to 5,900 patient days in FY 2006 at \$3.1 million (50% to state, 50% to county). This option would roll back the \$1.6 million and require rural counties to again pay 50% of the costs of the RTC patients that they send to the State Hospital for treatment.

Eliminate Medicare Part D Dual Copay Subsidy

FY 08 Savings: \$267,500

FY 09 Savings: \$802,600

Beginning in FY 2007, the budget included General Fund monies to help pay the prescription drug copayments of low income individuals qualifying for both Medicare and Medicaid, known as "dual eligibles." Prior to the federal government taking over prescription drug costs from the state for dual eligibles on January 1, 2006, these individuals did not pay for their prescriptions. After the federal government took over the program, recipients were charged a co-pay, but the state has been covering these costs. In 2008, co-pays range from \$1.05 to \$5.60, depending on the class of the drug as well as the recipient's income.

Eliminating the dual eligible copay subsidy as of March 1, 2008 would result in General Fund savings of \$267,500 for 4 months of savings in FY 2008 and \$802,600 for a full year of savings in FY 2009 based on actual FY 2007 copay expenditures.

Judiciary – Superior Court

Chairmen's Options

Defensive Driving Equivalency Surcharge

FY 08 Savings: \$--

FY 09 Savings: \$--

The first Judiciary Fee option would add a \$45 surcharge to all persons who elect to take a Defensive Driving Course instead of paying a civil traffic violation fine. Drivers who are cited for violations may 1) contest the traffic ticket, 2) plead guilty and pay a financial sanction, or 3) attend a Defensive Driving Course and avoid license points. The current cost of the driving school is less than the cost to plead guilty and pay the sanction. The \$45 Defensive Driving Course surcharge, in addition to the course fee, would be approximately equivalent to the cost paid by individuals who plead guilty (estimated at \$165).

Based on current Defensive Driving school attendance, this option would generate an additional \$10.8 million in revenue annually. This new revenue could be used for criminal justice homeland security funding, subject to legislative appropriation. In FY 2007, there were 240,916 attendees at defensive driving courses.

The second Judiciary Fee option relates to the Time Payment Fee. Laws 2006, Chapter 369 permanently repeals the time payment fee from \$20 to \$12, effective January 1, 2010. A time payment fee is charged at any time when any penalty sanction is not collected in full on the date that it is imposed by the court. This fee allows payments to be made over a scheduled timeframe rather than all on the day of court imposition. Of this \$20 fee, \$13 is deposited into the state's Judicial Collection Enhancement Fund and \$7 is retained by the court imposing the fee. A large share of these monies are spent on automation projects around the state.

This option would repeal Laws 2006, Chapter 369, section 2 to prevent the fee reduction to \$12 in January 2010. In FY 2007, time payment fees generated \$7.3 million. With the reduced \$12 fee, the AOC estimates a revenue reduction of \$2.5 million to \$3 million per year for automation projections.

Remove 30,000 Judgeship Mandate

FY 08 Savings: \$--

FY 09 Savings: \$--

A.R.S. § 12-121 requires that there be an additional Superior Court judge for each 30,000 inhabitants, or a majority faction thereof. Pursuant to A.R.S. § 12-128, the annual salary of each judge is paid 50% by the state and 50% by the counties. This option would eliminate the 30,000 population requirement for new judgeships and potentially reduce the number of new judgeships created that require state funding.

Other Options

Revert Unused FY 2007 Sex Offender GPS Funds

FY 08 Savings: \$413,600

FY 09 Savings: \$0

A.R.S. § 13-902 requires global position system (GPS) monitoring of sex offenders sentenced to probation following a conviction of a dangerous crime against children. In FY 2007, the courts were appropriated \$750,000 for costs associated with GPS monitoring. This option would revert \$413,600 in unexpended monies from that appropriation. Beyond the unexpended monies for FY 2007, the Administrative Office of the Courts base budget includes \$756,800 for GPS monitoring in FY 2008.

In FY 2007, the AOC spent \$336,400 (of the \$750,000) to supervise 38 offenders sentenced to GPS-monitored probation. The Administrative Office of the Courts (AOC) estimates that approximately 201 probationers will be tracked in FY 2008. Fewer offenders were tracked in FY 2007 since the GPS monitoring program did not begin until November, 2006. The Department of Corrections also received funding for GPS monitoring of sex offenders on supervised release.

FY 2008 Caseload Savings

FY 08 Savings: \$4,073,800

FY 09 Savings: \$3,877,300

In FY 2008, the Superior Court received total funding of \$41.2 million for Adult Standard, Adult

Intensive, Juvenile Standard, and Juvenile Intensive Probation Programs.

Based on the current caseloads, overall staffing could be reduced by 51 probation officers, 5 supervisors, and 10 support staff. These estimates are based on statutory adjusted probation officer (PO) caseload ratios that have been adjusted downward because of the distances officers in rural counties must travel to supervise probationers. These adjusted ratios are 59:1 for Adult Standard Probation, 24:2 for Adult Intensive Probation, 33:1 for Juvenile Standard Probation, and 24:2 for Juvenile Intensive Probation. All programs, with the exception of Adult Standard Probation, are operating below the statutory ratio.

Adult Standard Probation is operating 3.7% above the FY 2007 caseload and is underfunded by a forecasted 540 cases, which reflects an increased funding need of \$740,400. Adult Intensive Probation is overfunded by 104 cases, resulting in savings of \$(678,300). Juvenile Standard Probation is overfunded by 744 cases, resulting in savings of \$(1.7) million. Juvenile Intensive Probation is overfunded by 357 cases, resulting in \$(2.4) million in savings. The net result is a savings of \$(4.1) million. The JLBC Staff is currently discussing the magnitude of the surplus with AOC.

Based on FY 2009 caseload projections, FY 2009 savings are estimated at \$3.9 million, including \$1.6 million for Adult Standard Probation, \$(740,000) for Adult Intensive Probation, \$(1.9) million for Juvenile Standard Probation, and \$(2.8) million for Juvenile Intensive Probation. Adult Standard Probation is forecasted to have caseload growth of 4.5% above the FY 2008 caseload.

Lump Sum Reduction

FY 08 Savings: \$4,258,000

FY 09 Savings: \$4,258,000

See Lump Sum Reduction section for any exemptions.

State Land Department

Chairmen's Options

Rollback FY 2008 Trust Land Increase

FY 08 Savings: \$775,000

FY 09 Savings: \$775,000

This option would rollback a FY 2008 increase of \$775,000 for trust land sales and management. The increase included funding for various positions to aid in the preparation of state trust land for sale or lease and for the management of trust land. As of November 8, 2007, 5 new FTE Positions associated with this increase had been filled and expenditures were minimal. Detailed information regarding expenditures from this increase is not available.

In addition to this increase, the FY 2007 budget also provided the department with an increase of \$1,329,100 from the General Fund for additional staff and resources to increase the effectiveness of state trust land management. This option would retain the FY 2007 monies.

Lump Sum Reduction

FY 08 Savings: \$2,355,500

FY 09 Savings: \$2,355,500

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Community Protection Deposit

FY 08 Savings: \$1,000,000

FY 09 Savings: \$0

The Environment Budget Reconciliation Bill (Laws 2007, Chapter 262) appropriated \$1 million from the General Fund to establish the Community Protection Initiative Fund. With the fund, the State Forester is to issue grants to at-risk communities to complete wildfire protection plans. The appropriation was made as a one-time deposit into the new continuously appropriated fund. There was no appropriation to the program in FY 2009. The State Forester has allocated the entire amount in FY 2008 to various

projects in rural communities throughout the state, although to date the grants have not actually been distributed.

Chairmen's Options

General Fund Offset – Land Conservation Fund Interest

FY 08 Savings: \$5,500,000
FY 09 Savings: \$5,500,000

The State Parks Department is allowed by current statute to use up to \$500,000 (or 5% of the yearly deposit into the Fund, whichever is smaller) of the yearly interest earned by the Land Conservation Fund, to administer the program. The remaining interest is credited to the Land Conservation Fund. This remaining interest, however, could be used as a General Fund offset in the State Parks operating budget. A voter initiative referred to as Growing Smarter created the Land Conservation Fund in 1998. It required \$20 million from the General Fund to be deposited into the fund annually in FY 2001 through FY 2011. Monies are used for grants to purchase or lease state trust lands that are classified for conservation purposes and may be awarded to the state, non-profit organizations, individual landowners and agricultural lessees of the state or federal land. The most recent balance has been reported as \$95.2 million.

In each of FY 2006 and FY 2007, total earned interest was \$3.6 million and \$5.9 million, respectively, while the agency estimates that \$6.0 million of revenue will be generated in FY 2008 and FY 2009. In FY 2007, Parks spent approximately \$166,000 to administer the Growing Smarter grant program and estimates that they will spend the full \$500,000 in FY 2008 and FY 2009, leaving approximately \$5.5 million of interest to offset their General Fund appropriation in both FY 2008 and FY 2009.

The FY 2009 revenue estimates could change depending if grants are disbursed in FY 2008. A grant award of \$47.6 million to the City of Phoenix in October 2007, in addition to possible grants that may be awarded in the future, could drive interest earnings down to \$3.5 million in FY 2009.

The Governor vetoed this offset in both the FY 2003 and FY 2004 budgets.

Rollback FY 2008 General Fund SPEF Offset

FY 08 Savings: \$1,000,000
FY 09 Savings: \$1,500,000

The State Parks Enhancement Fund (SPEF) consists of revenues from park user fees. Under permanent law, half of SPEF is appropriated for park operations and the other half is used for park acquisition and development with prior approval by the State Parks Board and JCCR. From FY 2004 to FY 2006, this statute was suspended as a budget savings measure in order to allow almost all park fees to be used for operating purposes, thereby reducing the department's General Fund expenses.

While the permanent statute is still suspended, the FY 2008 budget did permit use of some park fees for capital projects. The FY 2008 General Appropriation Act provided an additional \$1 million in FY 2008 and \$1.5 million in FY 2009 to shift more operating costs of the state parks from SPEF to the General Fund, thereby freeing up park fees for capital projects.

This option would reverse the FY 2008 budget decision and continue to use most park fees for operating costs. Assuming park fee collections remain at the FY 2007 level of approximately \$9.5 million, however, approximately \$820,000 would be available for capital projects under this option.

Lump Sum Reduction

FY 08 Savings: \$671,200
FY 09 Savings: \$671,200

See Lump Sum Reduction section for any exemptions.

Department of Public Safety

Chairmen's Options

Shift Highway Patrol to HURF

FY 08 Savings: \$106,000,000
FY 09 Savings: \$106,000,000

A.R.S. § 28-6537 and A.R.S. § 28-6993 limit the use of Highway User Revenue Fund (HURF) and State Highway Fund (SHF) for DPS highway operational costs to \$10 million from each fund. This option would temporarily allow more than the statutory cap to offset the General Fund. Prior to FY 2007, the statutory cap on HURF and SHF was notwithstood and \$106.2 million was used for Highway Patrol expenses in FY 2006.

The total FY 2008 General Fund amount that could be shifted back onto HURF is estimated to be \$106 million, including any adjustments related to this fund since FY 2007. In combination with the \$10 million HURF shift allowed under permanent law, a total of \$116 million would be used from HURF to pay highway patrol costs.

The Highway User Revenue Fund (HURF) consists of monies received from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, and driver's license fees. A portion of HURF collections is shared with cities and counties.

For every \$1 increase in DPS' HURF allocation, funding allocated to cities and counties would decrease by 49.5¢ and funding to highway construction would decrease by 50.5¢. As a result, a \$106 million increase in DPS' HURF allocation, would decrease city and county funding by \$52.5 million and highway construction funding by \$53.5 million.

Local Law Enforcement Reimbursement for DPS Lab

FY 08 Savings: \$640,000
FY 09 Savings: \$640,000

This option would require local law enforcement agencies to reimburse DPS for services performed in the crime lab. A.R.S. § 41-1771

gives the DPS crime laboratory the responsibility to provide scientific services to all criminal justice agencies statewide. DPS crime labs, located in Flagstaff, Lake Havasu City, Phoenix, and Tucson, provide lab services to local law enforcement agencies free of charge. City crime labs in Mesa, Phoenix, Scottsdale, and Tucson may also provide lab services to local law enforcement if there is an agreement with these labs to do so.

In FY 2006, the General Fund cost to provide crime lab services was \$183,500 for counties and \$458,100 for municipalities, which totals \$641,600. As a result, in FY 2008, the General Fund savings generated by requiring local law enforcement reimbursement for DPS crime lab processing is an estimated \$640,000.

The table below shows the types of cases submitted to DPS crime labs by counties and municipalities during FY 2006. The table includes cases funded by both the General Fund and other DPS funding sources.

County and Municipality Case Submissions	
<u>Crime Lab</u>	<u>FY 2006</u>
Drugs	10,100
Toxicology-Alcohol	7,400
Toxicology-Drugs	7,900
Blood/DNA	3,700
Latent Prints	4,200
Firearms/Trace Evidence	1,100
Questioned Documents	100
Total	34,500

Lump Sum Reduction

FY 08 Savings: \$2,930,100
FY 09 Savings: \$2,930,100

See Lump Sum Reduction section for any exemptions.

Department of Revenue

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$7,694,200

FY 09 Savings: \$7,694,200

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback Revenue Generating Program Increase

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

This option would eliminate the \$1,000,000 increase received in FY 2008 and FY 2009 by the Department of Revenue for the revenue generating program, which was estimated to increase General Fund enforcement revenue by more than \$1,000,000 by filling vacant enforcement positions. Enforcement revenue is generated by DOR's audit and collection activities.

Rollback BRITS Operational Support Increase

FY 08 Savings: \$1,378,300

FY 09 Savings: \$1,378,300

This option would eliminate the \$1,378,300 and 16 FTE Positions increase received in FY 2008 and FY 2009 by the Department of Revenue for ongoing BRITS operational support of the implemented BRITS systems. These monies are used for information technology personnel to operate and maintain the BRITS system. In the absence of these resources, the Department of Revenue would likely seek a BRITS contract amendment to contract for these services with a vendor. The contract amendment would permit the Department of Revenue to expend BRITS-related General Fund revenue collections without an appropriation.

Rollback Small Town Revenue Sharing

FY 08 Savings: \$850,000

FY 09 Savings: \$0

The FY 2008 budget included \$850,000 in the Department of Revenue budget for the small town revenue sharing program. This is the second year of a program which was first implemented in FY 2007; the FY 2008 amount of \$850,000 is unchanged from FY 2007. The appropriation was labeled as one-time in both years.

These monies are for distribution to towns with a population of 1,500 or less. The following table provides the scheduled distribution amounts by town for FY 2008.

<u>Town</u>	<u>Amount</u>
Jerome	\$221,340
Winkleman	199,970
Duncan	130,160
Hayden	115,020
Patagonia	109,730
Fredonia	<u>73,780</u>
Total	\$850,000

The Department of Revenue has not yet distributed this funding.

School Facilities Board

Chairmen's Options

Suspend Building Renewal Funding

FY 08 Savings: \$43,141,800

FY 09 Savings: \$86,283,500

In FY 2008, \$86.3 million was appropriated to the School Facilities Board (SFB) for Building Renewal. SFB distributes the monies to school districts in 2 equal installments, in November and May. Eliminating the May payment in FY 2008 would generate \$43.1 million in savings, while eliminating both payments would save \$86.3 million in FY 2009.

The \$86.3 million appropriation does not represent the full statutory formula amount. The only year the Building Renewal formula was fully funded was in FY 2001. Building Renewal received no funding in FY 2004. As a result of the state not fully funding the statutory Building Renewal formula, 4 school districts filed a lawsuit against the state in October 1999. The districts claimed that underfunding the formula resulted in districts being unable to meet the minimum facility guidelines.

In October 2006, the Arizona Superior Court issued a summary judgment in favor of the state in the lawsuit. The Court found that the school districts had not made an effort to obtain all available sources of state funding to maintain their facilities at the minimum guidelines, and therefore, their claim was premature. Other sources of capital funding available to school districts include Capital Outlay Revenue Limit funds and Emergency Deficiencies Correction funds provided by SFB.

New Construction Moratorium

FY 08 Savings: \$42,000,000

FY 09 Savings: \$328,000,000

This option would place a moratorium on SFB new construction expenditures for projects that did not break ground by December 1, 2007. The moratorium would last through the end of FY 2009. It is expected to result in a cost savings of \$42 million in FY 2008 and \$328 million in FY 2009. The slowdown of the housing industry has had

some impact on the need for new schools, although the exact impact is not yet known.

Through the end of FY 2009, it is anticipated that SFB will expend \$370 million to complete those projects currently underway (plus another \$133 million in FY 2010 and beyond). In comparison, SFB has \$370 million available for new construction in FY 2008 plus another \$370 million in the FY 2009 JLBC Baseline. With \$740 million in FY 2008 and FY 2009 resources and \$370 million in expected expenditures, the moratorium is anticipated to generate \$370 million in 2-year savings. For purposes of this option, \$42 million of the savings has been allocated to FY 2008 and \$328 million to FY 2009. To ensure sufficient cash flow, the existing FY 2008 appropriation would be made non-lapsing until the end of FY 2009.

Lump Sum Reduction

FY 08 Savings: \$194,400

FY 09 Savings: \$194,400

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Utilities Pilot Program Increase

FY 08 Savings: \$2,500,000

FY 09 Savings: \$0

Laws 2007, Chapter 266 appropriated one-time funding of \$2.5 million from the General Fund for the new Energy and Water Savings Pilot Program in FY 2008. The program funding will be used to provide grants to school districts for energy and water savings audits and for the implementation of energy and water savings programs. No monies have been spent yet. SFB made the grant applications available to districts on October 12. The application deadline will be January 21, and SFB will distribute monies starting on March 6.

Increase New Construction Payment Tail in lieu of FY 2008 Supplemental

FY 08 Savings: \$0

FY 09 Savings: \$0

SFB was appropriated \$370.0 million in FY 2008 for new school construction, but they expect to have \$442.4 million worth of new construction expenditures in that fiscal year. Based on their projections, therefore, they expect to incur a \$(66.7) million shortfall in FY 2008 in their New School Facilities Fund. Deferring \$66.7 million worth of new construction expenditures from FY 2008 to FY 2009 would not result in an actual reduction in costs, but would instead result in a \$66.7 million cost avoidance in FY 2008.

In FY 2009, SFB already expects to spend \$462.8 million. If SFB continued to roll over the \$66.7 million shortfall from FY 2009 into FY 2010, this would produce an \$87.8 million shortfall in FY 2009 at the current level of funding. SFB has already deferred \$38.0 million worth of FY 2007 new construction expenditures from FY 2007 into FY 2008 to ensure they ended FY 2007 with a positive cash balance.

New School Facilities Fund (\$ in millions)		
	<u>FY 2008</u>	<u>FY 2009</u>
Beginning Balance	\$ 0.7	\$ 0
Appropriation	370.0	370.0
Lease Revenues	<u>5.0</u>	<u>5.0</u>
Total Revenues	375.7	375.0
Expenditures	442.4	462.8
FY08 expend. deferred	<u>(66.7)</u>	<u>0</u>
Total Expenditures	375.7	462.8
Ending Balance	\$0	\$(87.8)

Chairmen's Options

Require Proportional Local Contributions to the Tourism Fund

FY 08 Savings: \$4,403,300

FY 09 Savings: \$4,678,500

This option would require cities and counties to contribute their proportional share to the Tourism Fund. The state General Fund deposits an annual amount equivalent to 3.5% of the gross revenues from taxes on lodging, 3% of the gross revenues from amusement classification, and 2% of the gross revenues from restaurant classification into the Tourism Fund. However, the state General Fund only receives 73.8% of the gross revenues from amusement and restaurant classifications, and 67.25% of the gross revenues from the taxes on lodging. Cities and counties receive the remaining revenues generated by the taxes. As a result, the state is currently paying the local governments' share of Tourism Fund deposits. Since cities and counties receive benefits from tourism spending, they could also be required to contribute to the Tourism Fund using the funding formula.

In FY 2008, the impact to cities would be \$1.7 million, the impact to counties would be \$2.7 million, and the state would save \$4.4 million from the General Fund. In FY 2009, the impact to cities would be \$1.8 million, the impact to counties would be \$2.9 million and the state would save \$4.7 million from the General Fund. The Tourism Fund will not lose money as a result of this option.

Other Options

Cap the Tourism Fund Formula at FY 2007

FY 08 Savings: \$885,800

FY 09 Savings: \$1,858,600

This option would suspend the funding formula for the Office of Tourism and give them \$14.8 million, which was what the agency received in FY 2007. According to A.R.S. § 42-5029, the Tourism Fund receives 3.5% of the gross amount of taxes on lodging, 3% of the gross revenues

from the amusement classification, and 2% of the gross revenues from the restaurant classification. The Office of Tourism received approximately \$14.8 million in FY 2007, will receive \$15.6 million in FY 2008, and it is estimated that they will receive approximately \$16.6 million in FY 2009. Holding the funding level at the FY 2007 amount of \$14.8 million will free up \$0.9 million in FY 2008 and \$1.9 million in FY 2009.

In FY 2004, the funding formula was suspended and \$9 million was appropriated from the General Fund. The money received by the Office of Tourism is used to promote tourism statewide.

Department of Transportation

Chairmen's Options

Shift Motor Vehicle Division to HURF from SHF

FY 08 Savings: \$ --

FY 09 Savings: \$ --

This option would shift \$104 million in the Motor Vehicle Division's (MVD) FY 2009 operating budget from the State Highway Fund (SHF) to the Highway User Revenue Fund (HURF).

The ultimate impact of this option would be to free up an additional \$51 million of SHF monies for statewide highway construction. Local governments would lose \$51 million of their anticipated FY 2009 HURF collections. In the absence of this option, local HURF distributions are projected to increase by \$37.8 million in FY 2009. After accounting for the MVD shift, the local government distribution would decrease by \$(13.7) million compared to FY 2008.

The use of HURF monies would effectively share the cost of MVD operations with cities and counties. These local entities benefit from MVD revenue collections by receiving 55% of vehicle license taxes and 49.5% of HURF revenues. The HURF consists of monies received from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, and driver's license fees. The SHF receives 50.5% of HURF revenue.

State Treasurer

Chairmen's Options

Option: Shift Treasurer's Budget to Earnings/Fees

FY 08 Savings: \$0

FY 09 Savings: \$3,173,400

The State Treasurer has proposed to shift their direct General Fund operating expenditure of \$3.2 million to investment earnings or management fees. In addition, this alternative fund source would be used to finance \$1.0 million in new operating budget increases designed to improve investment yields.

The Treasurer has provided 2 options to achieve this proposal. The first option would revert the General Fund appropriation for agency operations and eliminate the current 6 basis point management fee that is charged on assets. These fees are currently deposited into the General Fund. Instead, funding for the Treasurer would be provided through retained earnings on investments. These earnings currently accrue to the General Fund, state agency funds and local governments.

The Treasurer's Office expects the elimination of the management fee to increase local government's investments with the office. The Treasurer also expects the combination of the larger investment pool and the operating budget enhancements will increase yields for the General Fund and other assets.

The Treasurer's alternative proposal is to allow their office to retain management fees but reduce those fees to the level that covers their operating budget. This option would also allow the revertment of General Fund appropriations. This may also entice more local governments to deposit assets and allow for better pricing and higher yields to the General Fund.

The overall net General Fund impact of the proposal will depend on the following factors:

- General Fund savings from the shift of the operating budget to a non-General Fund source.

- Loss of General Fund revenue due to lower or eliminated management fees.
- The General Fund cost associated with the new earnings financing mechanism, and
- The General Fund gain from higher investment yields.

The Chairman's Options would implement this proposal in FY 2009. This proposal could be implemented in FY 2008 to generate the \$3.4 million in savings; however, there are logistical issues that would need to be addressed to allow the Treasurer to collect sufficient funds to cover their budget.

Arizona Board of Regents

Chairmen's Options

Rollback FY 2008 Financial Aid Increase

FY 08 Savings: \$2,880,000

FY 09 Savings: \$2,880,000

The General Appropriation Act provided a \$2.9 million increase from the General Fund to the Arizona Financial Aid Trust (AFAT) in FY 2008. This option would rollback that funding, which was provided to achieve the statutory 2:1 ratio of state funding to student fees paid to AFAT. This option would require a statutory change. We are awaiting information on any year-to-date expenditures.

In FY 2006, total financial aid for students was \$932.9 million, of which the state provided \$2.1 million or 0.2%. General Fund support increased to \$7.1 million in FY 2007 and \$10 million in FY 2008.

Rollback FY 2008 WICHE Increase

FY 08 Savings: \$0

FY 09 Savings: \$544,300

This option would rollback the FY 2008 increase of \$544,300 from the General Fund for WICHE student subsidies. Subsidies are granted to students participating in the WICHE Professional Student Exchange Program. Since the Arizona University System does not offer programs in dentistry, optometry, occupational therapy, osteopathy, physician assistance, or veterinary medicine, WICHE allows interested students to enroll in these programs at private in-state institutions or other public western universities and pay public in-state tuition costs. Upon graduation, former WICHE students must practice 1 year in Arizona, or 6 months in an under-served Arizona community, for each year of WICHE support.

The FY 2008 increase provides enough funding to subsidize 20 additional students in the WICHE program starting that year. Rolling back this amount would result in fewer new first year students being offered subsidies in FY 2009.

Rollback FY 2008 Math and Science Increase

FY 08 Savings: \$2,250,000

FY 09 Savings: \$2,250,000

The General Appropriation Act provided a \$2.3 million increase from the General Fund to increase the number of math, science, and special education teachers in the state. Of this amount, the agency will distribute \$1.8 million for student loans to prospective math and science teachers and \$0.5 million for student loans to prospective special education teachers. The Act specifies that the program can begin in the spring semester of 2008. ABOR has notified a total of 76 qualified applicants from the 3 state universities that they are eligible to participate in the program.

Lump Sum Reduction

FY 08 Savings: \$776,300

FY 09 Savings: \$776,300

See Lump Sum Reduction section for any exemptions.

Arizona State University - Main Campus

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$41,676,500

FY 09 Savings: \$41,676,500

See Lump Sum Reduction section for any exemptions.

Other Options

No FY 2009 Enrollment Growth Funding

FY 08 Savings: \$0

FY 09 Savings: \$3,944,300

This option would not add enrollment growth funding for the universities in FY 2009. The enrollment formula adds or subtracts 1 faculty and 0.75 support FTE Positions, and their associated General Fund costs for every 22-FTE-student change. Using estimated FY 2009 FTE numbers, Arizona State University (ASU) would generate \$3.9 million in enrollment growth funding for FY 2009 under that formula apart from this option. The table below displays estimated enrollment growth increases for FY 2009 for Arizona's university system.

Estimated FY 2009 Enrollment Increases	
ASU-Main	\$ 3,944,300
ASU-East	6,093,400
ASU-West	3,191,900
NAU	6,499,800
UA-Main	1,117,800
UA-HSC	<u>(108,400)</u>
Total	\$20,738,800

Rollback FY 2008 Student and Faculty Retention Increase

FY 08 Savings: \$15,064,000

FY 09 Savings: \$15,064,000

The General Appropriation Act provided \$15.1 million from the General Fund to Arizona State University (ASU) in FY 2008 for Student and

Faculty Retention funding. This funding was intended to increase stipends to faculty and graduate teaching assistants and associates, increase course availability and reduce class sizes, enhance student advising, and create a new enrollment management system.

The table below shows related funding increases for all 3 universities statewide. All funding in the table would be rolled back under this and similar options. As of late November 2007, ASU has expended \$5.6 million of the total appropriation and indicates that the remaining \$9.5 million is committed for expenditure by the end of FY 2008.

FY 2008 Student and Faculty Retention Increases	
ASU	\$15,064,000
NAU	4,736,000
UA	<u>10,000,000</u>
Total	\$29,800,000

Revert Back to 22 to 1 to 0.5 Formula

FY 08 Savings: \$0

FY 09 Savings: \$522,500

This option would revert back to the pre-FY 2007 university enrollment growth funding formula that added or subtracted 1 faculty and 0.5 support FTE Positions and their associated General Fund costs for every 22-FTE-student change. Beginning in FY 2007, the enrollment formula added or subtracted 1 faculty and 0.75 support FTE Positions and associated funding for every 22-FTE-student change. Given estimated FY 2009 FTE student counts, reverting back to the 22:1.5 university enrollment growth formula would generate an estimated \$0.5 million in savings at ASU Main. The table below displays the difference between estimated enrollment growth funding for the 22:1.75 versus 22:1.5 formulas in FY 2009.

Estimated Savings Under 22:1.5 Formula

	<u>22:1.75 FTE</u>	<u>22:1.5 FTE</u>	<u>Difference</u>
ASU-Main	\$ 3,944,300	\$ 3,421,800	\$ 522,500
ASU-East	6,093,400	5,559,000	534,400
ASU-West	3,191,900	2,957,800	234,100
NAU	6,499,800	6,019,300	480,500
UA-Main	1,117,800	977,000	140,800
UA-HSC	<u>(108,400)</u>	<u>(97,300)</u>	<u>(11,100)</u>
Total	\$20,738,800	\$18,837,600	\$1,901,200

Fund 45-Day Enrollment Count

FY 08 Savings: \$0

FY 09 Savings: \$2,507,800

This option would fund university enrollment growth based upon enrollment counts as of the 45th day of classes. Currently, the state funds university enrollment growth based upon enrollment counts on the 21st day of classes but the community college formula uses 45th day counts.

Enrollment counts on the 45th day are typically lower. Funding enrollment based upon estimated FY 2009 FTE student counts on the 45th day of classes would generate an estimated \$2.5 million in savings at ASU Main. The table below displays the difference between estimated enrollment growth funding using 21st day counts versus 45th day counts.

**Estimated Enrollment Growth Funding
Using 21st versus 45th Day Counts**

	<u>21st Day Count</u>	<u>45th Day Count</u>	<u>Difference</u>
ASU-Main	\$3,944,300	\$1,436,500	\$ 2,507,800
ASU-East	6,093,400	4,607,900	1,485,500
ASU-West	3,191,900	2,229,000	962,900
NAU	6,499,800	3,464,700	3,035,100
UA-Main	1,117,800	(1,650,400)	2,768,200
UA-HSC	<u>(108,400)</u>	<u>(108,400)</u>	<u>0</u>
Total	\$20,738,800	\$9,979,300	\$10,759,500

Rollback FY 2008 Water Institute

FY 08 Savings: \$0

FY 09 Savings: \$400,000

The FY 2008 General Appropriation Act provided \$1.2 million and 12 FTE Positions from the General Fund, divided evenly between the 3 universities, to collaboratively improve water policy and

management in the state. The appropriation is used for projects such as sustainable water management, education efforts related to water, and technology transfer and economic development. The appropriation is also used to fund university staff who are acting as visiting researchers to the Department of Water Resources, the Department of Commerce, and the Department of Environmental Quality.

Rollback FY 2008 Biomedical Informatics
Expansion Increase

FY 08 Savings: \$2,000,000

FY 09 Savings: \$2,000,000

The FY 2008 General Appropriation Act provided an increase of \$2.0 million and 14 FTE Positions from the General Fund to double the number of graduate students enrolled in Biomedical Informatics from 10 to 20. The appropriation also allows additional medical students at the Phoenix Medical Campus to participate in Biomedical Informatics instruction. As of late November 2007, ASU had expended \$0.9 million of the total appropriation for personnel and start-up expenses and indicates that the remaining \$1.1 million is committed for expenditure by the end of FY 2008.

This option would retain \$1 million in base funding for the informatics program, which was originally approved in FY 2007.

Rollback FY 2008 Biomedical Campus Design
Increase

FY 08 Savings: \$5,250,000

FY 09 Savings: \$0

This option would rollback the FY 2008 appropriation of \$5.3 million from the General Fund for programming and schematic design for the Arizona Biomedical Collaborative (ABC) 2 and Education buildings at the Phoenix Medical Campus. The University of Arizona (UA) received an additional \$5.3 million for programming and schematic design. The construction cost of the ABC 2 and Education buildings is estimated to be between \$400 million and \$500 million.

Eliminating this funding would delay or prevent the construction of both buildings. The buildings would be used to expand the number of medical students admitted to the campus and house additional research. The current medical

school buildings are able to house around 140 medical students, while UA plans to increase enrollment to over 600 medical students by FY 2015. We are awaiting information on any year-to-date expenditures. To date, UA and ASU have not expended or obligated their respective appropriations, as both are required to first submit an expenditure plan for review by the Joint Committee on Capital Review (JCCR). The universities have selected a design firm to develop the schematic design and are currently negotiating a formal contract with the firm.

Arizona State University - East Campus

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$2,591,600

FY 09 Savings: \$2,591,600

See Lump Sum Reduction section for any exemptions.

Other Options

No FY 2009 Enrollment Growth Funding

FY 08 Savings: \$0

FY 09 Savings: \$6,093,400

This option would not add enrollment growth funding for the universities in FY 2009. The enrollment formula adds or subtracts 1 faculty and 0.75 support FTE Positions, and their associated General Fund costs for every 22-FTE-student change. Using estimated FY 2009 FTE numbers, Arizona State University-East would generate \$6.1 million in enrollment growth funding for FY 2009 under that formula apart from this option. The table below displays estimated enrollment growth increases for FY 2009 for Arizona's university system.

Estimated FY 2009 Enrollment Increases	
ASU-Main	\$ 3,944,300
ASU-East	6,093,400
ASU-West	3,191,900
NAU	6,499,800
UA-Main	1,117,800
UA-HSC	(108,400)
Total	\$20,738,800

Revert Back to 22 to 1 to 0.5 Formula

FY 08 Savings: \$0

FY 09 Savings: \$534,400

This option would revert back to the pre-FY 2007 university enrollment growth funding formula that added or subtracted 1 faculty and 0.5 support FTE Positions and their associated General Fund costs for every 22-FTE-student change. Beginning in FY 2007, the enrollment formula added or subtracted 1 faculty and 0.75 support FTE Positions and associated funding for every 22-FTE-student change. Given estimated FY 2009

FTE student counts, reverting back to the 22:1.5 university enrollment growth formula would generate an estimated \$0.5 million in savings at ASU East. The table below displays the difference between estimated enrollment growth funding for the 22:1.75 versus 22:1.5 formulas in FY 2009.

Estimated Savings Under 22:1.5 Formula			
	<u>22:1.75 FTE</u>	<u>22:1.5 FTE</u>	<u>Difference</u>
ASU-Main	\$ 3,944,300	\$ 3,421,800	\$ 522,500
ASU-East	6,093,400	5,559,000	534,400
ASU-West	3,191,900	2,957,800	234,100
NAU	6,499,800	6,019,300	480,500
UA-Main	1,117,800	977,000	140,800
UA-HSC	(108,400)	(97,300)	(11,100)
Total	\$20,738,800	\$18,837,600	\$1,901,200

Fund 45-Day Enrollment Count

FY 08 Savings: \$0

FY 09 Savings: \$1,485,500

This proposal would fund university enrollment growth based upon enrollment counts as of the 45th day of classes. Currently, the state funds university enrollment growth based upon enrollment counts on the 21st day of classes but the community college formula uses 45th day counts.

Enrollment counts on the 45th day are typically lower. Funding enrollment based upon estimated FY 2009 FTE student counts on the 45th day of classes would generate an estimated \$1.5 million in savings at ASU East. The table below displays the difference between estimated enrollment growth funding using 21st day counts versus 45th day counts.

Estimated Enrollment Growth Funding Using 21 st versus 45 th Day Counts			
	<u>21st Day Count</u>	<u>45th Day Count</u>	<u>Difference</u>
ASU-Main	\$3,944,300	\$1,436,500	\$ 2,507,800
ASU-East	6,093,400	4,607,900	1,485,500
ASU-West	3,191,900	2,229,000	962,900
NAU	6,499,800	3,464,700	3,035,100
UA-Main	1,117,800	(1,650,400)	2,768,200
UA-HSC	(108,400)	(108,400)	0
Total	\$20,738,800	\$9,979,300	\$10,759,500

Arizona State University - West Campus

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$5,360,400

FY 09 Savings: \$5,360,400

See Lump Sum Reduction section for any exemptions.

Other Options

No FY 2009 Enrollment Growth Funding

FY 08 Savings: \$0

FY 09 Savings: \$3,191,900

This option would not add enrollment growth funding for the universities in FY 2009. The enrollment formula adds or subtracts 1 faculty and 0.75 support FTE Positions, and their associated General Fund costs for every 22-FTE-student change. Using estimated FY 2009 FTE numbers, Arizona State University-West would generate \$3.2 million in enrollment growth funding for FY 2009 under that formula apart from this option. The table below displays estimated enrollment growth increases for FY 2009 for Arizona's university system.

Estimated FY 2009 Enrollment Increases	
ASU-Main	\$ 3,944,300
ASU-East	6,093,400
ASU-West	3,191,900
NAU	6,499,800
UA-Main	1,117,800
UA-HSC	<u>(108,400)</u>
Total	\$20,738,800

Revert Back to 22 to 1 to 0.5 Formula

FY 08 Savings: \$0

FY 09 Savings: \$234,100

This option would revert back to the pre-FY 2007 university enrollment growth funding formula that added or subtracted 1 faculty and 0.5 support FTE Positions and their associated General Fund

costs for every 22-FTE-student change. Beginning in FY 2007, the enrollment formula added or subtracted 1 faculty and 0.75 support FTE Positions and associated funding for every 22-FTE-student change. Given estimated FY 2009 FTE student counts, reverting back to the 22:1.5 university enrollment growth formula would generate an estimated \$0.2 million in savings at ASU West. The table below displays the difference between estimated enrollment growth funding for the 22:1.75 versus 22:1.5 formulas in FY 2009.

Estimated Savings Under 22:1.5 Formula			
	<u>22:1.75 FTE</u>	<u>22:1.5 FTE</u>	<u>Difference</u>
ASU-Main	\$ 3,944,300	\$ 3,421,800	\$ 522,500
ASU-East	6,093,400	5,559,000	534,400
ASU-West	3,191,900	2,957,800	234,100
NAU	6,499,800	6,019,300	480,500
UA-Main	1,117,800	977,000	140,800
UA-HSC	<u>(108,400)</u>	<u>(97,300)</u>	<u>(11,100)</u>
Total	\$20,738,800	\$18,837,600	\$1,901,200

Fund 45-Day Enrollment Count

FY 08 Savings: \$0

FY 09 Savings: \$962,900

This option would fund university enrollment growth based upon enrollment counts as of the 45th day of classes. Currently, the state funds university enrollment growth based upon enrollment counts on the 21st day of classes but the community college formula uses 45th day counts.

Enrollment counts on the 45th day are typically lower. Funding enrollment based upon estimated FY 2009 FTE student counts on the 45th day of classes would generate an estimated \$1.0 million in savings at ASU West. The table below displays the difference between estimated enrollment growth funding using 21st day counts versus 45th day counts.

**Estimated Enrollment Growth Funding
Using 21st versus 45th Day Counts**

	<u>21st Day Count</u>	<u>45th Day Count</u>	<u>Difference</u>
ASU-Main	\$3,944,300	\$1,436,500	\$ 2,507,800
ASU-East	6,093,400	4,607,900	1,485,500
ASU-West	3,191,900	2,229,000	962,900
NAU	6,499,800	3,464,700	3,035,100
UA-Main	1,117,800	(1,650,400)	2,768,200
UA-HSC	<u>(108,400)</u>	<u>(108,400)</u>	<u>0</u>
Total	\$20,738,800	\$9,979,300	\$10,759,500

Rollback FY 08 Criminal Justice

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

This option would rollback the new FY 2008 appropriation of \$1.0 million and 12 FTE Positions from the General Fund for the School of Criminal Justice and Criminology. The appropriation was intended to be used to hire 2 additional faculty members and accommodate 12 part-time graduate teaching assistantships. ASU-West also planned to hire 3 additional staff members dedicated to modeling the school's curriculum after those at John Jay College or the University of Maryland, each of which offer Executive Masters degrees, specialized training to criminal justice employees, and cohort programs for undergraduate students. The appropriation would also support an annual statewide victimization survey that will gauge the level of victimization experienced by Arizona residents, as well as solicit survey information about criminal justice practices and experiences with the criminal justice system. Of the FTE Positions, it is unknown how many have actually been hired. As of late November 2007, ASU had expended \$0.6 million of the total appropriation and indicates that the remaining appropriation is committed in FY 2008 primarily to establish a consortium between ASU and John Jay University for criminal justice policy.

Northern Arizona University

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$16,086,900

FY 09 Savings: \$16,086,900

See Lump Sum Reduction section for any exemptions.

Other Options

No FY 2009 Enrollment Growth Funding

FY 08 Savings: \$0

FY 09 Savings: \$6,499,800

This option would not add enrollment growth funding for the universities in FY 2009. The enrollment formula adds or subtracts 1 faculty and 0.75 support FTE Positions, and their associated General Fund costs for every 22-FTE-student change. Using estimated FY 2009 FTE numbers, NAU would generate \$6.5 million in enrollment growth funding for FY 2009 under that formula apart from this option. The table below displays estimated enrollment growth increases for FY 2009 for Arizona's university system.

Estimated FY 2009 Enrollment Increases	
ASU-Main	\$ 3,944,300
ASU-East	6,093,400
ASU-West	3,191,900
NAU	6,499,800
UA-Main	1,117,800
UA-HSC	(108,400)
Total	\$20,738,800

Rollback FY 2008 Student and Faculty Retention Increase

FY 08 Savings: \$4,736,000

FY 09 Savings: \$4,736,000

The General Appropriation Act provided \$4.7 million and 25 FTE Positions from the General Fund to NAU for Student and Faculty Retention funding. This funding was intended to decrease class sizes, provide additional advising for freshman and transfer students, and improve

technology in classrooms. NAU will also use a portion of the appropriation to recruit and retain faculty.

The table below shows related funding increases for all 3 universities statewide. All funding in the table would be rolled back under this and similar options. We are awaiting information on any year-to-date expenditures.

FY 2008 Student and Faculty Retention Increases	
ASU	\$15,064,000
NAU	4,736,000
UA	10,000,000
Total	\$29,800,000

Revert Back to 22 to 1 to 0.5 Formula

FY 08 Savings: \$0

FY 09 Savings: \$480,500

This option would revert back to the pre-FY 2007 university enrollment growth funding formula that added or subtracted 1 faculty and 0.5 support FTE Positions and their associated General Fund costs for every 22-FTE-student change. Beginning in FY 2007, the enrollment formula added or subtracted 1 faculty and 0.75 support FTE Positions and associated funding for every 22-FTE-student change. Given estimated FY 2009 FTE student counts, reverting back to the 22:1.5 university enrollment growth formula would generate an estimated \$0.5 million in savings at NAU. The table below displays the difference between estimated enrollment growth funding for the 22:1.75 versus 22:1.5 formulas in FY 2009.

Estimated Savings Under 22:1.5 Formula			
	<u>22:1.75 FTE</u>	<u>22:1.5 FTE</u>	<u>Difference</u>
ASU-Main	\$ 3,944,300	\$3,421,800	\$ 522,500
ASU-East	6,093,400	5,559,000	534,400
ASU-West	3,191,900	2,957,800	234,100
NAU	6,499,800	6,019,300	480,500
UA-Main	1,117,800	977,000	140,800
UA-HSC	(108,400)	(97,300)	(11,100)
Total	\$20,738,800	\$18,837,600	\$1,901,200

Fund 45-Day Enrollment Count

FY 08 Savings: \$0
FY 09 Savings: \$3,035,100

This option would fund university enrollment growth based upon enrollment counts as of the 45th day of classes. Currently, the state funds university enrollment growth based upon enrollment counts on the 21st day of classes but the community college formula uses 45th day counts.

Enrollment counts on the 45th day are typically lower. Funding enrollment based upon estimated FY 2009 FTE student counts on the 45th day of classes would generate an estimated \$3.0 million in savings at NAU. The table below displays the difference between estimated enrollment growth funding using 21st day counts versus 45th day counts.

Estimated Enrollment Growth Funding Using 21st versus 45th Day Counts			
	<u>21st Day Count</u>	<u>45th Day Count</u>	<u>Difference</u>
ASU-Main	\$3,944,300	\$1,436,500	\$ 2,507,800
ASU-East	6,093,400	4,607,900	1,485,500
ASU-West	3,191,900	2,229,000	962,900
NAU	6,499,800	3,464,700	3,035,100
UA-Main	1,117,800	(1,650,400)	2,768,200
UA-HSC	<u>(108,400)</u>	<u>(108,400)</u>	<u>0</u>
Total	\$20,738,800	\$9,979,300	\$10,759,500

Rollback FY 2008 Water Institute

FY 08 Savings: \$0
FY 09 Savings: \$400,000

The FY 2008 General Appropriation Act provided \$1.2 million and 12 FTE Positions from the General Fund, divided evenly between the 3 universities, to collaboratively improve water policy and management in the state. The appropriation is used for projects such as sustainable water management, education efforts related to water, and technology transfer and economic development. The appropriation is also used to fund university staff who are acting as visiting researchers to the Department of Water Resources, the Department of Commerce, and the Department of Environmental Quality.

Rollback FY 2008 Health Professions Increase

FY 08 Savings: \$4,000,000
FY 09 Savings: \$4,000,000

The General Appropriation Act provided an increase of \$4 million and 19 FTE Positions from the General Fund in FY 2008 for an expansion of health professions programming in both Flagstaff and at NAU's locations throughout the state. NAU will establish programs in human biology, occupational therapy, and for physician assistants with the goal of increasing the number of health care workers in the state. With additional funding from the Technology Research Infrastructure Funds, NAU also will expand its offerings in nursing and physical therapy. Funding will initially support the hiring of personnel and building and equipping laboratories. Personnel and operations will represent the bulk of ongoing expenditures for these programs. We are currently awaiting details on how much of this funding was spent in FY 2008.

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$36,238,900

FY 09 Savings: \$36,238,900

See Lump Sum Reduction section for any exemptions.

Other Options

No FY 2009 Enrollment Growth Funding

FY 08 Savings: \$0

FY 09 Savings: \$1,117,800

This option would not add enrollment growth funding for the universities in FY 2009. The enrollment formula adds or subtracts 1 faculty and 0.75 support FTE Positions, and their associated General Fund costs for every 22-FTE-student change. Using estimated FY 2009 FTE numbers, the University of Arizona (UA) would generate \$1.1 million in enrollment growth funding for FY 2009 under that formula apart from this option. The table below displays estimated enrollment growth increases for FY 2009 for Arizona's university system.

Estimated FY 2009 Enrollment Increases	
ASU-Main	\$ 3,944,300
ASU-East	6,093,400
ASU-West	3,191,900
NAU	6,499,800
UA-Main	1,117,800
UA-HSC	<u>(108,400)</u>
Total	\$20,738,800

Rollback FY 2008 Student and Faculty Retention Increase

FY 08 Savings: \$10,000,000

FY 09 Savings: \$10,000,000

The General Appropriation Act provided \$10.0 million and 91 FTE Positions from the General Fund to the University of Arizona (UA) for Student and Faculty Retention funding. This funding would be spent on math preparedness for incoming students, an early faculty/staff online referral system for struggling students, and exit and re-entry interventions for students who withdraw.

The table below shows related funding increases for all 3 universities statewide. All funding in the table would be rolled back under this and similar options. As of December 2007, UA expended \$3.3 million and encumbered \$3.9 million, leaving a balance of \$2.8 million from the original appropriation.

FY 2008 Student and Faculty Retention Increases	
ASU	\$15,064,000
NAU	4,736,000
UA	<u>10,000,000</u>
Total	\$29,800,000

Revert Back to 22 to 1 to 0.5 Formula

FY 08 Savings: \$0

FY 09 Savings: \$140,800

This option would revert back to the pre-FY 2007 university enrollment growth funding formula that added or subtracted 1 faculty and 0.5 support FTE Positions and their associated General Fund costs for every 22-FTE-student change. Beginning in FY 2007, the enrollment formula added or subtracted 1 faculty and 0.75 support FTE Positions and associated funding for every 22-FTE-student change. Given estimated FY 2009 FTE student counts, reverting back to the 22:1.5 university enrollment growth formula would generate an estimated \$0.1 million in savings at UA Main. The table below displays the difference between estimated enrollment

growth funding for the 22:1.75 versus 22:1.5 formulas in FY 2009.

Estimated Savings Under 22:1.5 Formula			
	<u>22:1.75 FTE</u>	<u>22:1.5 FTE</u>	<u>Difference</u>
ASU-Main	\$ 3,944,300	\$ 3,421,800	\$ 522,500
ASU-East	6,093,400	5,559,000	534,400
ASU-West	3,191,900	2,957,800	234,100
NAU	6,499,800	6,019,300	480,500
UA-Main	1,117,800	977,000	140,800
UA-HSC	<u>(108,400)</u>	<u>(97,300)</u>	<u>(11,100)</u>
Total	\$20,738,800	\$18,837,600	\$1,901,200

Fund 45-Day Enrollment Count

FY 08 Savings: \$0
FY 09 Savings: \$2,768,200

This option would fund university enrollment growth based upon enrollment counts as of the 45th day of classes. Currently, the state funds university enrollment growth based upon enrollment counts on the 21st day of classes but the community college formula uses 45th day counts.

Enrollment counts on the 45th day are typically lower. Funding enrollment based upon estimated FY 2009 FTE student counts on the 45th day of classes would generate an estimated \$2.8 million in savings at UA Main. The table below displays the difference between estimated enrollment growth funding using 21st day counts versus 45th day counts.

Estimated Enrollment Growth Funding Using 21st versus 45th Day Counts			
	<u>21st Day Count</u>	<u>45th Day Count</u>	<u>Difference</u>
ASU-Main	\$3,944,300	\$1,436,500	\$ 2,507,800
ASU-East	6,093,400	4,607,900	1,485,500
ASU-West	3,191,900	2,229,000	962,900
NAU	6,499,800	3,464,700	3,035,100
UA-Main	1,117,800	(1,650,400)	2,768,200
UA-HSC	<u>(108,400)</u>	<u>(108,400)</u>	<u>0</u>
Total	\$20,738,800	\$9,979,300	\$10,759,500

Rollback FY 2008 Water Institute

FY 08 Savings: \$0
FY 09 Savings: \$400,000

Brief Description: The FY 2008 General Appropriation Act provided \$1.2 million and 12 FTE Positions from the General Fund, divided evenly between the 3 universities, to collaboratively improve water policy and management in the state. The appropriation is used for projects such as sustainable water management, education efforts related to water, and technology transfer and economic development. The appropriation is also used to fund university staff who are acting as visiting researchers to the Department of Water Resources, the Department of Commerce, and the Department of Environmental Quality.

Rollback FY 2008 Biomedical Campus Design Increase

FY 08 Savings: \$5,250,000
FY 09 Savings: \$0

This option would rollback the FY 2008 appropriation of \$5.3 million from the General Fund for programming and schematic design for the Arizona Biomedical Collaborative (ABC) 2 and Education buildings at the Phoenix Medical Campus. Arizona State University (ASU) received an additional \$5.3 million for programming and schematic design. The construction cost of the ABC 2 and Education buildings is estimated to be between \$400 million and \$500 million.

Eliminating this funding would delay or prevent the construction of both buildings. The buildings would be used to expand the number of medical students admitted to the campus and house additional research. The current medical school buildings are able to house around 140 medical students, while UA plans to increase enrollment to over 600 medical students by FY 2015. To date, UA and ASU have not expended or obligated their respective appropriations, as both are required to first submit an expenditure plan for review by the Joint Committee on Capital Review (JCCR). The universities have selected a design firm to develop the schematic design and are currently negotiating a formal contract with the firm.

Rollback UA-South Increase

FY 08 Savings: \$1,200,000

FY 09 Savings: \$1,200,000

This option would rollback the FY 2007 General Appropriation Act appropriation of \$1,200,000 from the General Fund to UA-South for a program expansion. This funding was originally designated as one-time in FY 2007, but was continued as an ongoing appropriation in the FY 2008 General Appropriation Act. The additional funding has been used to expand upper-division class offerings at sites in Sierra Vista, Douglas, Graham County, and outlying areas of Pima County.

Chairmen's Options

Lump Sum Reduction

FY 08 Savings: \$8,095,400
FY 09 Savings: \$8,095,400

See Lump Sum Reduction section for any exemptions.

Other Options

No FY 2009 Enrollment Growth Funding

FY 08 Savings: \$0
FY 09 Savings: \$0

This option would not add enrollment growth funding for the universities in FY 2009. The enrollment formula adds or subtracts 1 faculty and 0.75 support FTE Positions, and their associated General Fund costs for every 22-FTE-student change. Using estimated FY 2009 FTE numbers, the UA-HSC would generate a \$(142,000) reduction in enrollment growth funding for FY 2009 under that formula apart from this option. Since the JLBC Baseline would incorporate this reduction, there are no savings associated with this option for the Health Sciences Center. The table below displays estimated enrollment growth increases for FY 2009 for Arizona's university system.

Estimated FY 2009 Enrollment Increases	
ASU-Main	\$ 3,944,300
ASU-East	6,093,400
ASU-West	3,191,900
NAU	6,499,800
UA-Main	1,117,800
UA-HSC	<u>(108,400)</u>
Total	\$20,738,800

Revert Back to 22 to 1 to 0.5 Formula

FY 08 Savings: \$0
FY 09 Savings: \$0

This option would revert back to the pre-FY 2007 university enrollment growth funding formula that added or subtracted 1 faculty and 0.5 support FTE Positions and their associated General Fund costs for every 22-FTE-student change. Beginning in FY 2007, the enrollment formula added or subtracted 1 faculty and 0.75 support FTE Positions and associated funding for every 22-FTE-student change. Given estimated FY 2009 FTE student counts, reverting back to the 22:1.5 university enrollment growth formula would generate a \$(11,100) reduction in funding at UA-HSC. Since the JLBC Baseline would incorporate this reduction, there are no savings associated with this option for the Health Sciences Center. The table below displays the difference between estimated enrollment growth funding for the 22:1.75 versus 22:1.5 formulas in FY 2009.

Estimated Savings Under 22:1.5 Formula			
	<u>22:1.75 FTE</u>	<u>22:1.5 FTE</u>	<u>Difference</u>
ASU-Main	\$ 3,944,300	\$ 3,421,800	\$ 522,500
ASU-East	6,093,400	5,559,000	534,400
ASU-West	3,191,900	2,957,800	234,100
NAU	6,499,800	6,019,300	480,500
UA-Main	1,117,800	977,000	140,800
UA-HSC	<u>(108,400)</u>	<u>(97,300)</u>	<u>(11,100)</u>
Total	\$20,738,800	\$18,837,600	\$1,901,200

Fund 45-Day Enrollment Count

FY 08 Savings: \$0
FY 09 Savings: \$0

This option would fund university enrollment growth based upon enrollment counts as of the 45th day of classes. Currently, the state funds university enrollment growth based upon enrollment counts on the 21st day of classes but the community college formula uses 45th day counts.

Enrollment counts on the 45th day are typically lower. Funding enrollment based upon estimated FY 2009 FTE student counts on the 45th day of classes would generate no savings at UA-

HSC. The table below displays the difference between estimated enrollment growth funding using 21st day counts versus 45th day counts.

Estimated Enrollment Growth Funding Using 21 st versus 45 th Day Counts			
	21st Day Count	45th Day Count	Difference
ASU-Main	\$3,944,300	\$1,436,500	\$ 2,507,800
ASU-East	6,093,400	4,607,900	1,485,500
ASU-West	3,191,900	2,229,000	962,900
NAU	6,499,800	3,464,700	3,035,100
UA-Main	1,117,800	(1,650,400)	2,768,200
UA-HSC	(108,400)	(108,400)	0
Total	\$20,738,800	\$9,979,300	\$10,759,500

Rollback FY 2008 Telemedicine Increase

FY 08 Savings: \$1,000,000
FY 09 Savings: \$1,000,000

This option would rollback the new FY 2008 appropriation of \$1.0 million and 2 FTE Positions from the General Fund to expand the telemedicine program to Phoenix. Currently, the telemedicine program is offered exclusively at the UA Main Campus in Tucson. The expansion will link a range of healthcare providers to teach medical students the latest technology in medical education and new ways of delivering care in a team based model. Additionally, the funding will be used to develop a pilot inter-professional clinical delivery system throughout the state. Elimination of this funding would leave \$1.2 million for telemedicine in the UA-HSC base budget. As of December 2007, UA expended \$228,000 and encumbered \$319,500, leaving a balance of \$452,500 from the original appropriation.

Rollback FY 2008 Pharmacy Increase

FY 08 Savings: \$1,500,000
FY 09 Savings: \$1,500,000

This option would rollback the new FY 2008 appropriation of \$1.5 million and 11 FTE Positions from the General Fund to start a 4-year Doctor of Pharmacy program in Phoenix and allow 40 students enrolled in the Tucson pharmacy program to complete their 4th year of training in Phoenix. Eliminating this funding would prevent the proposed expansion. As of December 2007, UA expended \$218,000 and encumbered

\$401,000, leaving a balance of \$881,000 from the original appropriation.

Rollback FY 2008 Medical Campus Increase

FY 08 Savings: \$6,000,000
FY 09 Savings: \$6,000,000

This option would rollback the new FY 2008 appropriation of \$6.0 million and 26.5 FTE Positions from the General Fund to double the projected medical school class size from 24 students to 48 students in FY 2009. Elimination of this funding would leave \$6.2 million for the medical campus in the UA-HSC base budget. Some or all of this funding could potentially be eliminated in FY 2008 before the university prepares to accept these additional students.

Other Options

Rollback FY 2008 Benefit Counselors Increase

FY 08 Savings: \$985,400

FY 09 Savings: \$928,400

Veterans' Benefit Counselors (VBCs) answer questions about benefit eligibility and help veterans apply and obtain benefits. This option would rollback the 19 additional VBCs appropriated for FY 2008. This option would retain a total of 40 VBCs, including the 21 additional VBCs appropriated for FY 2007. Information compiled by the Governor's Office in FY 2006 showed that 10 of 37 other states had more state VBCs per veteran than Arizona. As of December, the department has spent \$1.4 million of the total \$3 million VBC appropriation.

Lump Sum Reduction

FY 08 Savings: \$928,500

FY 09 Savings: \$928,500

See Lump Sum Reduction section for any exemptions.

Department of Water Resources

Chairmen's Options

Rollback New Water Protection Fund Deposit

FY 08 Savings: \$1,000,000

FY 09 Savings: \$2,000,000

A.R.S. § 45-2112 requires that \$5,000,000 be transferred into the Water Protection Fund each year for grants to organizations for the preservation, enhancement, and restoration of rivers, streams, and riparian environments. The FY 2008 Environment Budget Reconciliation Bill (Laws 2007, Chapter 262) continues a session law change to A.R.S. § 45-2112 suspending the statutory \$5,000,000 General Fund appropriation to the Water Protection Fund in FY 2008 and FY 2009 and notes that the amount shall be as specified in the General Appropriation Act. This appropriation had previously been suspended since FY 2004. This fund receives other sources of revenue, such as monies from purchases or leases of Central Arizona Project water.

The FY 2008 General Appropriation Act (Laws 2007, Chapter 255) includes \$1 million in FY 2008 and \$2 million in FY 2009. This option would eliminate the FY 2008 appropriation of \$1 million and the FY 2009 appropriation of \$2 million. If the FY 2008 appropriation is eliminated, the fund would have \$10.3 million available for grants in FY 2008. The department plans to expend \$6 million of the monies, leaving an estimated FY 2008 ending balance of \$4.3 million.

Shift Assured and Adequate Water Program Costs

FY 08 Savings: \$1,100,000

FY 09 Savings: \$1,100,000

Laws 2005, Chapter 217 established the Assured and Adequate Water Supply (AAWS) Administration Fund to provide for the costs and expenses incurred by DWR when determining and declaring assured and adequate water supplies. Prior to the creation of this Special Line Item (SLI), the AAWS program was funded from the department's operating budget at an estimated General Fund cost of \$1.7 million per year. This amount was shifted to the new AAWS Administration SLI in FY 2007 and was earmarked

as one-time funding due to the creation of the AAWS Administration Fund. The \$1.7 million appropriation was continued in FY 2008 and FY 2009.

Revenues generated by the program are deposited into this new fund and are expected to allow the program to be more reliant on revenue generated from fees rather than the General Fund, where the fees were previously deposited. Revenue deposited into the fund in FY 2007 totaled \$0.8 million. It is expected that this amount will eventually increase to \$1.1 million in the future.

This option would reduce the General Fund appropriation by \$1.1 million in FY 2009, leaving \$1.7 million for the program (\$0.6 million General Fund, \$1.1 million in fees), which was the same amount funded in FY 2006. We are awaiting information on any year-to-date expenditures.

Lump Sum Reduction

FY 08 Savings: \$2,097,500

FY 09 Savings: \$2,097,500

See Lump Sum Reduction section for any exemptions.

Other Options

Rollback FY 2008 Drought Office Increase

FY 08 Savings: \$500,000

FY 09 Savings: \$491,200

The Conservation and Drought Office was originally requested in the Executive's FY 2007 budget. The Legislature did not appropriate funding for the new program in FY 2007. However, the department used \$500,000 and 6 FTE Positions from the Rural Water Studies Special Line Item (SLI) to fund the new program. As a part of the final FY 2008 budget, a new SLI was created and ongoing funding was provided to continue this program. Funding totaled \$0.5 million in FY 2008 and \$0.5 million in FY 2009.

DWR reports that \$0.1 million, or 24.7% of the FY 2008 appropriation, has been expended so far in

FY 2008. This option would eliminate the FY 2008 and FY 2009 appropriations of \$0.5 million.

Rollback FY 2008 Rural Water Studies Increase

FY 08 Savings: \$500,000

FY 09 Savings: \$500,000

This option would reduce Rural Water Studies funding from \$2 million to \$1.5 million. These studies assess local water use needs and develop plans for sustainable future water supplies in rural areas outside the state's Active Management Areas. Currently, there are 10 studies underway.

Of the \$2 million appropriated for the line in FY 2007, DWR used \$0.5 million for the Drought Office and \$1.5 million for Rural Water Studies. As a result, funding this program at \$1.5 million in FY 2008 would leave it at the same level of funding as in FY 2007. The Conservation and Drought Office was separately funded in FY 2008.

Rollback FY 2008 Adjudication Support Funding

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

A.R.S. § 45-251 requires the Department of Water Resources (DWR) to provide technical and administrative support to judicial proceedings involving general stream adjudications for the Gila and Little Colorado River. The FY 2008 General Appropriation Act (Laws 2007, Chapter 255) includes \$1 million and 13 FTE Positions from the General Fund in FY 2008 and FY 2009 for additional staff to assist in general stream adjudications.

The purpose of the adjudications is to determine the nature, extent, and priority of the water rights claims on the 2 rivers. Technical support for the adjudication courts includes the preparation of hydrographic survey reports and technical reports on specific issues within the adjudications.

In 1953, Congress passed the McCarran Amendment, granting state courts jurisdiction over the adjudication of the tribal water rights. As part of this amendment, if the states are unsuccessful in completing the adjudications, the adjudications will be moved to federal courts.

This option would eliminate the FY 2008 and FY 2009 appropriation of \$1 million. We are awaiting information on any year-to-date expenditures.

Statewide - Lump Sum Reduction

Chairmen's Options

10% Lump Sum Reduction

FY 08 Savings: \$246,312,800

FY 09 Savings: \$246,312,800

The following table provides the estimated impact of a 10% lump sum reduction to agency budgets, which is estimated to generate \$246 million. Lump sum reductions provide agencies with the flexibility to determine their own spending priorities. As a result, the lump sum reduction calculation excludes statutory funding formulas, which agencies cannot modify on their own. These exempted amounts are described in the "Exclusions" column.

The lump sum amount is based on the FY 2008 budget adjusted for other reductions in the Chairmen's Options. Additionally, agencies below a General Fund budget of \$400,000 were exempted, due to the small level of savings generated by a 10% reduction.

Of the \$10.6 billion General Fund budget, statutory requirements account for \$6.8 billion. Other exemptions total \$1.4 billion. After exempting this funding, the base for lump sum reductions is \$2.5 billion. Ten percent of this amount is \$246 million. Without the exemptions, the total impact of the 10% reduction would be \$1.1 billion.

The size of the lump sum reduction is currently set at 10%; however, the size of the reduction could be modified. Each 1% of the reduction generates \$25 million.

Most of the Department of Education (ADE) and Arizona Health Care Cost Containment System (AHCCCS) budgets are determined by statutory funding formulas and are therefore largely exempted from the 10% option. If ADE and AHCCCS were to implement lump sum reductions across their entire budgets, they may require more than a statutory change. They may also need to consider altering programs that are "voter protected" by the State Constitution (Article 4, Part 1, Section 1).

In 1998, Arizona voters approved Proposition 105, which stipulates that the Legislature cannot amend statutory language in other ballot

propositions unless the amendment "furthers the purposes" of the proposition and is approved by a three-fourths majority vote. These "voter protection" provisions affect inflation funding for Basic State Aid in the ADE budget and the expanded income eligibility limits established by Proposition 204 in AHCCCS. If any proposed changes to these specific provisions do not further the purpose of the original ballot propositions, they can be modified by placing a new referendum on the ballot.

In ADE, Proposition 301 from the November 2000 election requires "the base level or other components of the revenue control limit" to be increased each year for inflation. Differing legal opinions have existed regarding the interpretation of that requirement since it became law. In October 2001, Legislative Council opined that it required the Legislature to increase *either* the "base level" or "route mile" funding rates each year. In November 2001, however, the Attorney General opined that it required *both* items to be increased annually. Increasing both "base level" and "route mile" funding in FY 2009 by 2% would cost the state an estimated \$105.0 million. Increasing only "route mile" funding, however, would cost only about \$4.3 million (\$104.7 million less).

With the statutory and other exemptions, ADE's 10% lump sum reduction is \$9.9 million. If there were no exemptions, ADE's budget would be reduced by \$436 million. Achieving this savings would require statutory changes. The need to modify voter protected provisions would depend on whether sufficient savings could be generated without affecting the voter protected inflation funding.

In AHCCCS, Proposition 204 from the November 2000 election increased the income eligibility limit for AHCCCS to 100% of the federal poverty line. With the statutory and other exemptions, AHCCCS' 10% lump sum reduction is \$11.9 million. Without the exemptions, AHCCCS' reduction would be \$127 million. As with ADE, reductions of this magnitude would require statutory changes. These changes could modify eligibility for programs above 100% of the federal poverty line or the current payment methodology without affecting the voter protected Proposition 204 programs.

10% Lump Sum Reduction Detail

<u>Agency</u>	<u>FY 2008 Approp</u>	<u>Exemption</u>	<u>10% Lump Sum</u>	<u>Exclusions ^{1/}</u>
Administration, Department of	33,312,200	9,694,400	2,361,800	ENSCO payment, Capitol Police
Administrative Hearings, Office of	1,283,300	-	128,300	
Agriculture, Arizona Department of	12,481,600	-	1,248,200	
AHCCCS	1,269,136,000	1,150,108,000	11,902,800	Capitation, Reinsurance, Fee-For-Service lines, Medicare Premiums, Breast and Cervical Cancer, Ticket to Work, Clawback, Temporary Medical Coverage, and Prop 204 County Hold Harmless Does not exempt Administration, Part D Copay Subsidy, Disproportionate Share, Graduate Medical Education, Hospital Loan Residency Program, Critical Access Hospitals, Rural Hospital Reimbursement and the Board of Nursing funding
Arts, Arizona Commission on the	2,127,600	-	212,800	
Attorney General	24,651,900	90,000	2,456,200	Attorney General Salary
Biomedical Research Commission	1,000,000	1,000,000	-	This funding is eliminated elsewhere in the Chairmen's options.
Capital Postconviction Defender Office, State	737,900	-	73,800	
Charter Schools, State Board for	1,129,500	1,129,500	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Commerce, Department of	15,925,100	3,450,100	1,247,500	
Community Colleges	167,744,800	167,744,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Corporation Commission	5,857,400	397,500	546,000	Commissioner Salaries
Corrections, Department of	910,277,200	880,458,200	2,981,900	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Criminal Justice Commission, AZ	2,202,000	1,208,000	99,400	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Deaf & the Blind, AZ State Schools for the	22,010,400	22,010,400	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Economic Security, Department of	794,336,400	323,784,000	47,055,200	Title XIX Long Term Care State Match, TANF Cash Benefits, Tuberculosis Control
Education, Department of	4,363,465,100	4,264,111,000	9,935,400	Basic State Aid, Additional State Aid, Special Education Vouchers, English Language Learner and Compensatory Instruction
Emergency and Military Affairs, Department of	14,581,600	6,221,000	836,100	Governor's Emergency Fund Statutory Appropriation, NEMF Deposit, Guardsmen Tuition Reimbursement
Environmental Quality, Department of	32,979,000	15,530,500	1,744,900	Water Quality Assurance Revolving Fund (WQARF) Deposit
Equal Opportunity, Governor's Office of	260,800	260,800	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Equalization, State Board of	672,900	-	67,300	
Executive Clemency, Board of	1,153,500	1,153,500	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Financial Institutions, State Department of	4,081,800	-	408,200	
Fire, Building and Life Safety, Department of	3,922,100	-	392,200	
Geological Survey, Arizona	1,151,900	-	115,200	
Government Information Technology Agency	2,000,000	2,000,000	-	This funding is eliminated elsewhere in the Chairmen's options.
Governor, Office of the	7,476,900	119,400	735,800	Governor Salary
Governor's Office of Strategic Planning & Budgeting	2,313,600	-	231,400	
Health Services, Department of	583,432,200	344,920,700	23,851,200	Behavioral Health and Children's Rehabilitative Services State Match and Premium Tax
Historical Society, Arizona	4,521,300	1,186,700	333,500	Papago Park Museum Lease-Purchase Payment
Historical Society of AZ, Prescott	780,700	-	78,100	
Indian Affairs, AZ Commission of	237,700	237,700	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Insurance, Department of	7,800,800	-	780,100	
Judiciary				
Supreme Court	18,412,600	714,700	1,100,000	The amount of this reduction was specifically designated by the Chairmen's options and is 6%, excluding judges' salaries.
Court of Appeals	14,127,800	14,127,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Superior Court	95,681,100	95,681,100	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
SUBTOTAL - Judiciary	128,221,500	56,882,500	1,100,000	
Juvenile Corrections, Department of	81,449,800	70,908,000	1,054,200	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Land Department, State	27,329,500	3,775,000	2,355,500	Fire Suppression Statutory Appropriation

<u>Agency</u>	<u>FY 2008 Approp</u>	<u>Exemption</u>	<u>10% Lump Sum</u>	<u>Exclusions ^{1/}</u>
Legislature				
Auditor General	18,791,500	-	1,879,200	
House of Representatives	14,276,500	1,913,300	1,236,300	Legislator Salaries
Joint Legislative Budget Committee	3,040,900	-	304,100	
Legislative Council	5,717,100	-	571,700	
Library, Archives & Public Records, Arizona State Senate	7,787,600	-	778,800	
Senate	9,476,300	944,000	853,200	Legislator Salaries
SUBTOTAL - Legislature	59,089,900	2,857,300	5,623,300	
Liquor Licenses & Control, Department of	3,646,200	1,525,000	212,100	The Chairmen's options excludes investigations salaries and operations, otherwise entire budget would be subject to lump
Medical Student Loans, Board of	1,500,000	-	150,000	
Mine Inspector, State	1,884,800	1,884,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Mines & Mineral Resources, Department of	950,800	-	95,100	
Navigable Stream Adjudication Commission, AZ	180,000	180,000	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Nursing, State Board of	167,300	167,300	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Parks Board, State	28,212,200	21,500,000	671,200	Growing Smarter Ballot Proposition
Personnel Board	370,800	370,800	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Pioneers' Home, AZ	1,260,000	-	126,000	
Postsecondary Education, Commission of	7,427,300	7,427,300	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Public Safety, Department of	177,708,000	148,407,000	2,930,100	Chairmen exclude all but administrative expenses, otherwise entire budget would be subject to lump sum.
Racing, Arizona Department of	2,851,100	-	285,100	
Radiation Regulatory Agency	2,249,700	592,200	165,800	NEMF Deposit
Rangers' Pensions, Arizona	13,400	13,400	-	Statutory Formula
Real Estate Department, State	4,614,000	-	461,400	
Revenue, Department of	76,942,100	-	7,694,200	
School Facilities Board	532,695,100	530,750,700	194,400	New Schools Facilities Fund debt service payment, New School Construction, Building Renewal
Secretary of State, Department of State	7,222,300	4,457,800	276,500	Elections Funding and Secretary of State Salary
Tax Appeals, State Board of	317,900	317,900	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Tourism, Office of	15,649,400	15,649,400	-	Statutory Formula Deposit
Transportation, Department of	86,600	86,600	-	Below \$400,000 threshold in Chairmen's options, otherwise entire budget would be subject to lump sum.
Treasurer, State	5,616,700	5,616,700	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Universities				
Arizona Board of Regents	20,598,000	12,835,500	776,300	Financial Assistance
ASU - Main Campus	416,764,800	-	41,676,500	
ASU - East Campus	25,915,900	-	2,591,600	
ASU - West Campus	53,604,400	-	5,360,400	
NAU	160,868,800	-	16,086,900	
UofA - Main Campus	362,389,200	-	36,238,900	
UofA - Health Sciences Center	80,954,200	-	8,095,400	
SUBTOTAL - Universities	1,121,095,300	10,041,200	110,826,000	
Veterans' Services, Department of	9,284,800	9,284,800	-	This budget is excluded from the Chairmen's options, otherwise entire budget would be subject to lump sum.
Water Resources, Department of	24,074,600	3,100,000	2,097,500	
Weights and Measures, Department of	1,710,800	-	171,100	
Total	10,618,867,100	8,215,971,000	246,312,800	

1/ Funding for these items was excluded when calculating the 10% reduction. Exclusions also include amounts for specific reductions included elsewhere in the Chairmen's options.

Capital Outlay

Chairmen's Options

Eliminate ADOA Old Health Lab Renovation Project

FY 08 Savings: \$2,207,000

FY 09 Savings: \$2,207,000

The Capital Outlay Bill (Laws 2007, Chapter 257) appropriated \$2.2 million to the Arizona Department of Administration (ADOA) in FY 2008 and FY 2009 for the renovation of the former state health laboratory. The 27,100 square foot facility has been two-thirds vacant since the new state health laboratory opened in FY 2004. The combined funding would allow the renovation of the laboratory to replace the existing 23,300 square foot Department of Agriculture laboratory, and allow for the sale of the current Agriculture lab. ADOA estimates that the sale could generate approximately \$890,000 to the state after expenses to demolish the existing facility. The planned renovations would extend the life of the building by 10 years. The scope, purpose, and estimated cost of the project have not been submitted to the Joint Committee on Capital Review (JCCR), but the department may have expended some monies for initial design.

Eliminate DES Navajo Multipurpose Facility Project

FY 08 Savings: \$0

FY 09 Savings: \$1,000,000

The Capital Outlay Bill (Laws 2007, Chapter 257) appropriated \$1.0 million to DES in both FY 2008 and FY 2009 for distribution to the Navajo Tribe for a multipurpose center. DES planned on distributing the FY 2008 funding to the Navajo tribe the week of November 5, 2007.

Move Southern Arizona Veterans' Home Funding to FY 2009

FY 08 Savings: \$10,000,000

FY 09 Savings: \$(10,000,000)

The FY 2007 budget appropriated \$10 million for construction of the Southern Arizona Veterans' Home in Tucson. The Department of Veterans Affairs (VA) requires that states pay 35% of the

construction costs while the federal government pays the remaining 65%. The VA publishes an annual list of priority projects, and available federal monies are distributed according to the list. The most recent list, published in October 2007, indicated that the Southern Arizona Veterans' Home would not receive matching federal funding until at least FY 2010. The Department of Veterans' Services has not spent any monies on the Home thus far, and does not plan to do so in FY 2008.

This option would revert the \$10 million in FY 2008 and then appropriate \$10 million for the Home in FY 2009. If the Legislature reverts the money in FY 2008 but does not appropriate it in FY 2009, the priority of this project on the federal list may be impacted.

Eliminate Yuma Welcome Center Funding

FY 08 Savings: \$2,798,000

FY 09 Savings: \$1,000,000

A total of \$4 million has been appropriated to the Office of Tourism for distribution to the City of Yuma to build a Yuma Welcome Center. Laws 2006, Chapter 335, appropriated \$2 million from the General Fund in FY 2007, while the Capital Outlay Bill (Laws 2007, Chapter 257) appropriated \$1 million in both FY 2008 and FY 2009 to finish the center.

Laws 2006, Chapter 335 required that the City of Yuma operate and maintain the center through its city-funded Convention and Visitors Bureau, and that the city acquire the property (from the federal government). Laws 2007, Chapter 257 amends Chapter 335 to modify the property acquisition requirement to also allow the property to be conveyed by license to the city. The appropriations do not require a local matching of funds.

Of the \$2 million FY 2007 appropriation, to date Tourism has given \$202,000 to the city for design fees. After the city completes the design development phase of the project, Tourism will give the city 15% of the FY 2007 appropriated amount. Tourism has not distributed any of the \$1 million FY 2008 appropriation.

This option would eliminate the Welcome Center funding by reverting \$1.8 million of the unspent FY 2007 appropriation along with eliminating the \$1 million FY 2008 appropriation. Therefore, the state savings would be a total of \$2.8 million in FY 2008, plus the \$1 million FY 2009 appropriation.

Other Options

Eliminate Department of Correction's Door & Lock Project

FY 08 Savings: \$10,045,300
FY 09 Savings: \$0

In FY 2002, an assessment of the Arizona Department of Corrections (ADC) door and lock replacement needs throughout the Arizona state prison system was completed. At that time, the assessment estimated costs up to \$38.5 million to replace doors, locks, and monitoring panels that exceeded their useful life expectancy or posed security risks. Based on a re-assessment and competitive bid recently completed on a single project in FY 2007, ADOA estimates the total cost of the project may now exceed \$60 million.

Laws 2006, Chapter 345 (FY 2007 Capital Outlay Bill) appropriated \$5.2 million to ADOA to begin the replacement of cell doors and locks throughout the state prison system. In September, ADOA submitted for review, a \$5.2 million plan to the JCCR. The project includes the replacement of a control room panel and 408 doors and locks located at the ASPC-Tucson, Rincon Unit. In October, the Committee gave a favorable review to their request. At that time, ADOA expended \$354,700 (of the \$5.2 million) for professional service fees relating to the project.

In addition to the monies appropriated in FY 2007, another \$5.2 million was appropriated in FY 2008 for the continued replacement of cell doors and locks throughout the state prison system. The ADC has identified an additional 6 projects at 5 complexes where the security control systems, doors and locks are in the most need of replacement. Costs associated with the projects are unknown as a re-assessment has not been completed. The projects identified are anticipated to address the most critical problems, in high-custody level locations, with minimal disruption to operations.

This option would eliminate the \$5.2 million appropriated in each of FY 2007 and FY 2008, less the \$354,700 already expended, to address these projects.

Eliminate DJC HVAC & Electrical Renovations

FY 08 Savings: \$885,000
FY 09 Savings: \$0

The Capital Outlay Bill (Laws 2007, Chapter 257) appropriated \$885,000 to ADOA in FY 2008 for the Department of Juvenile Corrections Black Canyon Girls School to replace air-cooling and electrical systems in 2 housing units. At a November 2007 JCCR Meeting, \$835,000 of this appropriation was favorably reviewed.

The housing units were built with evaporative cooling units that are past their useful life. The evaporative coolers would be replaced with air conditioning units. The housing units do not have sufficient electrical capacity to support air conditioning systems, and electrical upgrades would also be done. Savings associated with this item result in the delay of HVAC upgrades at Black Canyon School recreational facilities.

Department of Administration

Chairmen's Options – Fund Transfers

Fund: Automation Operations (ADA4230)

FY 08 Fund Balance: \$2,993,900

FY 09 Transfer: \$748,500

The Automation Operations Fund receives charges to agencies and other political entities for ADOA's data center services. A balance is maintained in this fund to provide a working capital reserve to replace equipment associated with the operation of the data center. These charges are paid by federal as well as state funds. As a result, if monies are transferred out of this fund, a proportionate amount must be returned to the federal government. The estimated federal portion is 28%, resulting in an additional transfer of \$209,600 to the federal government if \$748,500 is transferred to the General Fund.

Fund: Certificate of Participation (ADA5005)

FY 08 Fund Balance: \$5,066,800

FY 09 Transfer: \$1,266,700

Rental and tenant improvement charges to agencies occupying ADOA-owned buildings are deposited in the Certificate of Participation Fund to pay maintenance, utilities, construction, and administrative costs for state-owned buildings. Expenditures from this fund are approximately \$30 million annually.

Of the FY 2008 balance, \$824,300 is due to the over collection of funds appropriated to both ADOA and the Judiciary for the same space, which was formerly occupied by the State Law Library.

Fund: Construction Insurance (ADA4219)

FY 08 Fund Balance: \$15,880,900

FY 09 Transfer: \$3,970,200

Risk management charges to agencies for state construction projects are placed in the Construction Insurance Fund to self-insure state construction projects with total costs under \$50 million and to purchase "wrap-up" or "owner-controlled insurance programs" (OCIP) for

projects with total costs over \$50 million. An OCIP is provided by the owner of a project to protect its own interests and those of all participating contractors.

As this is an insurance fund, it must maintain a sufficient balance to cover expected future claims. It is estimated that payments from this fund will be approximately \$1.3 million in FY 2008.

In FY 2002, \$600,000 was transferred from this fund to resolve a budget shortfall.

Fund: Motor Vehicle Pool Revolving (ADA4204)

FY 08 Fund Balance: \$12,150,100

FY 09 Transfer: \$3,037,500

ADOA charges state agencies for the use of motor pool vehicles and deposits these charges in the Motor Vehicle Pool Revolving fund. These funds are used to operate and maintain the state motor pool, including the replacement of vehicles with over 120,000 miles. The fund balance fluctuates from year to year due to an irregular replacement schedule for these vehicles.

From FY 2002 through FY 2005, a total of \$10.4 million was transferred from this fund to resolve budget shortfalls.

Fund: Retiree Accumulated Sick Leave (YYA3200)

FY 08 Fund Balance: \$13,135,500

FY 09 Transfer: \$3,283,900

A 0.40% charge on the total benefit-eligible payroll of each agency within the ADOA personnel system goes to the Retiree Accumulated Sick Leave Fund. The fund compensates eligible retiring state employees for accumulated sick leave, pays insurance premiums, and administers the program. Payments are calculated as a percentage, tiered according to accrual level, of hourly salary.

An actuarial study to determine the fund balance required to meet future obligations has not been completed. As a result, we cannot

determine the impact of the transfer on the actuarial soundness of the fund.

In FY 2002 and FY 2003, a total of \$5.2 million was transferred from this fund to resolve a budget shortfall.

Fund: Risk Management Revolving (ADA4216)

FY 08 Fund Balance: \$27,792,700

FY 09 Transfer: \$6,114,400

The Risk Management Revolving Fund receives actuarial charges assessed to agencies insured under the state's risk management system, as well as recoveries by the state through litigation. The fund is used to pay damages relating to self-insured liability, property, and workers' compensation losses; to purchase additional risk management services including supplemental insurance, loss prevention, and private counsel; and to operate the Risk Management Division.

This fund represents the reserve for the self-insured risk management system. This reserve is used to pay for current claims and as a contingency fund to pay for unforeseen liabilities. We do not currently have an actuarial estimate of the recommended level of reserves.

In FY 2003, \$12 million was transferred from this fund to resolve a budget shortfall, leaving a balance of \$18.4 million. This transfer would leave the fund with a balance of \$21.7 million.

A portion of this fund is federal monies. If monies are transferred out of this fund, a proportionate amount is returned to the federal government. The estimated federal portion is 12%, resulting in an additional transfer of \$833,800 to the federal government if the \$6.1 million is transferred to the General Fund.

Fund: Special Employee Health Insurance Trust (ITA3015)

FY 08 Fund Balance: \$74,151,100

FY 09 Transfer: \$18,537,800

The Special Employee Health Insurance Trust Fund receives monies from employer and employee medical and dental insurance contributions. The fund is used to administer and pay premiums and claims for state employee health insurance plans, as well as to operate the Wellness and Communications program. Only

administrative expenditures from this fund are subject to legislative appropriation.

This fund represents the reserve for the self-insured employee health insurance program and decreasing the balance may lower the reserve to an actuarially underfunded level. A JLBC commissioned actuarial audit of the health insurance program recommended that ADOA set explicit targets for the HITF balance. The audit recommended a minimum target of the "incurred but not paid" claims, which at the time was estimated at \$51 million. The audit also recommended an additional contingency fund equal to 10% of annual claim costs, or \$59 million for FY 2008.

The fund balance has increased from \$51 million in FY 2006 to \$79 million in FY 2007. As a result, the transfer would reduce the fund to slightly more than its FY 2006 balance.

Other Options – Fund Transfers

Fund: Emergency Telecommunication Services Revolving (ADA2176)

FY 08 Fund Balance: \$50,171,000

FY 09 Transfer: \$12,542,800

The Emergency Telecommunication Services Revolving Fund receives the telecommunication services excise tax, currently \$0.20 per wire or wireless account, levied on monthly telephone bills and remitted by telephone companies. The fund aids in the implementation and operation of emergency telecommunication services (911); purchases equipment and consulting services (up to 3% of revenue); pays monthly recurring costs for capital, maintenance, and operations; and reimburses wireless carriers for the costs of compliance.

A.R.S. § 41-704 stipulates that any unexpended monies in the fund are used to lower the telecommunications tax rate. Due to the large balance, the Legislature decreased the statutory tax rate from \$0.37 for each wired and wireless service account in FY 2006 to \$0.28 in FY 2007 and \$0.20 in FY 2008.

ADOA plans to spend down the accumulated balance over the next several years. For FY 2008, ADOA estimates new revenues of \$21 million to this fund and expenditures of \$24 million. By

FY 2010, ADOA projects revenues declining to \$18 million, while expenditures increase to \$37 million.

Historically, local governments have been slower than projected in implementing their programs. As a result, ADOA's estimates of expenditures have often been overstated. ADOA now reports that local governments are expediting their programs, which may change this tendency to overstate expenditures. ADOA currently expects the fund balance to be exhausted in FY 2012.

Between FY 2003 and FY 2004, a total of \$15 million was transferred from this fund to resolve budget shortfalls.

Chairmen's Options – Fund Transfers

Fund: Livestock and Crop Conservation
(AHA 2378)

FY 08 Fund Balance: \$3,642,500

FY 09 Transfer: \$910,600

The Livestock and Crop Conservation Fund receives \$2 million annually from the Land Conservation Fund. As approved by the voters in 1998, the latter fund receives an annual \$20 million appropriation from the General Fund in FY 2001-FY 2011, along with matching donations.

The Livestock and Crop Conservation Fund is used as grants to landowners, as well as to grazing and agricultural lessees of state or federal land, who implement conservation measures using livestock or crop production practices. The grants are also used to reduce livestock or crop production to provide wildlife habitat or other public benefits that preserve open space.

The statute that establishes the Land Conservation Fund and governs its revenues and expenditures is voter protected by the provisions of 1998's Proposition 105. In 1998, Arizona voters approved Proposition 105, which stipulates that the Legislature cannot amend statutory language in other ballot propositions unless the amendment "furthers the purposes" of the proposition and is approved by a three-fourths majority vote.

After the passage of the Land Conservation Fund, the Legislature subsequently amended the statute to allocate \$2 million of this amount to the Livestock and Crop Conservation Fund. As a result, the Livestock and Crop Conservation Fund is not in the original ballot proposition. The \$2 million allocation, however, is likely to be viewed as voter protected due to the original source of the funds. As a result, this transfer would appear to require the three-fourths vote.

Other Options – Fund Transfers

Fund: Arts Endowment (HUA3106)

FY 08 Fund Balance: \$20,463,400

FY 09 Transfer: \$5,115,900

This option would transfer 25% of the Arts Endowment Fund (\$5.1 million) to the General Fund. The base of the Arts Endowment Fund is a \$20 million endowment provided by legislative appropriation. The fund reached the intended \$20 million target in FY 2007 when the Legislature appropriated an additional \$7 million to the fund.

The interest earned from the investment of the endowment is used to award grants to mid-sized arts organizations for stabilization projects. As of December, the commission has disbursed \$306,900 in interest earnings from the fund in FY 2008 and plans to disburse a total of \$1.1 million in interest earnings by the end of the fiscal year.

In FY 2003, \$1 million of the fund was transferred to the General Fund to resolve a budget shortfall. The Legislature later reimbursed the \$1 million to the Arts Endowment Fund.

Other Options – Fund Transfers

Fund: Anti-Racketeering Revolving (AGA2131)

FY 08 Fund Balance: \$22,867,400

FY 09 Transfer: \$5,716,800

The Anti-Racketeering Revolving Fund accepts forfeitures of property and assets that result from Attorney General (AG) enforcement of anti-racketeering statutes. This fund is used to finance investigations or prosecutions of any offense defined as racketeering pursuant to Arizona Statutes.

Of the total \$22.9 million fund balance in FY 2008, \$7.3 million represents funds held on deposit for other state entities that have participated in the enforcement of anti-racketeering statutes, \$13.7 million represents funds held on deposit pending final disposition of civil or criminal cases, and \$1.9 million represents funds that can be used for AG operating expenses. Statute would prohibit a transfer of funds held on deposit pending final disposition of a court case. If monies transferred to the General Fund are above the Attorney General's share of forfeiture monies deposited into this fund, local entities would not receive their portion of forfeiture monies.

In FY 2002 and FY 2003, a total of \$2.9 million was transferred from this fund to resolve budget shortfalls.

Chairmen's Options – Fund Transfers

Fund: Commerce Economic Development Commission (EPA2245)

FY 08 Fund Balance: \$13,738,800

FY 09 Transfer: \$3,434,700

The Commerce Economic Development Commission (CEDC) Fund receives revenues from 2 special lottery games, fees from the registration and sale of securities, and notice filing fees. Revenues are also received from loans granted to businesses for economic development projects and interest earned on the balance.

The CEDC Fund monies are used to provide financial assistance for business retention within Arizona. Retention activities include business attraction to rural and economically disadvantaged areas, assistance to small businesses numbering less than 100 employees, and other financial assistance programs.

Fund: GADA Revolving (EPA2311)

FY 08 Fund Balance: \$20,500,000

FY 09 Transfer: \$5,125,000

Pursuant to A.R.S. § 41-1554.03, the Greater Arizona Development Authority (GADA) Fund receives monies from the federal government, gifts, grants, donations, loan repayments, administrative fees and penalties, interest, and appropriations from the Legislature.

GADA utilizes the monies in the GADA Revolving Fund to issue tax-exempt bonds, which allows localities to receive lower-than-market interest rates for infrastructure projects. GADA is authorized to provide funding, through the sale of bonds, for "infrastructure," defined as "any facility located in this state for public use and owned by a political subdivision, special district or Indian tribe that retains ultimate responsibility for its operation and maintenance." In addition to cities, towns and counties, specific special districts are eligible applicants to GADA; including improvement districts, fire districts, and regional transportation authorities. Typical

projects could include roads, jails, and firehouses.

As of November 8, 2007, the GADA Revolving Fund supports \$347.0 million in bond issuances compared to \$244.1 million as of September 2006. Based on GADA's leverage ratio of 30 to 1, this leaves approximately, \$8.93 million in uncommitted capital. An existing Budget Shortfall Option takes \$2 million of this balance, leaving \$6.93 million of the uncommitted balance available.

In FY 2003, \$2.5 million was transferred from this fund to resolve a budget shortfall.

Fund: Job Training (EPA1237)

FY 08 Fund Balance: \$71,428,500

FY 09 Transfer: \$17,857,100

The Arizona Job Training Fund receives funding primarily from a 0.1% employers' wage tax on the first \$7,000 paid in taxable wages to each employee each calendar year. Funding is also received from legislative appropriations, gifts, grants, the federal government and interest earned on investments.

Pursuant to A.R.S. § 41-1544, monies from the fund reimburse the costs of job training for qualifying companies. The monies within the fund are allocated to training programs for small business employing fewer than 100 employees (25%), training programs for businesses locating to rural areas (25%), and to provide incumbent worker training (50%).

Arizona Job Training Fund grants are awarded for a 2-year period and are on a cost reimbursement basis. Therefore, program funds remain contractually obligated beyond the fiscal year in which the grant was awarded. There are \$32.8 million in grants and contracts that are currently obligated for FY 2008 as of November 8, 2007 with approximately \$4.1 million in pending applications.

Between FY 2002 and FY 2004, a total of \$17.5 million was transferred from this fund to resolve budget shortfalls.

Fund: Military Installation (EPA1010)

FY 08 Fund Balance: \$21,119,800

FY 09 Transfer: \$5,280,000

The Military Installation Fund receives \$4.9 million annually from the General Fund and donations.

The monies in this fund are utilized to provide grants for military preservation and enhancement projects as well as to fulfill costs associated with administering the fund. Pursuant to A.R.S. § 41-1512.01, Commerce awards 80% of the monies to the Department of Veteran's Services to acquire private property, real estate, property rights, and related infrastructure to preserve, support, or enhance a military installation, of which 20% may be awarded to cities, towns, and counties for land acquisition. The remaining 20% is awarded to cities, towns, and counties for military installation preservation and enhancement projects.

Since this fund's creation in FY 2005, \$2.5 million has been expended with an additional \$11.4 million pending as of November 8, 2007.

Fund: Oil Overcharge (EPA3171)

FY 08 Fund Balance: \$4,500,000

FY 09 Transfer: \$1,125,000

The Oil Overcharge Fund consists of revenues from court settlements by oil companies who overcharged consumers during the petroleum price controls of the 1970s, and interest earned on the fund's balance. Final receipt of Oil Overcharge settlement revenue from the U.S. Department of Energy occurred in 2005.

The Oil Overcharge Fund monies provide restitution to the citizens of Arizona through energy programs, grants, and loans administered by the state. This fund carries restrictions for expenditures and is provided oversight by the U.S. Department of Energy. The fund is administered by the Department of Commerce's Energy Office, which is responsible for creating and administering policies and programs that promote development and use of alternative energy and decrease Arizona's reliance on imported fossil fuels. Funding provides educational and technical programs aimed at saving money and improving the quality of life of Arizona's citizens.

Due to federal restrictions, this funding can only be expended for energy related programs. As a result, the monies cannot be reverted directly to the General Fund. In FY 2003, \$8 million was transferred from the fund to School Facilities Board in order to resolve a budget shortfall. Any future transfer would have to be structured in a similar fashion.

Registrar of Contractors

Chairmen's Options – Fund Transfers

Fund: Registrar of Contractors (RGA2406)

FY 08 Fund Balance: \$7,865,300

FY 09 Transfer: \$1,966,300

Monies collected from the examination and licensing of contractors are deposited in the Registrar of Contractors Fund. These monies are used to examine, license, investigate, and regulate contractors, and for board administration. The board retains 90% of these monies and deposits 10% in the General Fund. The fund balance of \$7.9 million represents approximately 50% of the Registrar of Contractors FY 2007 budget.

Corporation Commission

Chairmen's Options - Fund Transfers

Fund: Utility Regulation Revolving (CCA2172)

FY 08 Fund Balance: \$6,300,000

FY 09 Transfer: \$1,575,000

The Utility Regulation Revolving Fund receives revenues from assessments against public utilities regulated by the Commission. The fund is used for all expenses incurred by the Utilities Division.

In FY 2003, \$750,000 was transferred from this fund to resolve a budget shortfall.

State Department of Corrections

Chairmen's Options – Fund Transfers

Fund: Special Services (DCA 3187)

FY 08 Fund Balance: \$2,079,300

FY 09 Transfer: \$519,800

The Special Services Fund, established by A.R.S. § 41-1604.03, consists of 1) profits derived from the state's portion of privatization of inmate stores, and 2) revenues that are generated by the inmate telephone system and automated public access program. Monies in the fund are used for inmate activities, incentive pay increases for corrections officers, equipment, telephone victim notification system, and the operation of canteens and hobby shops.

A major portion of the Special Services Fund is maintained in banks outside the State Treasurer, and the transactions are not processed through the Arizona Financial Information System. As a result, the balance for this fund is reported on an accrual accounting basis.

Board of Cosmetology

Chairmen's Options – Fund Transfers

Fund: Board of Cosmetology (CBA2017)

FY 08 Fund Balance: \$4,367,300

FY 09 Transfer: \$1,091,800

The Board of Cosmetology Fund is used to support Board of Cosmetology operations, including examination, licensing, investigation, and regulation of cosmetologists, salons, and cosmetology schools, and for board administration. Monies in the fund are collected by the board and consist of fees imposed for the examination and licensing of cosmetologists, salons, and cosmetology schools. The board retains 90% of the monies collected and deposits the remaining 10% in the General Fund.

Commission for the Deaf and the Hard of Hearing

Chairmen's Options – Fund Transfers

Fund: Telecommunication Fund for the Deaf (DFA2047)

FY 08 Fund Balance: \$5,814,400

FY 09 Transfer: \$1,453,600

Revenues for this fund come from the Telecommunications Services Excise Tax, which is a 1.1% surcharge on local non-wireless telephone bills. The monies provide funding to operate the Arizona Relay System; support community outreach and education; purchase, repair, and distribute telecommunication devices for the deaf, hard of hearing, blind, and speech impaired; and fund operating costs of the commission.

Fund revenues had been recently declining with the shift to wireless telephones. Fund revenues, however, actually increased from \$5.9 million in FY 2006 to \$6.7 million in FY 2007. JLBC Staff is researching the reasons for this change in trends. If the revenues remain at the FY 2007 level through FY 2008, the anticipated fund balance is \$5.8 million.

In FY 2003 and FY 2004, a total of \$3 million was transferred from this fund to resolve a budget shortfall.

State Board of Dental Examiners

Chairmen's Options - Fund Transfers

Fund: Dental Board (DXA2020)

FY 08 Fund Balance: \$5,168,300

FY 09 Transfer: \$1,292,100

The Dental Board Fund receives revenue from monies collected by the board through the examination and licensing of dentists, denturists, dental hygienists, and dental assistants. The board retains 90% of these monies and deposits 10% in the General Fund.

Department of Economic Security

Chairmen's Options – Fund Transfers

Fund: Long Term Care System (DEA2224)

FY 08 Fund Balance: \$12,128,400

FY 09 Transfer: \$3,032,100

The Long-Term Care System Fund receives client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies. The purpose is to fund administrative and program costs associated with the Long Term Care System. These monies are also used in the State-Funded Long Term Care Services line in the Division of Developmental Disabilities to fund a variety of services ineligible for reimbursement from AHCCCS. The most common service provided is room and board. In FY 2002, \$9.4 million was transferred from this fund to the General Fund.

Department of Education

Chairmen's Options – Fund Transfers

Fund: Special Education (EDA1009)

FY 08 Fund Balance: \$13,248,300

FY 09 Transfer: \$9,000,000

The Special Education Fund (A.R.S. § 15-1182) receives General Fund monies to pay special education voucher costs for students who attend the Arizona State Schools for the Deaf and the Blind (ASDB) or who are placed in a private special education facility pursuant to A.R.S. § 15-1181. Monies in the fund are non-lapsing. The Arizona Department of Education (ADE) reports that the fund had a year-end balance of \$13.2 million for FY 2007.

This option would transfer \$9 million of that balance to the General Fund, which under current projections would leave enough carry-forward monies available at the start of FY 2009 to cover anticipated growth in voucher fund costs through that year. The year-end balance in the fund has been growing in recent years due to lower than expected growth in the number of students using special education vouchers. Current JLBC Staff budget estimates for ADE for FY 2009 assume no change in General Fund funding for special education vouchers because of the availability of carry-forward monies.

Fund: Internal Services (EDA4209)

FY 08 Fund Balance: \$2,100,500

FY 09 Transfer: \$525,100

The Arizona Department of Education (ADE) Internal Services Fund serves as a clearing account for miscellaneous intra-office revenues and expenditures. Monies in the fund are used for pay for expenses such as copier services, MIS maintenance and postage.

In FY 2003, \$500,000 was transferred from this fund to resolve a budget shortfall.

Department of Environmental Quality

Chairmen's Options – Fund Transfers

Fund: Air Quality Clean Air Sub Account (EVA2240)

FY 08 Fund Balance: \$3,556,200

FY 09 Transfer: \$889,000

The Air Quality Fund Clean Air Sub Account receives fees that owners of vehicles 5 years or older pay in-lieu of the vehicle emissions inspections. Monies in this fund are used to support a variety of programs to reduce air pollution, including grants to rural counties and incentives to lower diesel emissions. In addition to DEQ, Clean Air Sub Account monies are distributed to the Department of Transportation, the Arizona Department of Administration, and the Department of Weights and Measures.

Between FY 2003 and FY 2005, a total of \$28.4 million was transferred from this fund to resolve budget shortfalls.

Fund: Air Quality (EVA2226)

FY 08 Fund Balance: \$9,664,600

FY 09 Transfer: \$2,416,200

Brief Description: The Air Quality Fund receives monies from a \$1.50 fee assessed on motor vehicle registrations; gifts, grants, and donations; and legislative appropriations. These funds are used to pay the costs of air quality research, experiments, education, and programs conducted by or for the department.

Fund: Arizona Clean Air Fund Balance (EVA2240)

FY 08 Fund Balance: \$2,876,300

FY 09 Transfer: \$2,876,300

Brief Description: The Arizona Clean Air Fund Balance was established with a transfer from the Arizona Clean Air Fund in 2003, to separate the Clean Air in-lieu fee account from the remaining balance of the Arizona Clean Air Fund. These fees were charged to owners of vehicles less than 6 years old in lieu of vehicle emission inspection fees.

As the programs that these funds supported were eliminated, a transfer of the entire balance may also be considered.

Between FY 2003 and FY 2005, a total of \$24.7 million was transferred from this fund to resolve budget shortfalls.

Fund: Indirect Cost Recovery (EVA7000)

FY 08 Fund Balance: \$7,456,200

FY 09 Transfer: \$1,864,000

Brief Description: The Indirect Cost Recovery Fund contains monies transferred from the department's appropriated and non-appropriated funds, including federal grants, to pay department-wide administrative and overhead costs. This fund is required as a condition of federal grants that are administered by DEQ, which may create restriction on how much can be transferred out of this fund.

Fund: Recycling (EVA2289)

FY 08 Fund Balance: \$4,388,600

FY 09 Transfer: \$1,097,100

Brief Description: The Recycling Fund receives landfill disposal (tipping) fees and legislative appropriations, which are used for grants to local governments and others for developing recycling markets and programs; for public information and assistance on source reduction and recycling; and for revenue collection and fund administration.

In FY 2003, \$1.5 million was transferred from this fund to resolve a budget shortfall.

Arizona Game and Fish Department

Chairmen's Options – Fund Transfers

Fund: Game & Fish Conservation Development
(GFA2062)

FY 08 Fund Balance: \$2,930,800

FY 09 Transfer: \$732,700

This option would transfer 25% of the Game and Fish Conservation Development Fund to the General Fund for a total savings of \$0.7 million. The Conservation Development Fund generates its revenue through surcharges on fishing and hunting licenses. Funds are transferred to the Capital Improvement Fund and are used to construct, maintain and renovate department facilities. Due to the license fee increase approved by the Legislature in 2005, funds are projected to increase 30% over FY 2005 by FY 2009.

In FY 2003 and FY 2004, a total of \$2.5 million was transferred from this fund to resolve budget shortfalls.

Department of Health Services

Chairmen's Options – Fund Transfers

Fund: Intergovernmental Agreements
(HSA2500)

FY 08 Fund Balance: \$60,759,600
FY 09 Transfer: \$15,189,900

This fund consist of monies received from other state and local entities in exchange for DHS provided services, contributions from Maricopa and Pima Counties for treating persons in the behavioral health system, federal match dollars for treating behavioral health issues in Title XIX-eligible persons, and federal match dollars for Title XIX-eligible persons in the Children's Rehabilitative Services program.

In FY 2002 and FY 2003, a total of \$4.4 million was transferred from this fund to resolve budget shortfalls.

Fund: Emergency Medical Services Operating
(EMS) (HSA2171)

FY 08 Fund Balance: \$5,854,800
FY 09 Transfer: \$1,463,700

The EMS Fund receives 48.9% of the Medical Services Enhancement Fund revenues, which are collected from a 13% surcharge on fines charged for criminal offenses and civil motor vehicle statute violations. Monies in this fund are currently used to fund the operating budgets in DHS' Administration and Public Health Cost Centers, emergency medical services operations, services for high-risk expectant mothers, and to help pay student loans for medical professionals who agree to serve in Health Professional Shortage Areas.

Between FY 2003 and FY 2005, a total of \$2.1 million was transferred from this fund to resolve budget shortfalls. The fund balance has grown from \$1.1 million at the end of FY 2004 to \$5.8 million at the end of FY 2007.

Fund: Indirect Cost (HSA9001)

FY 08 Fund Balance: \$7,909,000
FY 09 Transfer: \$1,977,300

Monies from this fund consist of charges made to Federal Funds and interagency agreements in order to reimburse DHS for a portion of the administrative costs.

Between FY 2003 and FY 2005, a total of \$2.8 million was transferred from this fund to resolve budget shortfalls. The fund balance has grown from \$4.6 million at the end of FY 2004 to \$9.6 million at the end of FY 2007.

Arizona Department of Housing

Chairmen's Options – Fund Transfers

Fund: Housing Program (HDA9600)

FY 08 Fund Balance: \$11,103,400

FY 09 Transfer: \$2,775,900

The Housing Program Fund receives revenues from fees from the following programs: private activity bond (underwriting and hearing), low-income tax credit (application, monitoring and reservation fees), conferences and workshops, and Section 8 project-based contract administration program. The Department of Housing uses this fund to pay the costs of administering these and other programs.

Additionally, the director may transfer monies to the Arizona Housing Finance Authority (AzHFA) in connection with any bonds or certificates issued by the AzHFA. AzHFA is focused on aiding first-time homebuyers for single family residences and the construction of multi-family residences in rural areas of Arizona.

The department spent \$4.1 million in FY 2007 from this fund and estimates expenditures of \$4.8 million in FY 2008.

Fund: Housing Trust (HDA2235)

FY 08 Fund Balance: \$111,188,600

FY 09 Transfer: \$55,594,400

The Housing Trust Fund receives 55% of the proceeds from the sales of unclaimed property and interest income.

These monies aid in providing affordable housing opportunities to low and moderate income families in Arizona. The appropriated portion pays for administration expenses, and may not exceed 10% of the Housing Trust monies. The non-appropriated portion of the fund is used for the operation, construction, or renovation of housing facilities for low-income households. The Legislature may transfer monies from the fund to the Housing Development Fund for use on housing projects near state prisons.

The Department of Housing spent \$24.9 million in FY 2007 from this fund and estimates expenditures of \$37.8 million in FY 2008.

Chairmen's Options – Fund Transfers

Fund: Industrial Commission Administrative
(ICA2177)

FY 08 Fund Balance: \$13,723,600

FY 09 Transfer: \$3,430,900

This option would transfer 25% of the Industrial Commission Administrative Fund to the General Fund for a total savings of \$3.4 million. The Industrial Commission Administrative Fund receives up to 3% of annual taxes on the workers' compensation premium. The fund is used for all expenses of the Industrial Commission in carrying out its powers and duties.

Between FY 2003 and FY 2005, \$5 million was transferred from this fund to resolve budget shortfalls.

Judiciary – Supreme Court

Other Options – Fund Transfers

Fund: Grants and Special Revenue (SPA2084)

FY 08 Fund Balance: \$6,137,100

FY 09 Transfer: \$1,534,300

The Grants and Special Revenue Fund is composed of monies provided from a variety of public and private sources such as examination fees, court assessments, federal grants, and a mixture of other sources for specific programs and projects. The fund proceeds are also used to administer the bar exam and various other services.

Judiciary – Superior Court

Chairmen's Options – Fund Transfers

Fund: Juvenile Delinquent Reduction (SPA2193)

FY 08 Fund Balance: \$6,211,600

FY 09 Transfer: \$1,552,900

The Juvenile Delinquent Reduction Fund includes monies appropriated to the Administrative Office of the Courts for Juvenile Probation Treatment Services and Juvenile Diversion Consequences/Intake. This fund is used for programs for juvenile probationers required as conditions of diversion. These programs are intended to reduce the number of repetitive juvenile offenders and provide services, including treatment, testing, independent living programs, residential foster and shelter care, and for juveniles referred to the juvenile court for incorrigibility or delinquency offenses.

Chairmen's Options – Fund Transfers

Fund: State Lottery (LOA 2122)

FY 08 Fund Balance: \$11,792,900

FY 09 Transfer: \$5,896,400

The State Lottery Fund receives monies from the sales of lottery tickets, retailer license fees, and interest earnings. These monies are used to pay prizes and are also distributed to a statutory list of different programs and funds.

The Commission maintains a fund balance to accommodate payment of outstanding accounts payable, payroll costs, and about one week's worth of distributions.

Between FY 2002 and FY 2005, a total of \$11 million was transferred from this fund to resolve budget shortfalls.

Arizona Medical Board

Chairmen's Options - Fund Transfers

Fund: AZ Medical Board Fund (MEA2038)

FY 08 Fund Balance: \$2,270,400

FY 09 Transfer: \$567,600

The Arizona Medical Board Fund is used to examine, license, investigate, and regulate physicians, as well as for board administration. The fund consists of monies collected by the board from the examination and licensing of physicians. The board retains 90% of these monies and deposits 10% in the General Fund.

Chairmen's Options – Fund Transfers

Fund: Off-Highway Vehicle Recreation
(PRA2253)

FY 08 Fund Balance: \$3,496,200

FY 09 Transfer: \$874,100

The Off-Highway Vehicle Recreation (OHVR) Fund receives monies from the Motor Vehicle Fund equivalent to 0.55% of the total license tax on motor vehicle fuel. The monies collected are used to plan, administer, and enforce off-highway vehicle recreation, and to develop facilities consistent with the off-highway vehicle plan. Seventy percent of monies collected are used by the State Parks Board, with the remainder transferred to the Arizona Game and Fish Department.

According to the State Parks Board, \$806,900 of the \$3.5 million fund balance is obligated by grants and projects.

In FY 2003 and FY 2004, a total of \$6 million was transferred from this fund to resolve budget shortfalls.

Fund: State Lake Improvement (PRA2105)

FY 08 Fund Balance: \$24,059,800

FY 09 Transfer: \$6,015,000

The State Lake Improvement Fund (SLIF) funds capital improvement projects at gasoline-powered boating sites. SLIF receives most of its monies via a transfer from the Highway User Revenue Fund based on a formula that estimates state gasoline taxes paid for boating purposes. In addition, a portion of monies from the watercraft license tax collected by the Game and Fish Department are deposited into this fund.

According to the State Parks Board, of the \$24.1 million balance, approximately \$12.4 million is obligated by grants awarded in previous years and \$5.7 million is obligated in capital projects.

Between FY 2002 and FY 2004, a total of \$22.8 million was transferred from this fund to resolve budget shortfalls.

Other Options – Fund Transfers

Fund: Land Conservation (PRA2432)

FY 08 Fund Balance: \$95,226,000

FY 09 Transfer: \$23,806,500

In 1998, a voter initiative referred to as Growing Smarter created the Land Conservation Fund. It required \$20 million from the General Fund to be deposited into the fund annually from FY 2001 through FY 2011. Monies are used for grants to purchase or lease state trust lands that are classified for conservation purposes and may be awarded to the state, non-profit organizations, individual landowners and agricultural lessees of the state or federal land.

Another 1998 voter initiative, Proposition 105, stipulates that the Legislature cannot amend statutory language in other ballot propositions unless the amendment "furthers the purposes" of the proposition and is approved by a three-fourths majority vote. The Proposition also applied to initiatives passed in 1998. As a result, this transfer would appear to require the three-fourths vote.

The balance in the Land Conservation Fund has grown considerably in recent years due to lack of use. The current fund balance is approximately \$95.2 million. Pursuant to A.R.S. § 41-511.23, in any fiscal year no more than 50% of monies in the fund may be granted to projects in one county. Furthermore, grantees must provide a minimum 1-to-1 match of awarded funds in order to receive a grant. The State Parks Board has recently approved the award of \$47.6 million, exactly one-half of the current fund balance, to the City of Phoenix in order to purchase 2 parcels of the Phoenix Sonoran Preserve. A \$38.9 million award will be disbursed in early 2008 for the purchase of Parcel 1. As Parcel 2 is expected to be purchased in March 2008, disbursement of the remaining \$8.7 million is not expected to occur until the following April or May.

If the proposed transfer takes place, the balance of the fund will be reduced to \$71.4 million, thereby leaving a maximum of \$35.7 million that can be distributed to Phoenix under the 50% provision.

Chairmen's Options - Fund Transfers

Fund: Board of Pharmacy (PMA2052)

FY 08 Fund Balance: \$4,149,800

FY 09 Transfer: \$1,037,500

The Board of Pharmacy Fund receives revenues from monies collected for the examination and licensing of pharmacies and pharmacists. The board retains 90% of these monies and deposits 10% in the General Fund. The retained monies are used for board administration.

Department of Revenue

Chairmen's Options – Fund Transfers

Fund: Estate and Unclaimed Property
(RVA1520)

FY 08 Fund Balance: \$2,265,700

Transfer: \$1,132,800

The Estate and Unclaimed Property Fund receives monies from the sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 5 years. Laws 2007, Chapter 260 permits the department to liquidate securities in the Estate and Unclaimed Property Fund immediately and changes the abandonment period for dividends and corporate bond instruments to 3 years. Chapter 260 also requires that all proceeds from the sales of securities in FY 2008 be deposited into the General Fund instead of the statutory split between the General Fund, Department of Housing, and Department of Racing. This is estimated to generate increased revenue of \$45,000,000 to the General Fund in FY 2008.

The appropriated portion of the fund covers the department's administrative costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property. The department retains not less than \$100,000 in the non-appropriated portion of the fund to pay allowed claims, while the state attempts to locate abandoned property owners. Once monies are determined to be "unreturnable" they are disbursed as follows:

- Monies associated with unclaimed utility deposits are transferred to the Utility Assistance Fund.
- Monies from unclaimed shares and dividends of Arizona corporations and unclaimed property in a self-storage unit are transferred to the Permanent State School Fund.
- Unclaimed victim restitution monies are transferred to the Arizona Criminal Justice Commission's Victim Compensation and Assistance Fund.
- The remaining monies are transferred to the following funds in the following percentages:

Housing Trust Fund (55%), state General Fund (25%), and Racing Fund (20%). Racing's 20% share is distributed to 8 different Racing funds which are capped at specific levels of revenue, with any excess deposited to the General Fund.

A \$1,132,800 deposit to the General Fund of the first revenues to the Estate and Unclaimed Property Fund would result in a net increase of \$849,600 to the General Fund. This is because the \$(1,132,800) decrease in monies available for transfer would include decreases of \$(623,000) to the Housing Trust Fund, \$(283,200) to the General Fund, and \$(226,600) to the Racing Fund.

In FY 2003, \$4,200,000 from the Estate and Unclaimed Property Fund was deposited in the General Fund, in addition to the regular statutory General Fund transfer, to resolve a budget shortfall.

School Facilities Board

Chairmen's Options – Fund Transfers

Fund: Emergency Deficiencies Correction (SFA 2484)

FY 08 Fund Balance: \$4,496,800

FY 09 Transfer: \$1,124,200

The Emergency Deficiencies Correction Fund receives monies transferred from the New School Facilities Fund. The fund is used to provide school districts monies for facility emergencies.

SFB has spent a total of \$8.4 million on 14 emergency projects since the inception of Students FIRST (FY 1999). Emergency project expenditures for FY 2004 – FY 2007 were \$231,500, \$694,100, \$6.6 million, and \$89,500, respectively. SFB's FY 2008 estimated fund balance does not represent projected, or encumbered, expenditures for the following year. Instead, SFB keeps a fund balance as set aside for possible emergency projects.

Fund: School Improvement Revenue Bond Debt Service (SFA 5020)

FY 08 Fund Balance: \$11,940,400

FY 09 Transfer: \$11,940,400

The School Improvement Revenue Bond Debt Service Fund receives revenues from a 0.6% increase in the state Transaction Privilege Tax (as approved under Proposition 301 in the 2000 General Election) and monies credited to the fund from the Permanent State School Fund. Monies are used to pay the debt service on \$832,865,000 in Proposition 301 revenue bonds and \$20,000,000 in Qualified Zone Academy Bonds. Per statute, the fund balance would not be used until the last debt service payment is made, which will occur in FY 2021. The entire amount of the fund balance, therefore, is available for transfer. The transfer, however, would reduce the final year debt service offset.

In FY 2007, the Legislature appropriated \$1,865,400 to the Arizona Department of Education to distribute to the Hayden-Winkleman Unified School District for supplemental state aid, while \$3,215,000 was appropriated for the same purpose in FY 2005.

Department of Transportation

Chairmen's Options – Fund Transfers

Fund: Economic Strength Project (DTA2244)

FY 08 Fund Balance: \$4,435,300

FY 09 Transfer: \$4,435,200

The Economic Strength Project Fund receives \$1,000,000 each June 15 from the Highway User Revenue Fund and interest from investment of inactive balances. The fund is used to pay for "economic strength" highway projects recommended by the Commerce and Economic Development Commission and approved by the State Transportation Board. These are projects that will make a contribution to the economy of the state.

Some portion of the \$4,435,300 balance would likely be committed, but not yet distributed, for economic strength highway projects. The use of Economic Strength Project Fund monies may be restricted by the Arizona Constitution, which states that "No moneys derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on the public highways or streets shall be expended for other than highway and street purposes." However, Highway User Revenue Fund and State Highway Fund monies are already used in place of General Fund monies for the Department of Public Safety's operating budget for the Highway Patrol. Hence, Economic Strength Project Fund monies might also be used to offset General Fund costs there.

Fund: Motor Vehicle Liability Insurance Enforcement (DTA2285)

FY 08 Fund Balance: \$10,633,300

FY 09 Transfer: \$2,658,300

The Motor Vehicle Liability Insurance Enforcement Fund receives fees pursuant to A.R.S. Title 28, Chapter 9, Article 4 (mandatory motor vehicle insurance), such as fees to reinstate drivers' licenses and vehicle registrations canceled due to lack of insurance. The fund is used to pay for the department to enforce mandatory motor vehicle liability insurance laws.

The use of Motor Vehicle Liability Insurance Enforcement Fund monies may be restricted by the Arizona Constitution, which states that "No moneys derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on the public highways or streets shall be expended for other than highway and street purposes." However, Highway User Revenue Fund and State Highway Fund monies are already used in place of General Fund monies for the Department of Public Safety's operating budget for the Highway Patrol. Hence, Motor Vehicle Liability Insurance Enforcement Fund monies might also be used to offset General Fund costs there.

Fund: State Aviation (DTA2005)

FY 08 Fund Balance: \$39,792,300

FY 09 Transfer: \$9,948,100

The State Aviation Fund receives monies from flight property tax, aircraft registration fees, license taxes, fuel taxes, the sale of abandoned aircraft, receipts from airports operated by the department, and interest earnings. The fund is used to pay for the administration of aviation laws, the operation and maintenance of state-owned airports, and capital projects at publicly-owned and operated airports of political subdivisions.

Some portion of the \$39,792,300 balance would likely be committed, but not yet distributed, for public airport capital projects.

In FY 2003, \$4.5 million was transferred from this fund to resolve a budget shortfall. In addition, 50% of flight property tax revenue was deposited to the General Fund and 50% to the State Aviation Fund in the 7 fiscal years from FY 1998 through FY 2004. Since FY 2005, 100% of the flight property tax has been deposited to the State Aviation Fund.

Fund: Transportation Department Equipment (DTA2071)

FY 08 Fund Balance: \$5,445,700

FY 09 Transfer: \$1,363,900

The Transportation Department Equipment Fund receives monies from equipment rental, sale at

auction, insurance recoveries, donations, interest earnings, and monies appropriated by the Legislature (for purchase, repairs and maintenance). The fund is used to pay for the purchase and repair of equipment including administrative expenses.

In FY 2002 and FY 2003, a total of \$2.8 million was transferred from this fund to the Department of Public Safety Highway Patrol Fund to offset General Fund costs in the Highway Patrol operating budget and resolve a budget shortfall. In addition, in FY 2003 \$2 million was transferred from this fund to the General Fund to resolve a budget shortfall. In FY 2004, \$1 million was transferred from this fund to the Department of Public Safety Highway Patrol Fund.

Fund: Vehicle Inspection and Title Enforcement (DTA2272)

FY 08 Fund Balance: \$3,533,500

FY 09 Transfer: \$883,400

The Vehicle Inspection and Title Enforcement Fund receives fees of \$20 and \$50 for performing more detailed level 2 and level 3 inspections of vehicle identification numbers, before issuing restored salvage titles on repaired salvage and similar vehicles. The fund is used to defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement and other enforcement related issues. A portion of the revenues are transferred to DPS for investigations concerning automobile theft.

The use of Vehicle Inspection and Title Enforcement Fund monies may be restricted by the Arizona Constitution, which states that "No moneys derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on the public highways or streets shall be expended for other than highway and street purposes." However, Highway User Revenue Fund and State Highway Fund monies are already used in place of General Fund monies for the Department of Public Safety's operating budget for the Highway Patrol. Hence, Vehicle Inspection and Title Enforcement Fund monies might also be used to offset General Fund costs there.

Chairmen's Options – Fund Transfer

Fund: Budget Stabilization Fund Transfer

FY 08 Fund Balance: \$673,531,000

FY 08 Transfer: \$350,000,000

FY 09 Transfer: \$0

Under this option, \$350 million of the estimated \$673 million of the FY 2007 ending balance in the Budget Stabilization Fund (BSF) would be withdrawn in FY 2008.

The BSF, which was enacted in 1990, is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. A statutory formula (A.R.S. § 35-144) is used to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. This formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation. According to the formula, deposits are made when personal income growth is above the 7-year average growth in personal income. Withdrawals occur when personal income growth is below the 7-year average.

Under the BSF formula, withdrawals also have one additional condition. Besides the below-trend growth requirement described above, annual personal income growth must also be less than 2%. The intent of this 2% floor was to preclude withdrawals when economic conditions are slowing, but personal income remains positive.

Formula calculations do not result in 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 actual deposits and withdrawals in individual years. While it has not used the specific formula, the Legislature has generally withdrawn monies during slow economic periods and deposited monies in fast-growth periods.

In the period between FY 2001 and FY 2003 when the state experienced an economic downturn, the Legislature authorized withdrawals from the BSF for the following reasons: (1) to balance the budget (\$280.5 million), (2) to pay for alternative fuel tax credits (\$116.9 million),

and (3) to defray the cost for the construction of the Arizona State Hospital (\$37.5 million).

By contrast, during the economic recovery and expansion phase between FY 2005 and FY 2007, the Legislature deposited a total of \$647.2 million. In the absence of the statutory 7% fund cap, it is estimated that the FY 2007 ending balance would have been \$688 million.

For FY 2008, personal income is projected to exceed the 7-year average annual growth rate and for this reason the formula is not expected to recommend any BSF transfers in the current fiscal year. Note, however, that even in some years, such as in FY 2002 (*see attached table*), when no withdrawals were recommended by the formula, the Legislature opted to notwithstanding existing statutory provisions in order to use BSF monies to meet certain financial obligations.

Budget Stabilization Fund
(\$ in Thousands)

	Actual FY 1992	Actual FY 1993	Actual FY 1994	Actual FY 1995	Actual FY 1996	Actual FY 1997	Actual FY 1998	Actual FY 1999	Actual FY 2000	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007
<u>General Fund Revenues</u>																
Adjusted Revenues	3,488,215.3	3,784,822.0	4,073,278.9	4,463,733.0	4,661,181.8	5,039,857.8	5,229,384.5	5,635,341.2	5,960,280.0	6,181,782.6	6,239,325.1	6,217,459.1	6,882,328.3	7,950,117.6	9,284,689.5	9,621,871.0
Statutory Limit of Revenues	15.000%	15.000%	15.000%	5.000%	5.000%	5.000%	5.634%	6.333%	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%	7.000%
Maximum Balance	523,232.3	567,723.3	610,991.8	223,186.7	233,130.0	251,992.9	294,623.5	356,886.2	417,219.6	432,724.8	436,752.8	435,222.1	481,763.0	556,508.2	649,928.3	673,531.0
<u>Arizona Personal Income in Prior CY</u>																
Real Adjusted Annual Income Growth	-0.70%	0.44%	4.04%	6.81%	8.26%	6.39%	5.97%	7.10%	5.94%	7.31%	2.10%	1.67%	1.98%	5.53%	6.74%	5.96%
7-Year Average Income Growth	3.51%	2.16%	1.97%	2.42%	3.26%	3.78%	4.65%	5.65%	6.52%	6.84%	5.78%	5.26%	4.70%	4.68%	4.25%	3.98%
Annual Difference	-4.21%	-1.72%	2.07%	4.39%	5.00%	2.61%	1.32%	1.45%	-0.58%	0.47%	-3.68%	-3.59%	-2.72%	0.85%	2.49%	1.98%
<u>BSF Transactions</u>																
Beginning BSF Balance	0.0	0.0	0.0	42,145.7	223,186.7	233,130.0	245,810.9	291,669.6	385,266.2	407,666.3	391,523.8	64,719.3	13,765.7	13,524.8	160,834.5	649,613.2
BSF Formula Recommendation	(141,012.9)	(59,902.2)	78,345.8	178,816.9	223,196.4	121,660.3	66,526.1	75,822.8	0.0	28,013.3	0.0	(224,085.4)	(169,505.0)	56,813.9	190,912.8	173,913.0
Deposits	0.0	0.0	42,000.0	178,816.9	0.0	0.0	30,000.0	75,115.0	0.0	36,000.0	0.0	0.0	0.0	156,490.5	480,957.9	9,808.6
Withdrawals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(69,425.4)	(332,490.8) ^{3/}	(53,028.7) ^{3/}	(643.2)	(9,485.6)	(80.9)	(6.9)
Actual BSF Net Transfer ^{1/}	0.0	0.0	42,000.0	178,816.9	0.0	0.0	30,000.0	75,115.0	0.0	(33,425.4) ^{2/}	(332,490.8)	(53,028.7)	(643.2)	147,004.9	480,877.0	9,801.7
Balance Before Interest Earnings	0.0	0.0	42,000.0	220,962.6	223,186.7	233,130.0	275,810.9	366,784.6	385,266.2	374,240.9	59,033.0	11,690.6	13,122.5	160,529.7	641,711.5	659,414.9
Interest Earnings & Equity Gains/Losses	0.0	0.0	145.7	4,036.4	12,149.3	12,680.9	15,858.7	18,481.6	22,400.1	17,282.9	5,686.3	2,075.1	402.3	304.8	7,901.7	29,069.0
Ending BSF Balance Before Statutory Limit	0.0	0.0	42,145.7	224,999.0	235,336.0	245,810.9	291,669.6	385,266.2	407,666.3	391,523.8	64,719.3	13,765.7	13,524.8	160,834.5	649,613.2	688,483.9
Excess Amount Reverted to General Fund	0.0	0.0	0.0	(1,812.3)	(2,206.0)	0.0	0.0	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(14,952.9)
Ending BSF Balance	0.0	0.0	42,145.7	223,186.7	233,130.0	245,810.9	291,669.6	385,266.2	407,666.3	391,523.8	64,719.3	13,765.7	13,524.8	160,834.5	649,613.2	673,531.0
Percent of Revenues	0.0%	0.0%	1.0%	5.0%	5.0%	4.9%	5.6%	6.8%	6.8%	6.3%	1.0%	0.2%	0.2%	2.0%	7.0%	7.0%

Footnote:

1/ Of this amount, \$49.4 million in FY 2001, \$61.9 million in FY 2002, \$5.5 million in FY 2003, and \$0.6 million in FY 2004 was deposited to the General Fund to offset alternative fuel tax credit claims. As of FY 2007, a total of \$118.9 million has been transferred from the BSF for this purpose.

2/ There was a \$20 million withdrawal in FY 2001 to pay for the construction of the Arizona State Hospital (ASH). However, since the \$20 million withdrawal was reimbursed from from the Tobacco Settlement Fund in the same fiscal year, the actual net BSF transfer related to ASH was \$0 in FY 2001. In addition, \$16 million was deposited from the General Fund to the BSF to offset the alternative fuel tax credit cost.

3/ For FY 2002 and FY 2003, the Legislature authorized BSF withdrawals for ASH payments in the amounts of \$20 million and \$17 million, respectively.

Revenue Changes

Chairmen's Options

Set FY 2009 Urban Revenue Sharing (URS) at Regular Rate

FY 08 Savings: \$0
FY 09 Savings: \$7,191,200

A.R.S. § 43-206 provides that 15% of state income taxes be distributed to incorporated cities and towns in the state. The distribution is based on total individual and corporate income taxes collected by the state in the fiscal year 2 years prior. Laws 2006, Chapter 351 provides that, for FY 2009 only, the URS distribution will consist of a set amount of \$717,127,600 rather than 15% of FY 2007 individual and corporate income tax collections. This distribution amount was based on projections of FY 2007 income tax collections that were developed in the spring of 2006. Chapter 351 also provides that, for FY 2009 only, cities and towns are to receive a special one-time URS distribution of \$10,549,800 as repayment of the reduction in the URS distribution percentage to 14.8% in FY 2003 and FY 2004.

Under the provisions of Chapter 351, FY 2009 URS distributions would total \$727,677,400 (\$717,127,600 + \$10,549,800). This amount represents an increase of 6.3% over the FY 2008 distribution amount of \$684,538,900.

Actual income tax collections for FY 2007 came in lower than the projections used to calculate the FY 2009 regular distribution amount of \$717,127,600. This option would reduce the FY 2009 regular distribution amount to 15% of the actual FY 2007 income tax collections, or \$709,936,400. This amount, plus the special distribution noted above, would provide a FY 2009 distribution of \$720,486,200, which is a 5.3% increase over the FY 2008 distribution. A separate option would eliminate the special distribution amount. If both options were adopted, the overall FY 2009 URS distribution would be \$709,936,400. This amount represents a 3.7% increase over FY 2008.

Eliminate FY 2009 Urban Revenue Sharing (URS) Special Distribution

FY 08 Savings: \$0
FY 09 Savings: \$10,549,800

A.R.S. § 43-206 provides that 15% of state income taxes be distributed to incorporated cities and towns in the state. The distribution is based on total individual and corporate income taxes collected by the state in the fiscal year 2 years prior. Laws 2006, Chapter 351 provides that, for FY 2009 only, the URS distribution will consist of a set amount of \$717,127,600 rather than 15% of FY 2007 individual and corporate income tax collections. This distribution amount was based on projections of FY 2007 income tax collections that were developed in the spring of 2006. Chapter 351 also provides that, for FY 2009 only, cities and towns are to receive a special one-time URS distribution of \$10,549,800 as repayment of the reduction in the URS distribution percentage to 14.8% in FY 2003 and FY 2004.

Under the provisions of Chapter 351, FY 2009 URS distributions would total \$727,677,400 (\$717,127,600 + \$10,549,800). This amount represents an increase of 6.3% over the FY 2008 distribution amount of \$684,538,900.

This option would eliminate the FY 2009 special distribution amount of \$10,549,800. The elimination of the special distribution would reduce the FY 2009 URS distribution amount to \$717,127,600, which represents a 4.8% increase over FY 2008. A separate option would reduce the regular distribution to 15% of actual FY 2007 income tax collections. If both options were adopted, the overall FY 2009 URS distribution would be \$709,936,400. This amount represents a 3.7% increase over FY 2008.

Reduce Urban Revenue Sharing (URS) Distribution Percentage

FY 08 Savings: \$0
FY 09 Savings: \$104,124,000

A.R.S. § 43-206 provides that 15% of state income taxes be distributed to incorporated cities and towns in the state. The distribution is based on total individual and corporate income taxes collected by the state in the fiscal year 2 years

prior. Laws 2006, Chapter 351 provides that, for FY 2009 only, the URS distribution will consist of a set amount of \$717,127,600 rather than 15% of FY 2007 individual and corporate income tax collections. Without this provision, URS would have been \$709,936,400 (see separate option).

Chapter 351 also provides that, for FY 2009 only, cities and towns are to receive a special one-time URS distribution of \$10,549,800 as repayment of the reduction in the URS distribution percentage to 14.8% in FY 2003 and FY 2004 (see separate option).

Under the provisions of Chapter 351, FY 2009 URS distributions would total \$727,677,400 (\$717,127,600 + \$10,549,800). In the absence of Chapter 351, URS would have been \$709,936,400.

Historically, the URS distribution percentage has ranged from a low of 12.8% in FY 1993 through FY 1996, to a high of 15.8% in FY 2000. As noted above, the current distribution percentage is 15%.

This option would reduce the FY 2009 distribution amount to the 12.8% rate of the mid-1990's. The FY 2009 distribution at this rate would be \$605,812,400 (excluding the \$10 million special distribution). This amount represents an (11.5)% decrease from FY 2008.

Assuming adoption of the other 2 URS options, the 12.8% proposal would save the state an additional \$104.1million.

Summary of URS Options

1. Current law - \$717.1 M guarantee plus 1-time distribution	\$727.7
2. Option – eliminate 1-time distribution	\$717.1
3. Option – eliminate 1-time distribution and guarantee (= formula @ 15%)	\$709.9
4. 12.8% funding (plus option 3)	\$605.8

Redirect New Homeless Transfer to General Fund

FY 08 Savings: \$1,000,000

FY 09 Savings: \$1,000,000

Laws 2007, Chapter 260 revised the Lottery distribution formula, and annually appropriates up to \$1 million to the Department of Economic Security to distribute grants to nonprofit organizations for homeless emergency and

transitional shelters beginning in FY 2008. Based on FY 2008 and FY 2009 JLBC forecasts, this new fund would reduce General Fund revenues by \$1 million in both FY 2008 and FY 2009 since these monies would have otherwise been deposited into the General Fund. Under this option, the \$1 million deposit to the new Homeless Shelter Fund would be redirected to the General Fund.