

STATE OF ARIZONA

FY 2017

Appropriations Report

June 2016

JLBC

FY 2017 APPROPRIATIONS REPORT

This annual *Appropriations Report* provides detailed information on FY 2017 appropriations, as provided in the General Appropriation Act (Laws 2016, Chapter 117) and other legislative acts. The *Report* also includes the economic and state revenue forecast upon which the budget was based. This *Report* provides information relative to the legislative intent of appropriations.

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BUDGET HIGHLIGHTS

HIGHLIGHTS OF THE FY 2017 BUDGET

The FY 2017 budget is based primarily upon the actions of the 52nd Legislature's 2nd Regular Session. On May 4, 2016, the Governor signed into law the FY 2017 budget for the year beginning July 1, 2016. The FY 2017 budget also incorporates the impact of the 52nd Legislature, 1st Special Session, which in October 2015 enacted school finance changes and referred to a vote of the people Constitutional changes regarding State Trust Land distributions. Proposition 123 was subsequently approved by voters at the May 2016 Special Election.

The state's FY 2017 General Fund budget is \$9.61 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$36.6 billion. (See the *Summary of Appropriated Funds and Summary of Total Spending Authority* for more details.)

Revised FY 2016 Budget – At the time of publication of the *FY 2016 Appropriations Report* in May 2015 after the 52nd Legislature's 1st Regular Session, the FY 2016 budget was anticipated to have a \$(35) million shortfall. By January 2016, however, the projected FY 2016 shortfall had become an estimated \$499 million surplus. The primary adjustments included:

- Increased balance forward from FY 2015 of \$312 million, or \$300 million above the original forecast.
- Increased FY 2016 revenue of \$312 million, the result of higher-than-budgeted FY 2015 revenues, paired with a slight decrease in the FY 2016 growth rate from 3.8% to 3.5%.
- Increased one-time FY 2016 revenues of \$29 million, primarily due to scoring higher-than-projected collections from the 2015 Tax Amnesty program.
- Increased FY 2016 expenditures of \$107 million, consisting of \$52 million of Proposition 123-related expenditures and \$54 million of supplemental spending for Medicaid, correctional health care, Special Election costs, and higher-than-expected administrative adjustments.

As part of the FY 2017 budget, the Legislature approved \$274 million in additional FY 2016 spending changes. These changes included \$232 million to eliminate payment deferrals from FY 2016 to FY 2017 in the Universities, Department of Economic Security (DES), and Department of Child Safety (DCS); \$21 million in net additional spending, primarily for DCS services; and \$21 million in FY 2016 one-time spending.

Combined with the January FY 2016 ending balance of \$499 million, the additional \$274 million of net new spending is estimated to produce an FY 2016 ending

balance of \$225 million. (Please see the FY 2016 General Fund Adjustments section for further details.)

Comparison to the JLBC Baseline – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2017 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$9.37 billion.

In comparison, the January Baseline Revenues were based on the 4-sector consensus projections. Excluding enacted statutory changes and one-time adjustments, base revenues were forecast to grow 3.5% in FY 2016 and 4.0% in FY 2017. After adjusting for previously enacted tax law changes, additional Urban Revenue Sharing distributions, and other factors, total General Fund revenues were anticipated to be \$10.00 billion in FY 2017.

The Legislature retained the January revenue growth rate for FY 2017 as part of the final budget. In addition, the budget assumed the reduction of a previously-enacted transfer from the Health Insurance Trust Fund from \$(100) million to \$(79) million and the reduction of a Judiciary fund transfer from \$(6) million to \$(5) million. The budget also assumed the approval of tax legislation that would in total reduce revenues by \$(26) million. After further adjusting the estimates for the reduction of the FY 2016 carry-forward from \$499 million to \$225 million, the FY 2017 General Fund budget was based on a revenue level of \$9.67 billion.

The Legislature also made subsequent revisions to the Baseline spending level of \$9.37 billion, which resulted in a final FY 2016 expenditure level of \$9.61 billion. The \$237 million in changes to the Baseline included the following:

Major Ongoing Increases to the Baseline

- \$36 million in additional DCS services spending, in addition to \$25 million in non-General Fund spending.
- \$29 million to rescind a scheduled decrease in funding for overlapping K-12 regular district/Joint Technological Education Districts (JTEDs).
- \$8 million for Border Security Task Force (BSTF) costs in the Department of Public Safety (DPS).
- \$5 million for 3% pay raise for sworn DPS officers and Highway Patrol civilian staff.
- \$5 million for freedom schools in Arizona State University (ASU) and University of Arizona (UA).

Major Ongoing Decreases from the Baseline

- \$(51) million from re-estimates of Medicaid enrollment in AHCCCS.

- \$(25) million from re-estimates of K-12 enrollment and formula costs.
- \$(22) million from elimination of the Access Our Best Public Schools program.

Major One-Time Increases to the Baseline

- \$87 million to the Arizona Department of Transportation (ADOT), including \$57 million for state projects and \$30 million for distribution to local governments.
- \$39 million to SFB, including \$15 million for Building Renewal grants and \$23 million for the first half of a 2-year appropriation to construct 2 new schools.
- \$38 million to the Arizona Department of Education (ADE) for one-time backfills to hold schools harmless for changes in current-year funding, charter small school weight, and district-sponsored charter funding.
- \$19 million to the Universities.
- \$15 million to DPS for one-time BSTF costs.
- \$13 million for information technology projects for ADE, Corporation Commission, the Judiciary, and “e-procurement.”
- \$10 million for construction of a new veterans’ home in Flagstaff.
- \$8 million for counties to offset FY 2017 costs of Department of Juvenile Corrections cost-sharing.

Under the JLBC Baseline, the FY 2017 budget was projected to have a \$625 million ending balance. The revenue changes and net spending reductions result in a FY 2017 projected ending balance of \$66 million. *(Please see the General Fund Balance discussion below.)*

(See FY 2017 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2017 changes.)

Comparison to the FY 2016 Budget – Besides the comparison with the JLBC Baseline, the FY 2017 budget can also be viewed relative to the FY 2016 budget. General Fund revenues, including one-time monies, are projected to decrease from \$9.74 billion in FY 2016 to \$9.67 billion in FY 2017. After technical adjustments, the projected base growth is 4.0%, which will be further modified by the following revenue changes *(see the General Fund Revenue section)*:

- \$(98) million net loss from previously-enacted budget legislation.
- \$(27) million net loss from budget legislation enacted in the 2016 Legislative Session, including \$(26) million from tax-related legislation and \$(1) million from reduced ongoing Judiciary fund transfers.

- \$(58) million loss due to increased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.

The FY 2017 budget also has a net \$304 million in one-time revenues (in comparison, FY 2016 one-time revenues were \$576 million due in part to a \$312 million beginning balance). The \$304 million amount reflects \$225 million in a FY 2016 carry-forward balance and \$79 million in a fund transfer from the Health Insurance Trust Fund.

General Fund spending is projected to increase from \$9.52 billion in FY 2016 to \$9.61 billion in FY 2017, which is an increase of \$93 million, or 1.0%. Compared to the originally-budgeted FY 2016 total of \$9.13 billion, the FY 2017 budget increases spending by \$474 million, or 5.2%.

The FY 2017 budget includes the following changes compared to the FY 2016 budget, including 1st Special Session and supplemental changes, but excluding elimination of payment deferral funding as noted:

- \$128 million for K-12 education formula changes (which includes statutorily-mandated inflation increase of 0.99%).
- \$34 million in increased University funding, including \$19 million for one-time funds. This increase does not incorporate the \$(200) million reduction in FY 2017 associated with the elimination of the one-time FY 2016 funding to pay off the University payment deferral.
- \$(3) million in decreased SFB spending, including \$(24) from eliminating the Access Our Best Public Schools Program and \$23 million for the first year of new school construction in 2 districts.
- \$546 million in increased AHCCCS spending, including the transfer of \$534 million from DHS for providing behavioral health services, \$29 million for formula adjustments, and \$(18) million for policy changes funding offsets.
- \$(516) million in decreased DHS spending, primarily \$(517) million for the transfer of behavioral health services to AHCCCS.
- \$(12) million in decreased DCS spending, including \$(11) million for elimination of one-time supplemental funding. The budget continues \$23 million of funding also appropriated as a FY 2016 supplemental. This decrease does not incorporate the \$(11) million reduction in FY 2017 associated with the elimination of the one-time FY 2016 funding to pay off the DCS payment deferral.
- \$27 million in increased DES spending, including \$21 million for developmental disabilities (DD) formula spending and \$3 million for a 1% DD provider rate increase. This increase does not incorporate the

\$(21) million reduction in FY 2017 associated with the elimination of the one-time FY 2016 funding to pay off the DES payment deferral.

- \$12 million in ADC spending, including \$17 million for opening 1,000 private medium-security beds in September 2016 and a \$(6) million decrease for statewide adjustments.
- \$28 million in DPS spending, including \$23 million for BSTF ongoing and one-time costs, and \$5 million for a 3% pay raise for sworn officers and for Highway Patrol civilian staff.
- \$87 million in ADOT spending, including \$57 million for state projects and \$30 million for distribution to local governments.

(See FY 2017 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)

May 2016 Special Election – The Legislature referred 2 measures to a vote of the people at a Special Election held in May 2016. In October 2015, during the 52nd Legislature, 1st Special Session, the Legislature referred to the ballot Proposition 123, which made Constitutional changes regarding State Trust Land distributions. In addition to Proposition 123, the Legislature enacted school finance changes conditional upon approval of Proposition 123. These changes were estimated to increase total General Fund K-12 spending by \$52 million in FY 2016 and \$58 million above the original FY 2016 budget in FY 2017.

During the 2nd Regular Session, the Legislature referred to the ballot Proposition 124, which made Constitutional changes that permitted Public Safety Personnel Retirement System (PSPRS) benefit changes made by Laws 2016, Chapter 2 to take effect. Chapter 2 replaced the Permanent Benefit Increase (PBI) mechanism for current and future PSPRS members with a new cost-of-living adjustment, modified the Defined Benefit plan for future PSPRS members, and created a new PSPRS defined contribution plan. These changes would reduce the state's employer contribution costs in the long run.

Both Propositions 123 and 124 were subsequently approved by voters at the May 2016 Special Election.

General Fund Balance – Based on \$9.67 billion in revenue and \$9.61 billion in spending, the FY 2017 General Fund cash balance is projected to be a \$66 million surplus.

Beyond its cash balance, a budget is also evaluated by the difference between ongoing revenues and expenditures. The state can have a cash balance but a shortfall in ongoing funds through the use of one-time revenue and/or expenditure savings. The FY 2017 budget is essentially structurally balanced as ongoing revenues are

projected to exceed ongoing spending by \$3 million in FY 2017.

The ending balance estimates do not reflect the Budget Stabilization Fund (BSF) reserve. The BSF is expected to have a balance of \$464 million at the end of FY 2017.

Long-Term Projections – A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are based on existing statutory funding requirements, but also incorporate future-year changes, such as statutory changes with effective dates beyond the budget year.

Discussions on the FY 2017 budget included analyzing the impact of budget decisions on estimated FY 2018 and FY 2019 spending. The *Statement of General Fund Revenues and Expenditures* on page BH-6 incorporates the FY 2018 and FY 2019 estimates, which were initially based upon Baseline revenue projections and existing statutory funding requirements. Based on legislative guidance, the FY 2018 and FY 2019 estimates also include the continuation of FY 2017 initiatives which were considered to be ongoing.

The figures reflected in the multi-year analysis on page BH-6 differ from the figures listed in the FY 2017 General Appropriation Act due to technical reasons such as the incorporation of bills with a fiscal impact signed into law after the passage of the budget bills. The General Appropriation Act gives JLBC Staff the authority to make such technical adjustments.

The General Appropriation Act forecasted total FY 2018 revenues to be \$9.79 billion and expenditures to be \$9.62 billion, with a \$168 million surplus. After accounting for legislation enacted separately from the budget and technical adjustments, FY 2018 revenues are projected to be \$9.77 billion compared to spending of \$9.62 billion, both figures similar to the original forecast. The FY 2018 surplus is estimated to be \$145 million, including the \$66 million FY 2017 ending balance. The structural surplus for FY 2018 is estimated to be \$103 million.

The FY 2018 spending includes statutory formula caseload growth and removal of FY 2017 spending categorized as one-time in the FY 2017 budget process. FY 2017 ongoing revenues are primarily based on a 4-sector consensus growth rate of 4.6%, but also incorporate separately enacted tax law changes. It also includes \$23 million in one-time FY 2018 spending to complete SFB school construction projects started in FY 2017.

The General Appropriation Act forecasted FY 2019 revenues to be \$10.29 billion and expenditures to be

\$9.82 billion, with a \$467 million surplus. After accounting for separately enacted legislation and technical adjustments, FY 2019 revenues are projected to be \$10.24 billion compared to spending of \$9.82 billion, both figures similar to the original forecast. The FY 2019 budget is estimated to have a \$418 million surplus, including the \$145 million FY 2018 ending balance. The structural surplus for FY 2019 is estimated to be \$272 million.

The FY 2019 spending includes statutory formula caseload growth and removal of one-time FY 2018 spending. FY 2019 ongoing revenues reflect the 4-sector consensus base growth rate of 4.6%, further adjusted for previously enacted tax law changes.

Given the multiple years involved in these calculations, long-run estimates are especially sensitive to small percent changes in revenue and spending growth. For example, a 1% change in the growth rate of either revenue or spending in FY 2017 through FY 2019 would change the ending balance calculations by \$600 million in the third year. As a result, these projections are subject to considerable change.

In addition, these estimates do not include the impact of potential discretionary revenue and spending changes. For every \$2 of Baseline formula spending, the state has typically added \$1 of discretionary spending.

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

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
REVENUES				
Ongoing Revenues	\$9,769,648,500	\$10,158,379,200	\$10,492,876,600	\$10,851,677,700
Previously Enacted Changes		(97,800,000)	(90,400,000)	(73,300,000)
Newly Enacted Changes		(27,098,600)	(23,400,000)	(4,300,000)
Urban Revenue Sharing	(605,634,300)	(663,652,100)	(676,193,800)	(680,391,800)
Net On-going Revenues	\$9,164,014,200	\$9,369,828,500	\$9,702,882,800	\$10,093,685,900
One-time Financing Sources				
Balance Forward	312,276,000	224,983,500	65,904,600	144,809,200
Tax Amnesty	47,048,500			
Fund Transfers	217,017,700	79,361,600	461,600	461,600
Subtotal One-time Revenues	\$576,342,200	\$304,345,100	\$66,366,200	\$145,270,800
Total Revenues	\$9,740,356,400	\$9,674,173,600	\$9,769,249,000	\$10,238,956,700
EXPENDITURES				
Operating Budget Appropriations	\$9,230,421,600	\$9,407,983,700	\$9,642,729,500	\$9,865,674,900
Supplementals	50,621,300			
Administrative Adjustments	85,000,000	70,000,000	70,000,000	70,000,000
Revertments	(110,000,000)	(110,682,500)	(112,868,300)	(114,260,700)
Subtotal Ongoing Expenditures	\$9,256,042,900	\$9,367,301,200	\$9,599,861,200	\$9,821,414,200
One-time Expenditures				
Capital Outlay	\$6,200,000	\$18,000,000		
Eliminate DCS/DES/Univ. Rollover	\$232,000,000			
Transportation Funding		86,500,000		
Other One-Time Spending	\$21,130,000	136,467,800	\$24,578,600	
Subtotal One-time Expenditures	\$259,330,000	\$240,967,800	\$24,578,600	\$0
Total Expenditures	\$9,515,372,900	\$9,608,269,000	\$9,624,439,800	\$9,821,414,200
Ending Balance <u>2/</u>	\$224,983,500	\$65,904,600	\$144,809,200	\$417,542,500
Structural Balance <u>3/</u>	(\$92,028,700)	\$2,527,300	\$103,021,600	\$272,271,700

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

2/ This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

3/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

GENERAL FUND SPENDING BY MAJOR BUDGET UNITS

EXPENDITURES	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
Operating Budget				
-- Department of Administration	\$10,377,300	\$10,264,500	\$10,264,500	\$10,264,500
-- ADOA - Automation Projects Fund	7,783,000	4,581,600	5,000,000	5,000,000
-- AHCCCS	1,205,162,300	1,750,941,400	1,828,134,900	1,925,648,800
-- Attorney General	23,623,700	24,664,800	24,664,800	24,664,800
-- Department of Child Safety	356,448,200	379,179,400	379,179,400	379,179,400
-- Commerce Authority	26,800,000	21,800,000	21,800,000	21,800,000
-- Community Colleges	54,373,200	54,312,700	54,569,300	54,957,900
-- Department of Corrections	1,029,900,600	1,046,682,600	1,053,773,400	1,053,773,400
-- County Funding	6,000,500	6,000,500	6,000,500	6,000,500
-- Department of Economic Security	496,181,900	529,784,400	555,247,300	583,938,100
-- Department of Education	3,941,873,900	4,030,627,800	4,153,365,400	4,281,188,700
-- Department of Environmental Quality	7,000,000	2,823,600	2,823,600	2,823,600
-- Department of Health Services	602,738,300	86,551,700	86,551,700	86,551,700
-- Judiciary	106,178,000	112,069,000	112,269,000	112,369,000
-- Department of Juvenile Corrections	26,984,600	24,180,400	24,180,400	24,180,400
-- State Land Department	12,520,500	12,491,400	12,491,400	12,491,400
-- Department of Public Safety	93,374,800	106,095,700	106,042,200	106,042,200
-- Public Safety Personnel Retirement System	6,000,000	6,000,000	6,000,000	6,000,000
-- Department of Revenue	30,338,600	29,998,300	29,998,300	29,998,300
-- School Facilities Board	216,878,100	189,515,800	188,096,300	152,621,800
-- Office of Tourism	7,110,400	7,112,000	7,112,000	7,112,000
-- Universities	660,845,100	679,472,400	683,683,700	683,682,800
-- Department of Water Resources	12,803,100	12,762,600	12,762,600	12,762,600
-- All Other Budgets	174,545,100	165,504,700	162,104,700	165,504,700
-- Civic Center Payment	20,449,000	20,449,000	22,499,000	22,996,300
-- Rio Nuevo Payment	10,000,000	10,000,000	10,000,000	10,000,000
-- Asset Sale/Lease-Back Debt Service	84,114,600	84,117,400	84,115,100	84,122,000
-- Unallocated Adjustments	16,800			
Total - Operating Budget	<u>\$9,230,421,600</u>	<u>\$9,407,983,700</u>	<u>\$9,642,729,500</u>	<u>\$9,865,674,900</u>
-- FY 2016 Supplementals	50,621,300			
-- Capital Outlay	6,200,000	18,000,000		
-- Payment Deferrals	232,000,000			
-- Transportation Funding		86,500,000		
-- Other One-Time Spending	21,130,000	136,467,800	24,578,600	
-- Administrative Adjustments	85,000,000	70,000,000	70,000,000	70,000,000
-- Reversions	(110,000,000)	(110,682,500)	(112,868,300)	(114,260,700)
Total Spending	<u>\$9,515,372,900</u>	<u>\$9,608,269,000</u>	<u>\$9,624,439,800</u>	<u>\$9,821,414,200</u>

All Other Budgets	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
Administrative Hearings, Office of	\$861,700	\$860,500	\$860,500	\$860,500
African-American Affairs Commission	125,000	125,000	125,000	125,000
Agriculture, Arizona Department of	8,287,400	9,162,700	9,162,700	9,162,700
Charter Schools, State Board for	1,200,900	1,185,200	1,185,200	1,185,200
Corporation Commission	614,200	611,600	611,600	611,600
Deaf and the Blind, Schools for the	21,596,400	21,378,100	21,378,100	21,378,100
Economic Opportunity, Office of	0	568,700	568,700	568,700
State Board of Education	1,325,200	1,094,000	1,094,000	1,094,000
Emergency & Military Affairs, Dept of	11,102,700	12,619,500	12,619,500	12,619,500
Equal Opportunity, Governor's Office of	189,000	189,100	189,100	189,100
Equalization, State Board of	642,800	643,000	643,000	643,000
Executive Clemency, Board of	956,000	952,600	952,600	952,600
Financial Institutions, Department of	3,008,000	2,978,200	2,978,200	2,978,200
Fire, Building and Life Safety, Department of	2,202,000	0	0	0
Forestry and Fire Management, Department of	9,012,300	10,140,300	10,140,300	10,140,300
Gaming, Department of	1,779,500	1,779,500	1,779,500	1,779,500
Geological Survey, Arizona	941,000	0	0	0
Governor, Office of the	6,889,000	6,849,900	6,849,900	6,849,900
Gov's Ofc of Strategic Planning and Budgeting	1,994,000	1,994,000	1,994,000	1,994,000
Historical Society, Arizona	3,157,200	2,722,900	2,722,900	2,722,900
Historical Society, Prescott	825,800	824,500	824,500	824,500
Housing, Department of	0	811,400	811,400	811,400
Independent Redistricting Commission	1,115,300	1,115,300	1,115,300	1,115,300
Insurance, Department of	5,867,400	5,824,300	5,824,300	5,824,300
Legislature				
Auditor General	17,933,300	17,866,500	17,866,500	17,866,500
House of Representatives	13,289,500	13,201,500	13,201,500	13,201,500
Joint Legislative Budget Committee	2,490,900	2,488,300	2,488,300	2,488,300
Legislative Council	8,233,300	8,215,400	8,215,400	8,215,400
Senate	8,223,900	9,408,500	9,408,500	9,408,500
SUBTOTAL - Legislature	\$50,170,900	\$51,180,200	\$51,180,200	\$51,180,200
Mine Inspector, State	1,215,200	1,212,500	1,212,500	1,212,500
Navigable Stream Adjudication Commission	126,600	124,000	124,000	124,000
Postsecondary Education, Commission for	1,396,800	1,396,800	1,396,800	1,396,800
Radiation Regulatory Agency	1,595,000	1,563,100	1,563,100	1,563,100
Real Estate Department, State	2,985,200	2,994,900	2,994,900	2,994,900
Secretary of State	24,306,500	14,969,200	11,569,200	14,969,200
Tax Appeals, State Board of	266,400	266,600	266,600	266,600
Transportation, Department of	50,400	50,400	50,400	50,400
Treasurer, State	1,205,100	1,205,100	1,205,100	1,205,100
Tribal Relations, Governor's Office on	57,400	57,500	57,500	57,500
Veterans' Services, Department of	6,077,800	6,054,100	6,054,100	6,054,100
Weights and Measures, Department of	1,399,000	0	0	0
Total Spending	\$174,545,100	\$165,504,700	\$162,104,700	\$165,504,700

SUMMARY OF ONE-TIME SPENDING

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
ADOA/Automation Projects Fund - ADE Information Technology	\$ -	\$ 7,300,000	\$ -
ADOA/Automation Projects Fund - e-Procurement		3,000,000	
Corporation Commission - Information Technology Funding		2,000,000	
Counties - DJC Local Cost Sharing Offset		8,000,000	
DES - Domestic Violence Shelter \$50k Each (Maricopa/Yuma County)		100,000	
DES - ABLE Accounts		240,000	
ADE - District Sponsored Charter Schools		1,148,000	
ADE - Current Year Funding Backfill		31,000,000	
ADE - Small School Weight Hold Harmless		6,500,000	
ADE - Geographic Literacy		100,000	
Forester - Inmate Fire Crew Carriers		190,000	
Forester - Wildland Fire Engines		112,500	
Gaming - Breeders' Award		200,000	
Governor - Youth Success Fund Deposit			1,500,000
Judiciary - Information Technology Funding		948,700	
Legislature - Auditor General		200,000	
DPS - Border Security		14,600,000	
DPS - Testing Sexual Assault Kits		500,000	
DOR - Military Withholding Refunds		2,000,000	
SOS - Presidential Preference Election Funding	6,130,000		
SFB - Building Renewal Grants	15,000,000	15,000,000	
SFB - Public School Credit Enhancement Transaction Costs		500,000	
SFB - New School Construction		23,078,600	23,078,600
WIFA - Small Water Systems Fund Deposit		500,000	
DWR - Water Protection Fund Deposit		250,000	
Universities - ASU		7,000,000	
Universities - NAU		4,000,000	
Universities - UA		8,000,000	
Subtotal - Agency Funding	\$ 21,130,000	\$ 136,467,800	\$ 24,578,600
Universities - Eliminate Payment Deferral	200,000,000		
DCS - Eliminate Payment Deferral	11,000,000		
DES - Eliminate Payment Deferral	21,000,000		
Subtotal - Eliminate Payment Deferral	\$ 232,000,000	\$ -	\$ -
Capital - Transportation - \$56.5 M State / \$30 M Local		86,500,000	
Capital - ADOA - Projects	5,000,000	8,000,000	
Capital - Navajo Nation Highway Construction	1,200,000		
Capital - Veterans Home Flagstaff		10,000,000	
Subtotal - Capital Projects	\$ 6,200,000	\$ 18,000,000	\$ -
Total - One-time Spending	\$ 259,330,000	\$ 240,967,800	\$ 24,578,600

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

		FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
1	Beginning Balance	\$ 312.3	\$ 225.0	\$ 65.9	\$ 144.7
	Ongoing Revenues				
2	Ongoing Revenues - January Baseline	9,164.0	9,396.9	9,754.6	10,150.2
3	Increase Charitable Tax Credit Limit		(2.6)	(2.6)	(2.6)
4	Decrease Ongoing Judiciary Transfer		(1.0)	(3.0)	(3.0)
5	Bonus Depreciation 10% to 100% Over 2 Years		(8.0)	(16.0)	(16.0)
6	Aerial Applicators Aircraft TPT Exemption		\$(19)k	\$(19)k	\$(19)k
7	Divert DEQ General Fund Fees		(0.4)	(0.4)	(0.4)
8	Eliminate Pest Management Fee Deposit		(0.2)	(0.2)	(0.2)
9	Billboard Rental/Lease TPT Exemption		\$(10)k	\$(10)k	\$(10)k
10	Charitable Tax Credit Due Date Extension		(1.7)	(1.7)	(1.7)
11	Gas Transportation Services TPT Exemption		(0.9)	(0.9)	(0.9)
12	Insurance Premium Tax Phase Down		(3.0)	(7.1)	(11.4)
13	Propane Used in Manufacturing/Smelting TPT Exemption		(0.1)	(0.1)	(0.1)
14	Agricultural Feed TPT Exemption		(1.0)	(1.0)	(1.0)
15	Charter Aircraft TPT Exemption			(2.3)	(2.3)
16	Fine Arts TPT Exemption		(1.3)	(1.3)	(1.3)
17	Electricity/Natural Gas for Manufacturing TPT Exemption		(7.0)	(14.0)	(14.0)
18	Other Revenue Adjustments		0.1	(1.2)	(1.5)
19	Subtotal - Ongoing Revenues	\$ 9,164.0	\$ 9,369.8	\$ 9,702.8	\$ 10,093.8
	One-Time Revenues				
20	Tax Amnesty	47.0	Payments/Pre 15		
21	FY 2016 Transfers	217.0			
22	Fund Transfer - ADOA Health Insurance Trust Fund		78.9		
23	Fund Transfer - Accounting System Costs		0.5	0.5	0.5
24	Subtotal - One-Time Revenues (Including Beginning Balance)	\$ 576.3	\$ 304.4	\$ 66.4	\$ 145.2
25	Total Revenues	\$ 9,740.3	\$ 9,674.2	\$ 9,769.2	\$ 10,239.0

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
26	\$ 9,234.8	\$ 9,370.9	\$ 9,606.9	\$ 9,825.4
Ongoing Changes to JLBC Baseline				
27		(0.4)		
28		0.5	0.5	0.5
29		(50.9)	(50.9)	(50.9)
30		1.4	1.4	1.4
31		(0.5)	(0.5)	(0.5)
32		0.8	0.8	0.8
33		5.0	5.0	5.0
34		8.4	8.4	8.4
35		6.4	6.4	6.4
36		8.0	8.0	8.0
37		2.0	2.0	2.0
38		12.5	12.5	12.5
39		2.0	2.0	2.0
40		1.9	1.9	1.9
41		3.1	3.1	3.1
42		6.7	6.7	6.7
43		2.5	2.5	2.5
44	2.7	2.7	2.7	2.7
45		(25.0)	(25.0)	(25.0)
46	34.6			
47		0.2	0.2	0.2
48		COP Savings		
49		COP Savings		
50		Inmate Trigger		
51		0.1	0.1	0.1
52		Yes - DUI/AXS		
53	4.5			
54		3.0	3.0	3.0

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
55 DES - ALTCS Adult Dental		1.2	1.2	1.2
56 DES - DD Room and Board Shortfall		One-time Below		
57 DES - APS Caseload Growth		One-time Below		
58 DES - Vocational Rehabilitation		2.0	2.0	2.0
59 DES - Area Agencies on Aging/Adult Services (Lottery Fund)		OF - One time		
60 ADE - Formula		(24.6)	(42.6)	(38.3)
61 ADE - Increased Testing Costs		Other Fund		
62 ADE - Data System Support		Fund From ADE IT		
63 ADE - JTED Funding/Reforms		29.0	27.2	27.2
64 ADE - College Prep (Formula, 18 Pay on 17 Results)			5.0	5.0
65 ADE - Tribal Dual Enrollment (\$160k to \$250k)		Other Fund - 90k		
66 DEMA - State Match for Army/Air Guard Facilities	0.7	1.5	1.5	1.5
67 DEQ - WQARF Fund Shift		(4.2)	(4.2)	(4.2)
68 DEQ - Reduce VEI Fees (\$3 Reduction)		Yes		
69 FBLS - Consolidate w/ Forester, Housing, Real Estate (\$448k Savings)		(2.2)	(2.2)	(2.2)
70 Forester - FBLS Consolidation (State Fire Marshal)		0.9	0.9	0.9
71 Forester - Risk Management Increase	0.1	0.1	0.1	0.1
72 Forester - Fire Management Software (One-time \$ Below)		0.1	0.1	0.1
73 Geological Survey - Consolidate Into UofA		(0.9)	(0.9)	(0.9)
74 DHS - BHS Caseload/Inflation	(21.4)			
75 DHS - Additional 29 Security Officers/Nurses ASH		1.5	1.5	1.5
76 DHS - Restoration to Competency 3-Year Program		Study Committee		
77 Historical Society - Mines and Minerals Museum Transfer to UA		(0.4)	(0.4)	(0.4)
78 Housing - FBLS Consolidation (Manufactured Housing)		0.8	0.8	0.8
79 Judiciary - Dependency Caseload		3.0	3.0	3.0
80 Judiciary - Adult Standard Probation Growth		1.0	1.0	1.0
81 Judiciary - 2 New Justices Funding		0.5	0.5	0.5
82 Judiciary - 1.5% Judicial Pay Raise (In '17 and '18)		0.1	0.3	0.4
83 Judiciary - Probation Salary Shortfall		0.6	0.6	0.6
84 Judiciary - Probation CORP Adjustment		0.9	0.9	0.9
85 DJC - Lower Population + \$700k County Savings		(1.5)	(1.5)	(1.5)
86 Land - Self Fund Agency		Repeal Referral	12.5	12.5

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
87 Land - CAP Fees		32k	32k	32k
88 Legislature - Senate - Additional Funding (\$1.25 M)		1.3	1.3	1.3
89 Liquor - Staff Funding		62k - PSPRS	62k - PSPRS	62k - PSPRS
90 DPS - Border Security (+ 1-time Below)		8.0	8.0	8.0
91 DPS - Moving Truck Transfer Savings			(0.1)	(0.1)
92 DPS - Pay Raise (3% All Sworn and Highway Patrol Civilian)		4.6	4.6	4.6
93 DPS - Civil Air Patrol		0.2	0.2	0.2
94 Real Estate - FBLS Consolidation (HOA Dispute Process)		18k	18k	18k
95 SFB - Create Public School Credit Enhancement Program	AOBPS \$	(21.5)	(21.5)	(21.5)
96 Universities - Refinance Savings		(1.0)	(0.4)	(0.4)
97 Universities - ASU/UA - Freedom Schools (\$3 M ASU/\$2 M UA)		5.0	5.0	5.0
98 Universities - UA - Mines and Minerals Museum Transfer to UA		0.4	0.4	0.4
99 Other - ADOA - Accounting System Operating Costs		0.5	0.5	0.5
100 Other - ADOA - Fleet Management Charge		80k Mileage/Report		
101 Other - Annualize HITF Savings		(0.2)	(0.2)	(0.2)
102 Other - Named Claimants		\$14k		
103 Other - Revertments/Administrative Adjustments		(0.7)	(2.9)	(4.3)
104 Subtotal - Ongoing Changes to JLBC Baseline	\$ 21.2	\$ (3.6)	\$ (7.0)	\$ (4.0)
105 Total Ongoing Spending	\$ 9,256.0	\$ 9,367.3	\$ 9,599.9	\$ 9,821.4
106 JLBC Baseline One-Time Spending	\$ 6.2	\$ -	\$ -	\$ -
107 One-Time Changes to JLBC Baseline				
108 ADOA/APF - ADE IT		7.3		
109 ADOA/APF - Procurement IT (Plus \$3 M AFIS Contingency)		3.0		
110 ADOA - GTO Funding		Other Fund - \$500k		
111 DCS - Litigation Costs	OF - Risk Mgmt.			
112 Corp Comm - IT Funding		2.0		
113 Counties - DJC Offset		8.0		

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
114 Counties - Flexibility Language		250k pop, \$1.25 M limit		
115 DES - One-time DV Shelter \$50k Each (Maricopa/Yuma County)		0.1		
116 DES - DD Room and Board Shortfall		Other Fund - 0.6		
117 DES - ABLE Accounts		0.2		
118 DES - APS Caseload Growth		Other Fund - 2.0		
119 ADE - College Prep (Formula, 18 Pay on 17 Results)		Ongoing Above		
120 ADE - District Sponsored Charters - One-time		1.2		
121 ADE - Current Year Funding Backfill - One-time		31.0		
122 ADE - Small School Weight Hold Harmless (One-time)		6.5		
123 ADE - Code Writers Pilot		Other Fund - \$0.5 M		
124 ADE - Geographic Literacy		0.1		
125 DEQ - WQARF Funding		Other Fund - \$2.9 M		
126 Forester - Inmate Fire Crew Carriers		0.2		
127 Forester - Wildland Fire Engines		0.1		
128 Gaming - Breeders' Award		0.2		
129 Governor - Youth Success Fund Deposit			1.5	
130 DHS - Alzheimer's Research		Other Fund - \$1.0 M		
131 DHS - ASH Fund Shortfall		Other Fund - \$2.4 M		
132 Judiciary - IT Funding		0.9		
133 Legislature - Auditor General		0.2		
134 Parks - Arizona Trail (\$150k)		Other Fund - \$150k		
135 DPS - Border Security (Plus Other Fund \$4 M)		14.6		
136 DPS - Virtual Law Enforcement Training (CCW Fund)		Other Fund - \$2.1 M		
137 DPS - Testing Sexual Assault Kits		0.5		
138 DOR - Military Withholding Refunds		2.0		
139 SOS - Presidential Preference Election Funding	6.1			
140 SFB - Building Renewal Grants	15.0	15.0		
141 SFB - Public School Credit Enhancement Transaction Costs		0.5		
142 SFB - New School Construction		23.1	23.1	
143 WIFA - Small Water Systems Fund Deposit		0.5		
144 DWR - Water Protection Fund Deposit (\$250k)		0.3		

ENACTED BUDGET 4-YEAR ANALYSIS 1/

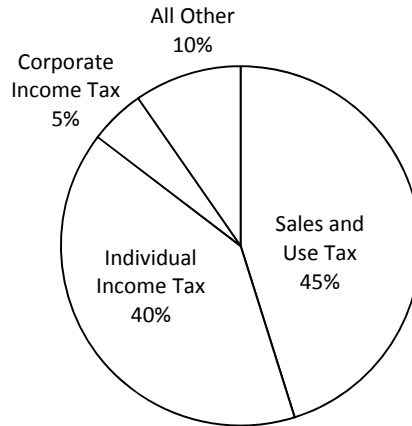
\$ in Millions

		FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
145	Universities - Eliminate Payment Deferral	200.0			
146	Universities - One-time Funding - ASU		7.0		
147	Universities - One-time Funding - NAU		4.0		
148	Universities - One-time Funding - UA		8.0		
149	Other - DCS - Eliminate Payment Deferral	11.0			
150	Other - DES - Eliminate Payment Deferral	21.0			
151	Capital - ADOT - \$56.5 M State (Fastlane,189, H60) / \$30 M Local		86.5		
152	Capital - ADOA - Projects (General Fund)		8.0		
153	Capital - ADOA - Projects (OF) (\$4 M DHS/\$120k State Fair Set Aside)		Other Fund - \$10 M		
154	Capital - Vets - Veterans Home Flagstaff		10.0		
155	Subtotal - One-Time Changes to JLBC Baseline	\$ 253.1	\$ 241.0	\$ 24.6	\$ -
156	Total One-Time Spending	\$ 259.3	\$ 241.0	\$ 24.6	\$ -
157	Total Spending	\$ 9,515.3	\$ 9,608.3	\$ 9,624.5	\$ 9,821.4
158	Ending Cash Balance	\$ 225.0	\$ 65.9	\$ 144.7	\$ 417.6
159	Structural Balance	\$ (92.0)	\$ 2.5	\$ 102.9	\$ 272.4

1/ A.R.S. § 35-125 requires the Legislature to delineate revenue and expenditure projections for 3 years (the budget year and 2 succeeding years) in each General Appropriation Act. This chart presents revenues and expenditures during that time period using the January JLBC Baseline as a starting point. All changes are stated relative to the JLBC Baseline.

FY 2017 General Fund Revenue - Where It Comes From

Source	Revenue (Millions)
Sales and Use Tax	\$ 4,529.0
Individual Income Tax	4,036.1
Corporate Income Tax	499.8
Other Ongoing	968.5
One-Time Revenues	79.4
TOTAL REVENUE	\$ 10,112.8 ^{1/2/}

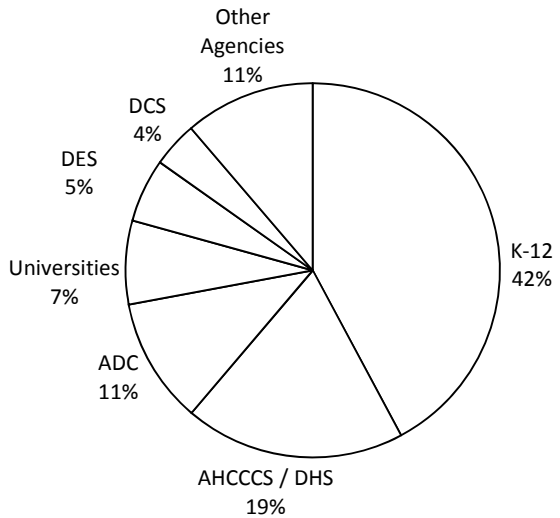


^{1/} Does not include beginning balance of \$225 million.

^{2/} \$664 million of this amount is distributed as urban revenue sharing.

FY 2017 General Fund Appropriations - Where It Goes

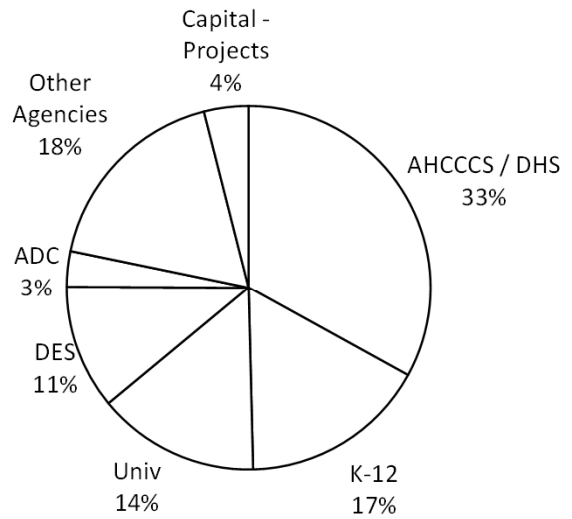
Budget Unit	Appropriation (Millions)
Education (K-12)	\$ 4,069.4
AHCCCS / DHS	1,837.5
Corrections	1,046.7
Universities	698.5
Economic Security	530.1
Child Safety	379.2
Other Agencies	1,087.6
TOTAL BUDGET	\$ 9,649.0 ^{1/}



^{1/} Does not include administrative adjustments and revertsments.

FY 2017 Total Spending - All Sources ^{1/}

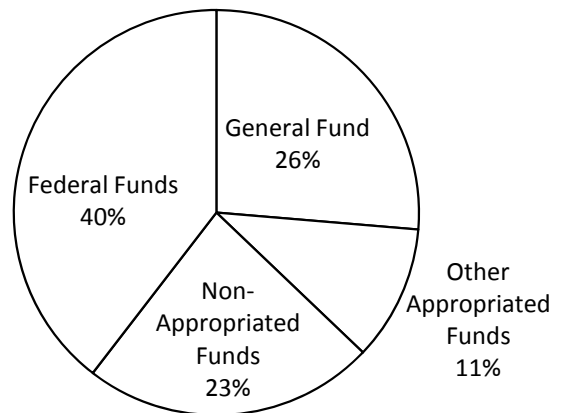
Budget Unit	Spending (Millions)
AHCCCS / DHS	\$ 12,092.5
Education (K-12)	6,083.5
Universities	5,275.2
Economic Security	4,056.4
Corrections	1,158.0
Other Agencies / Distributions	6,521.4
Capital - Projects	1,450.6
TOTAL	\$ 36,637.6 ^{2/}



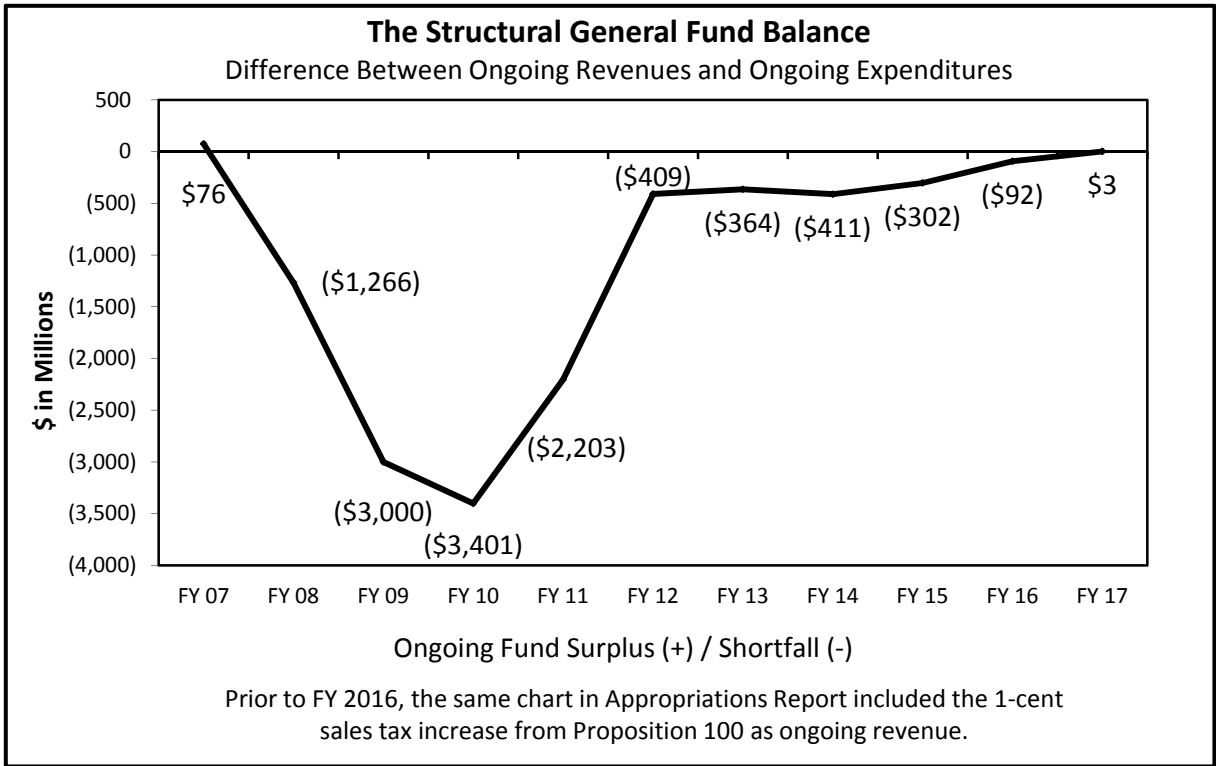
^{1/} Does not include administrative adjustments and revertsments.
^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

FY 2017 Total Spending by Fund Source ^{1/}

Fund Source	Spending (Millions)
General Fund	\$ 9,649.0
Other Appropriated Funds	3,953.2
Non-Appropriated Funds	8,547.8
Federal Funds	14,487.7
TOTAL	\$ 36,637.6 ^{2/}



^{1/} Does not include administrative adjustments and revertsments.
^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

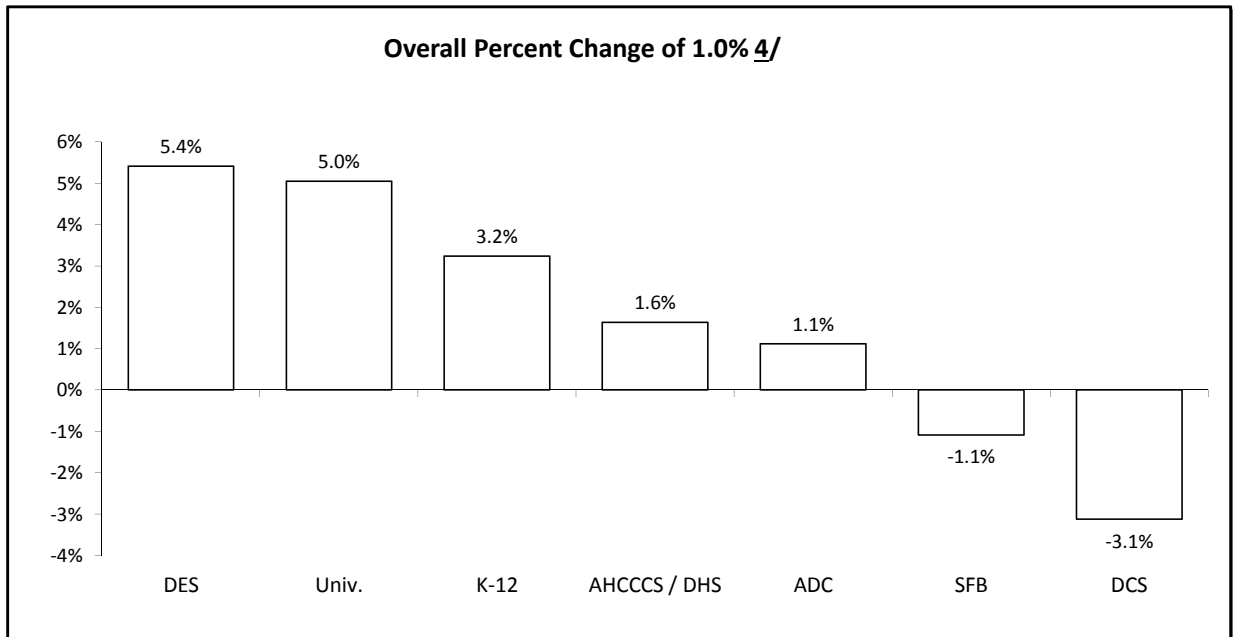
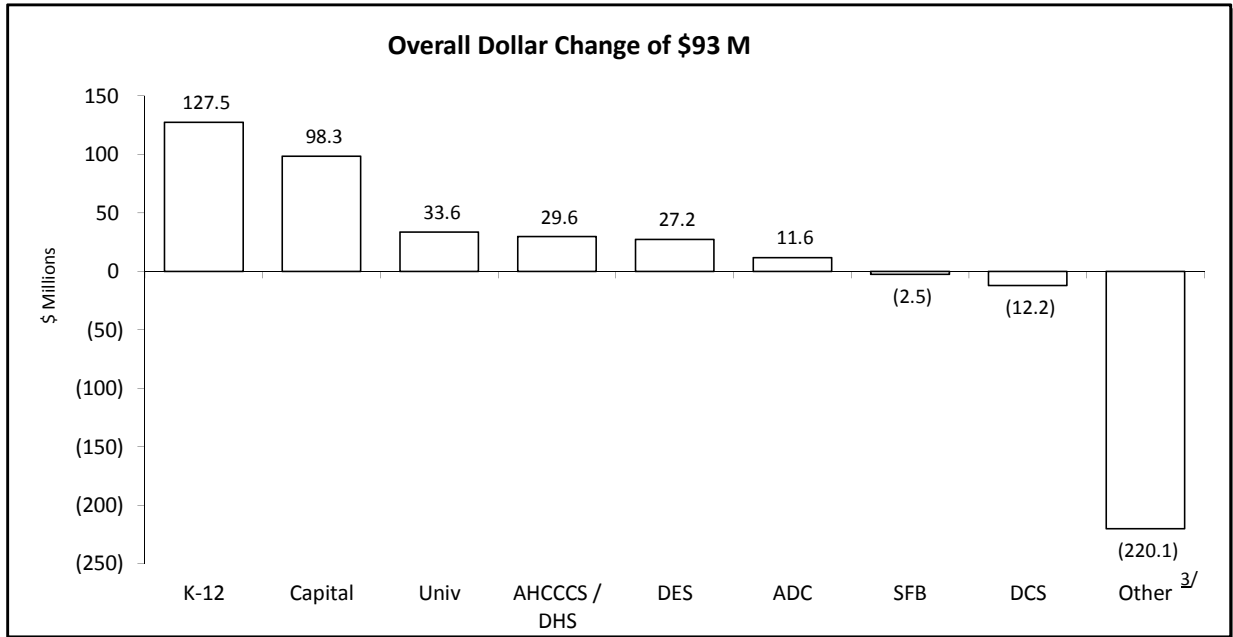


**Recent History of Appropriated Ongoing
General Fund Structural Balance ^{1/2/}
(\$ in Millions)**

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
2007	9,624	9,548	76
2008	8,765	10,031	(1,266)
2009	6,967	9,967	(3,000)
2010	6,297	9,698	(3,401)
2011	7,191	9,394	(2,203)
2012	7,789	8,198	(409)
2013	8,144	8,508	(364)
2014	8,361	8,772	(411)
2015	8,926	9,228	(302)
2016	9,164	9,256	(92)
2017	9,370	9,367	3

^{1/} Excludes one-time revenues and expenditures.
^{2/} Prior to FY 2016, the same chart in Appropriations Reports included the 1-cent sales tax increase from Proposition 100 as ongoing revenue.

Changes to Major Agencies' General Fund Budget 1/2/ FY 2016 to FY 2017



^{1/} Represents change in total General Fund spending from FY 2016 (including supplementals and ex-appropriations) to FY 2017. See page BD-5.

^{2/} Elimination of one-time FY 2016 deferral repayments are included in "Other" rather than in individual agency budget amounts displayed.

^{3/} Includes elimination of one-time FY 2016 deferral repayments of \$(232.0) M, net revertments of \$(15.7) M, and Automation Projects Fund expenditures of \$7.1 M.

^{4/} Individual agencies exclude one-time deferral repayments. Without overall one-time deferral repayments, overall percentage growth is 3.5%.

FY 2017 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

General Fund Balances

- Given forecasted FY 2016 General Fund revenues of \$9.74 billion and spending of \$9.52 billion, the budget has a projected FY 2016 balance of \$225 million. Given forecasted FY 2017 General Fund revenues of \$9.67 billion and spending of \$9.61 billion, the budget has a projected FY 2017 balance of \$65.9 million.
- Under the 3-year budget projections, there would be a balance of \$144.8 million in FY 2018 and \$417.5 million in FY 2019.
- The ending balance projections exclude the state's Budget Stabilization Fund reserve of \$460 million.

General Fund Revenues

- Projected FY 2017 revenues are \$9.67 billion, including:
 - ⇒ Based on JLBC's 4-sector consensus, base revenues are projected to grow by \$389 million, or 4.0%.
 - ⇒ The beginning balance would decrease by \$(87) million, from \$312 million at the beginning of FY 2016 to \$225 million at the start of FY 2017.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would increase from \$606 million to \$664 million, thereby decreasing state revenue by \$(58) million.
 - ⇒ Previously enacted tax and revenue legislative changes reduce state revenue by \$(98) million, primarily from a reduction in corporate income taxes.
 - ⇒ The expiration of a FY 2016 tax amnesty program decreases state revenue by \$(47) million.
 - ⇒ Fund transfers would decrease by \$(138) million. The budget transfers \$79 million from the Health Insurance Trust Fund to the General Fund in FY 2017, compared to \$217 million from a variety of funds in FY 2016.
 - ⇒ Overall net revenues are forecast to decline in FY 2017 by \$(66) million, or 0.7%, from \$9.74 billion in FY 2016 to \$9.67 billion in FY 2017.

General Fund Spending

- FY 2017 General Fund spending is projected to be \$9.61 billion, an increase of \$93 million, or 1.0%, above the revised FY 2016 level. Compared to the original FY 2016 budget of \$9.13 billion, the FY 2017 budget increases spending by \$474 million, or 5.2%.
- The entire FY 2017 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$36.6 billion.

Education

Department of Education

- ADE General Fund spending increases by \$127.5 million, or 3.2%, including:
 - ⇒ \$73.6 million for 1.25% student growth, for a total student count of 1,105,172.
 - ⇒ \$19.5 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$56.0 million for a 0.99% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(44.1) million for an increase in property tax collections due to new construction.
 - ⇒ \$26.1 million for higher Homeowner's Rebate due to enacted property tax reductions.
 - ⇒ \$(1.0) million to eliminate high school graduates from JTED ADM counts (partially exempted for FY 2017).
 - ⇒ \$700,000 for Empowerment Scholarship Accounts (ESAs).
 - ⇒ \$(363,700) to offset higher available endowment earnings under Proposition 123.
 - ⇒ \$(2.4) million for prior year base adjustment.
 - ⇒ \$(0.5) million for miscellaneous changes.
- The budget reflects passage of Proposition 123 at the May 2016 Special Election, which will have a total estimated fiscal impact of \$299 million in FY 2016. The funding will be generated from increasing the State Land Trust distribution rate from 2.5% to 6.9% per year (\$172.1 million), adding \$52.4 million in new General Fund monies, and incorporating \$74.4 million of formerly separate "Additional Inflation" monies into Basic State Aid. The Proposition's 10-year impact is estimated at \$3.5 billion.
- The budget continues to defer \$931 million in General Fund spending from FY 2017 to FY 2018 for school district payments.

School Facilities Board

- SFB General Fund spending would decrease by \$(2.5) million or (1.1)%, including:
 - ⇒ \$(23.9) million for the elimination of the Access Our Best Public Schools Fund Deposit.
 - ⇒ \$22.0 million for the first year of new school construction in the Agua Fria Union High School District and the Chandler Unified School District.
 - ⇒ \$(1.1) million for decreased debt service associated with past lease-purchase agreements.
 - ⇒ \$500,000 for one-time Credit Enhancement Program transaction costs.
- The FY 2017 Credit Enhancement Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 129) creates the Arizona Public Schools Credit Enhancement Program. The program is established to assist achievement district schools in obtaining financing by guaranteeing the payment of principal and interest. The sum of \$23,900,000 from the Access Our Best Public Schools Fund is transferred to the Arizona Public School Credit Enhancement Fund during FY 2017.

Universities

- The Universities' General Fund spending increases by \$33.6 million, or 5.0%, excluding the FY 2016 elimination of the payment deferral. The \$33.6 million includes:
 - ⇒ \$8.2 million for additional systemwide ongoing operating resources based on resident student enrollment.
 - ⇒ \$3.0 million to establish the School of Civic and Economic Thought and Leadership at Arizona State University.
 - ⇒ \$2.0 million in additional funding for the Center for the Philosophy of Freedom at the University of Arizona.
 - ⇒ \$19.0 million in one-time funds for operating expenditures or capital improvement projects.
 - ⇒ \$2.9 million to restore one-time savings associated with refinancing lease-purchase payments for research infrastructure.
 - ⇒ \$(2.0) million for statewide adjustments.
 - ⇒ \$0.4 million for the transfer of the Mines and Minerals Museum from the Arizona Historical Society to the University of Arizona.
- Total university enrollment is expected to be 166,143 full-time equivalent students in FY 2017, or 5.3% above FY 2016.
- In addition, the FY 2016 revisions included \$200 million to eliminate the university payment deferral.

Community Colleges

- Community College General Fund spending decreases by \$(267,700), or (0.5)%, due to student enrollment declines and equalization formula growth.
- FY 2015 rural district enrollment decreased by (1,614) full-time equivalent students, or (5.1)%, for a total enrollment of 30,054.

Health and Welfare

AHCCCS

- AHCCCS' General Fund spending increases by \$545.8 million, or 45.3%, including:
 - ⇒ \$534.3 million for the transfer of behavioral health services from DHS to AHCCCS.
 - ⇒ \$29.0 million for Medicaid formula adjustments, including 2.5% enrollment growth and a 1.5% capitation rate increase.
 - ⇒ \$1.4 million to restore coverage for dental services for ALTCS adult enrollees.
 - ⇒ \$(18.9) million for other adjustments, including offsets for higher prescription drug rebate funds, increased third-party liability recoveries, and increased cost-sharing for childless adults.
 - ⇒ The hospital assessment continues to fund the state's acute care costs of the Proposition 204 and Adult Expansion populations.
- AHCCCS enrollment is projected to grow to 1.83 million by June 2017. This level represents a caseload increase of 44,400, or 2.5%, above June 2016.
- Laws 2016, Chapter 112 restores KidsCare, increasing the maximum income eligibility for children to 200% of the Federal Poverty Level (FPL). The federal government is expected to pay 100% of the costs of the program.

Department of Health Services

- DHS General Fund spending decreases by \$(516.2) million, or (85.6)%, including:
 - ⇒ \$(517.3) million to transfer behavioral health services from DHS to AHCCCS. The Arizona State Hospital (ASH) will remain in DHS.
 - ⇒ \$1.5 million for 14 additional nurses and 15 campus security officers at ASH.

Department of Child Safety

- DCS General Fund spending increases by \$(12.2) million, or (3.1)%, excluding the FY 2016 elimination of the payment deferral. The \$(12.2) million includes:
 - ⇒ \$(0.3) million to consolidate Internet Crimes Against Children funding in the Attorney General budget.
 - ⇒ \$(11.2) million to remove one-time FY 2016 supplemental funding.
- The FY 2017 budget also continues \$34.9 million in FY 2016 supplemental funding for added services and staffing.
- In addition, the FY 2016 revisions included \$11 million to eliminate the DCS payment deferral.

Department of Economic Security

- DES General Fund spending increases by \$27.2 million, or 5.4%, excluding the FY 2016 elimination of the payment deferral. The \$27.2 million includes:
 - ⇒ \$21.1 million for Medicaid formula adjustments in the Division of Developmental Disabilities (DD), including a 4.5% enrollment increase and 2.5% capitation rate increase in FY 2017.
 - ⇒ \$3.0 million for a 1% increase for DD Home and Community Based Services provider rates.
 - ⇒ \$1.2 million for DD preventive dental services.
 - ⇒ \$2.0 million for Vocational Rehabilitation services.
- DD caseloads are projected to grow to 31,035 by June 2017. This level represents a caseload increase of 1,336, or 4.5%, above June 2016.
- TANF Cash Benefits caseloads are projected to decline to 19,064 by June 2017. This level represents a caseload decrease of (3,291), or (14.8)%, below June 2016.
- In addition, the FY 2016 revisions included \$21 million to eliminate the DES rollover.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending increases by \$11.6 million, or 1.1%, including:
 - ⇒ \$17.6 million for the costs of 1,000 private medium-security beds to open in September 2016.
 - ⇒ \$723,500 for an employer retirement rate increase.
 - ⇒ \$(5.9) million for statewide adjustments.
- The system wide prison population is projected to be 43,961, or a growth of 900 inmates above FY 2016. In June 2017, ADC would have a permanent bed shortfall of (4,876). Taking into account 5,754 temporary beds, the shortfall becomes a surplus of 878 beds.
- If ADC/ADOA execute a refinance of an existing private prison lease, the Legislature intends that the department use General Fund savings from the Private Prison Per Diem line item as follows: \$1.6 million for the Maricopa Community Corrections Center and \$2.7 million for the inflation health care contracted services increase.

Judiciary

- Judiciary General Fund spending increases by \$6.8 million, or 6.4%, including:
 - ⇒ \$500,000 for 2 new Supreme Court Justices.
 - ⇒ \$100,000 for the first year of a 3% judicial pay raise.
 - ⇒ \$948,700 for Information Technology (IT) upgrades.
 - ⇒ \$3.0 million for a surge in dependency case filings in the Superior Court.
 - ⇒ \$2.5 million for probation adjustments.
- The budget includes \$5.0 million in FY 2017 and \$3.0 million in FY 2018 Judiciary Fund transfers to the General Fund.

Department of Juvenile Corrections

- DJC General Fund spending decreases by \$(2.8) million, or (10.4)%, including:
 - ⇒ \$(2.5) million for reductions in the housed population at DJC's Adobe Mountain School.

Department of Public Safety

- DPS General Fund spending increases by \$27.8 million, or 29.8%, including:
 - ⇒ \$8.1 million for the ongoing cost of the new Border Strike Task Force (BSTF) within DPS, and \$14.6 million in one-time equipment and other costs.
 - ⇒ \$4.6 million for a 3% pay raise for sworn officer and civilian staff of the Highway Patrol Division within DPS.
 - ⇒ \$500,000 for testing sexual assault kits currently in backlog.

Local Issues

Counties and Cities

- The General Fund budget includes \$8.0 million for a one-time distribution to counties to mitigate the impact of DJC cost sharing.

General Government

Automation

- The budget includes \$47.8 million from all funds for large-scale automation projects. Of this amount, \$14.9 million is financed from the General Fund and \$32.9 million is financed from Other Funds. The \$47.8 million FY 2017 amount includes the following:
 - ⇒ \$13.6 million for technology projects and project management at ADOA.
 - ⇒ \$12.0 million to replace the state's E-Procurement system.
 - ⇒ \$8.0 million for the final year of a 3-year project to replace ADC's Adult Inmate Management System (AIMS).
 - ⇒ \$7.3 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$4.6 million as the second installment to replace the DCS Children's Informational Library and Data Source (CHILDS).
 - ⇒ \$1.3 million for projects to enhance IT security at DES.
 - ⇒ \$1.0 million for an assessment of the state's Enterprise Tax System at the Department of Revenue (DOR).

Arizona Commerce Authority

- The budget includes a \$(5.0) million decrease in the General Fund deposit to the Arizona Competes Fund pursuant to the FY 2016 Government BRB (Laws 2015, Chapter 12).

Department of Environmental Quality

- The budget includes a \$(4.2) million decrease from the General Fund to reduce the General Fund allocation to the Water Quality Assurance Revolving Fund (WQARF), and backfills this decrease with \$2.9 million from the Air Quality Fund and \$4.2 million from the Emissions Inspection Fund.

Department of Revenue

- The budget includes a one-time increase of \$2 million from the General Fund for DOR to reimburse Native American veterans who erroneously had income taxes withheld in previous tax years.

Corporation Commission

- The budget includes a one-time increase of \$2 million from the General Fund to replace the database software in the Corporations Division.

Agency Consolidations

- The budget includes the following General Fund spending changes associated with agency consolidations:
 - ⇒ A net savings of \$(448,400) to transfer the Department of Fire, Building and Life Safety's operations to the Department of Forestry and Fire Management, the Department of Housing, and the State Real Estate Department.
 - ⇒ A decrease of \$(568,700) for the Department of Administration and a corresponding \$568,700 increase for the new Office of Economic Opportunity (OEO) to transfer the Office of Employment and Population Statistics and the Governor's Regulatory Review Council to OEO.
 - ⇒ A decrease of \$(428,300) from the Arizona Historical Society and a corresponding \$428,300 increase for the University of Arizona to transfer the Mines and Minerals Museum to the University of Arizona.
 - ⇒ A decrease of \$(941,000) from the Arizona Geological Survey to transfer the agency to the University of Arizona. The budget does not include a corresponding increase for the University of Arizona.
 - ⇒ \$(1.4) million of consolidation savings, including \$(1.1) million for the transfer of DHS behavioral health programs to AHCCCS, \$(330,600) for the elimination of the Department of Weights and Measures, and \$(12,600) for the transfer of the Board of Appraisal to the Department of Financial Institutions.

Revertments

- The budget sets the projected revertment level at \$(110.7) million, compared to \$(110.0) million in FY 2016. (Revertments are unspent appropriations.)
- FY 2017 Administrative Adjustments are forecast to be \$70.0 million, compared to \$85.0 million in FY 2016.

FY 2016 General Fund Supplementals

- The budget includes a net increase of \$303.7 million for FY 2016 adjustments, including:
 - ⇒ \$34.9 million for additional services and staffing at DCS.
 - ⇒ \$5.2 million for additional ADC health care vendor payments.
 - ⇒ \$6.8 million for DES for excess caseload growth in the Developmentally Disabled population.
 - ⇒ \$746,700 for DEMA service contracts.
 - ⇒ \$15.0 million for a one-time Building Renewal Grants increase in SFB.
 - ⇒ \$(1.3) million in refinancing savings at SFB.
 - ⇒ \$6.1 million for the Secretary of State for county reimbursements for the 2016 Presidential Preference Election.
 - ⇒ \$4.1 million to restore General Fund monies to the university system for lower-than-estimated savings of health insurance contribution rates.
 - ⇒ \$232 million to eliminate payment deferrals (rollovers) for the universities, DES, and DCS.

State Employee Issues

FTE Positions

- The budget increases the Full-Time Equivalent (FTE) ceiling by 175.3 FTE Positions in FY 2017, including:
 - ⇒ An increase of 136 FTE Positions in DCS for additional administrative staff, attorney general staff, and case aids.
 - ⇒ An increase of 48 FTE Positions in the Department of Public Safety for the creation of the Border Strike Task Force.
 - ⇒ An increase of 2 FTE Positions in the Judiciary to expand the Supreme Court from 5 Justices to 7 Justices.
 - ⇒ An increase of 29 FTE Positions in the Department of Health Services for additional staffing at the Arizona State Hospital.
 - ⇒ A net decrease of (28.2) FTE Positions across DHS and AHCCCS to reflect administrative savings resulting from the transfer of behavioral health services from DHS to AHCCCS.
 - ⇒ An increase of 70.3 FTE Positions in DES for additional case management workers within the Division of Developmental Disabilities.
 - ⇒ A decrease of (60) FTE Positions in ADOA to reflect the completion of a 4-year project to replace the Arizona Financial Information System (AFIS).
 - ⇒ A net decrease of (21.8) FTE Positions for other adjustments.
 - ⇒ These adjustments bring the total appropriated FTE Position ceiling to 52,091 in FY 2017.

Employee Retirement Issues

- In the Arizona State Retirement System, both employer and employee contribution rates will increase from 11.47% to 11.48%.
- Employer retirement contribution rates will increase in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP). The employee contribution rates in both systems will remain the same.
 - ⇒ In PSPRS, the FY 2017 increase in the aggregate employer contribution rate will be 1.24%.
 - ⇒ In CORP, the FY 2017 increase in the aggregate employer contribution rate will be 0.50%.
- In the Elected Officials' Retirement Plan (EORP), both employer and employee contribution rates will remain the same as the rates are fixed in statute. Given the *Fields* ruling, the higher cost requirements would leave the EORP Fund depleted in 15 years.
- The budget increases appropriated funding for state agency retirement costs by \$5.0 million, including \$2.2 million for FY 2017 rate increases and \$2.8 million for FY 2016 rate increases. These amounts consist of:
 - ⇒ \$723,500 from the General Fund for the FY 2017 CORP rate increase at the Department of Corrections.
 - ⇒ \$1.53 million in Other Appropriated Funds for the FY 2017 PSPRS rate increase at the Department of Public Safety.
 - ⇒ The budget also includes funding for FY 2016 rate increase, including \$947,700 from the General Fund for FY 2016 CORP rate increase for probation officers in the Judiciary.
 - ⇒ \$1.75 million from Other Appropriated Funds for FY 2016 PSPRS rate increase for the Game and Fish Department.
 - ⇒ \$62,300 from Other Appropriated Funds for FY 2016 PSPRS rate increases at the Department of Liquor Licenses and Control.
- If the Arizona Supreme Court rules against EORP in *Hall vs. the Elected Officials' Retirement Plan*, then the case would likely apply to all PSPRS systems (PSPRS/CORP/EORP) as the *Fields* ruling did.

- ⇒ PSPRS staff estimated in early 2015 that an adverse ruling in the *Hall* case would increase unfunded liabilities for all systems by \$1.3 billion. A significant portion of the liability would be funded by local governments. The annual General Fund impact has yet to be determined.
- Laws 2016, Chapter 2 and Proposition 124 reform PSPRS pension benefits for current and future members of PSPRS. These changes include:
 - ⇒ Replacement of permanent benefit increases (PBI) with an annual cost-of-living adjustment linked to inflation.
 - ⇒ Modifications to the base defined benefit pension for future members.
 - ⇒ An optional 401(K)-style defined contribution plan for future members and some current members.
 - ⇒ The PBI replacement for current members was approved by voters in Proposition 124. Most of the potential savings from Chapter 2 and Proposition 124 will accrue to local governments as opposed to the state.

Employee Health Insurance

- The FY 2016 budget reduced state agency health insurance contribution rates for 6 months in FY 2016, thereby saving the General Fund \$(16.2) million. Due to a revision of university General Fund savings, that amount is only going to be \$(12.1) million. The FY 2017 budget annualizes these revised savings to \$(24.2) million in FY 2017.
- The budget includes a one-time transfer of \$78.9 million from the Health Insurance Trust Fund (HITF) to the General Fund in FY 2017.

Capital

- \$86.5 million in one-time funding from the General Fund for highway construction, including \$1.5 million for Route H60, \$25.0 million for State Route 189 near the Mariposa Port of Entry, \$30.0 million for Interstate 10 widening projects near Picacho Peak and \$30.0 million for a deposit to the local component of the Highway User Revenue Fund.
- \$8.0 million from the General Fund for ADOA building renewal projects. The \$8.0 million will be supplemented with \$19.0 million in non-General Fund monies.
- \$7.2 million in Other Appropriated Funds for building renewal at state agencies including ADC, Juvenile Corrections, Game and Fish, and the State Lottery.
- No adjustment for lease-purchase and privatized lease-to-own payments changes, and also includes no adjustment for rent charges. All changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels.

Table 4

FY 2017 FUNDING FORMULA SUSPENSIONS 1/

	FY 2017 Formula Requirement
<u>Statutory</u>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 751,000 <u>2/</u>
Department of Education - District Additional Assistance	352,442,700 <u>3/</u>
Department of Education - Charter School Additional Assistance	18,656,000
Department of Education - Large JTEDs at 95.5%	1,602,400 <u>4/</u>
Department of Environmental Quality - WQARF	12,176,400 <u>5/</u>
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>6/</u>
Department of Health Services - Sexually Violent Persons (SVP)	2,988,100 <u>7/</u>
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	86,006,100 <u>8/</u>
Universities - Financial Aid Trust	<u>17,640,800</u>
Total - FY 2017 Statutory Funding Formula Suspensions	\$ 493,163,500
<u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 12,848,500
Department of Corrections - Building Renewal	14,652,600
Universities - Building Renewal	<u>129,900,000</u>
Total - FY 2017 Non-Statutory Funding Formula Suspensions	\$ 157,401,100

1/ Represents the cost of funding formulas that are currently suspended on an annual basis.

2/ Represents partial suspension of Pinal formula.

3/ Excludes approximately \$29 million suspended in non-state aid districts, which are not funded through the state budget.

4/ Estimate based on FY 2016 data. Affects only Maricopa and Pima County Joint Technical Education Districts (JTEDs).

5/ In addition to the the \$2,823,600 General Fund allocation, the FY 2017 budget also includes \$2,875,000 from the Air Quality Fund and \$4,250,000 from the Emissions Inspection Fund for WQARF. As a result, WQARF is receiving \$9,948,600 in total funds in FY 2017, compared to the statutory allocation of \$15,000,000.

6/ Excludes costs that counties incur to treat RTC patients in alternative (non-Arizona State Hospital) facilities.

7/ Reflects estimate of remaining costs to counties for SVP care.

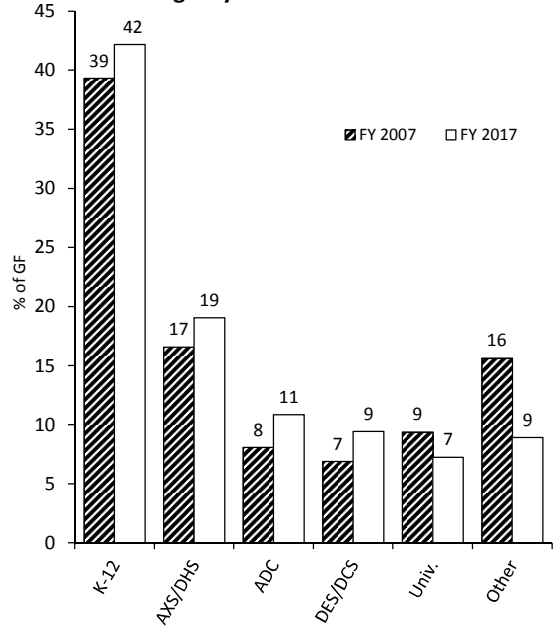
8/ This amount is in addition to the \$10 million allocated to DPS from the HURF pursuant to A.R.S. § 28-6993.

"THEN AND NOW" - FY 2007 vs. FY 2017 General Fund Spending

**Comparison of 10 Largest General Fund Budgets 1/
(\$ in Millions)**

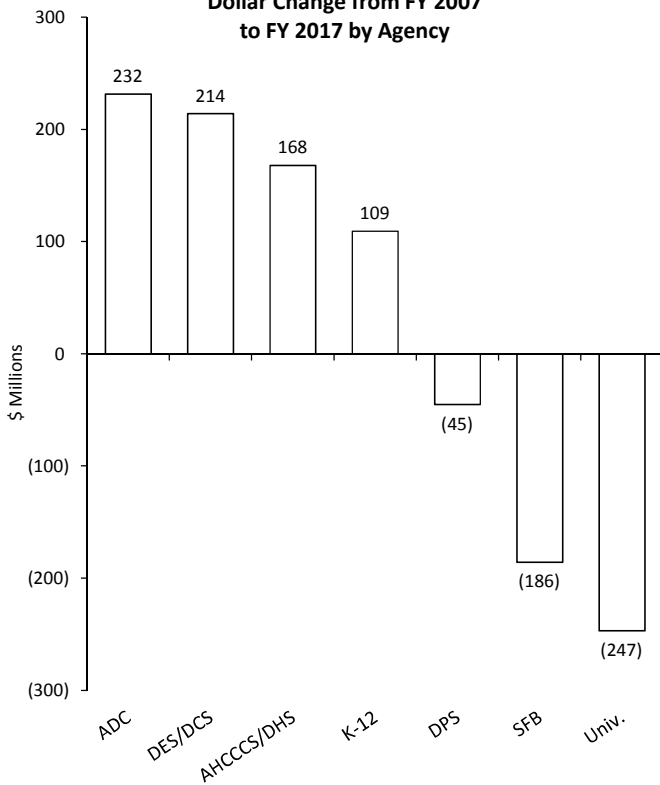
	FY 07 Actuals	FY 17 Approp.	\$ Change FY 07-17	% Change FY 07-17
Education (K-12)	\$ 3,960.0	\$ 4,069.4	\$ 109.4	2.8
AHCCCS / DHS 2/	1,669.5	1,837.5	168.0	10.1
Corrections	815.0	1,046.7	231.7	28.4
Universities	945.1	698.5	(246.6)	(26.1)
Economic Security	695.1	530.1	(165.0)	3/ (23.7)
Child Safety	-	379.2	379.2	3/ NA
School Facilities Board	413.7	228.1	(185.6)	(44.9)
Judiciary	123.2	113.0	(10.2)	(8.3)
Public Safety	166.2	121.2	(45.0)	(27.1)
Other	1,285.5 4/	625.3	(660.2)	(51.4)
TOTAL	\$ 10,073.3	\$ 9,649.0	\$ (424.3)	-4.2%

Agency Share of General Fund

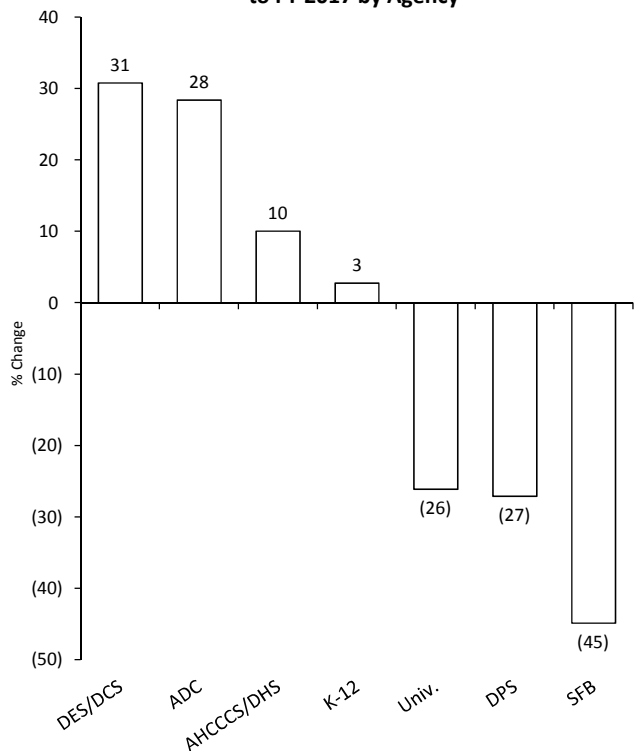


- 1/ Represents individual agency General Fund spending only. Excludes administrative adjustments, reverts, and any Budget Stabilization Fund deposits.
- 2/ AHCCCS and DHS budgets displayed together to provide comparison of total healthcare spending in FY 2007 and FY 2017.
- 3/ The decline in the Department of Economic Security represents shift in resources to the new Department of Child Safety.
- 4/ Includes \$612 M of one-time expenditures in FY 2007.

**Dollar Change from FY 2007
to FY 2017 by Agency**



**Percent Change from FY 2007
to FY 2017 by Agency**



"THEN AND NOW" - FY 2007 vs. FY 2017 General Fund Revenue and Ending Balances

General Fund Revenue, Expenditures and Ending Balances (\$ in Millions)

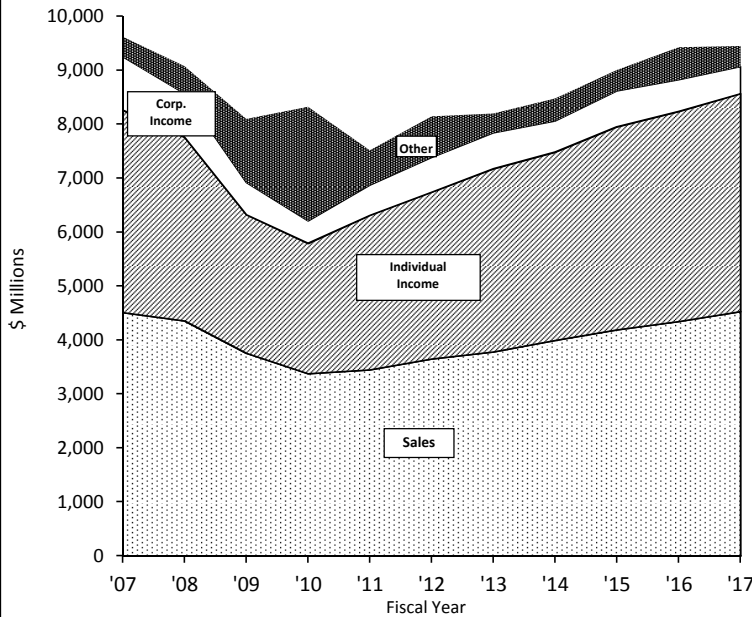
Fiscal Year	Revenue	Expenditures	Ending Balance	Ending Balance as a % of Revenue
2007	10,897.5	10,368.4	529.0	4.9%
2008	10,045.1	10,044.1	1.0	0.0%
2009	8,248.5	8,729.2	(480.7)	-5.8%
2010	7,843.8	7,849.5	(5.7)	-0.1%
2011	8,378.0	8,374.8	3.2	0.0%
2012	9,066.7	8,669.7	397.0	4.4%
2013	9,559.5	8,664.0	895.5	9.4%
2014	9,381.3	8,803.9	577.4	6.2%
2015	9,581.9	9,269.6	312.3	3.3%
2016	9,740.4	9,515.4	225.0	2.3%
2017	9,674.2	9,608.3	65.9	0.7%

General Fund Major Tax Sources as a Percent of Total Revenue ^{1/2/3/}

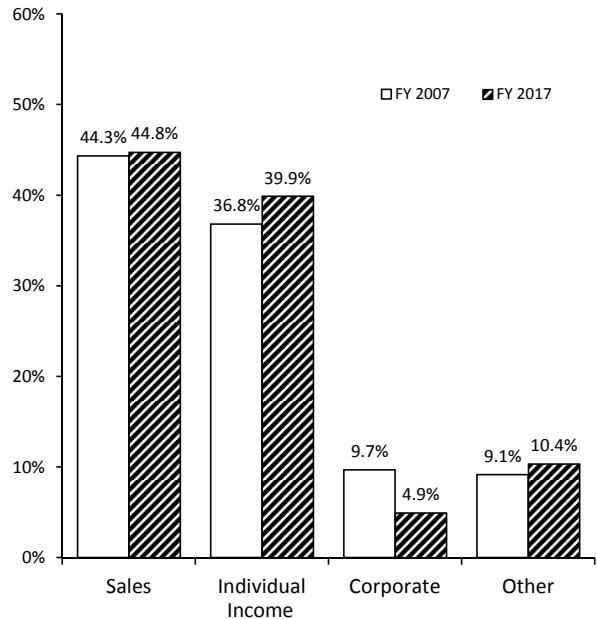
Fiscal Year	Sales	Individual Income	Corporate Income	Other
2007	44.3%	36.8%	9.7%	9.1%
2008	44.6%	34.9%	8.3%	12.2%
2009	42.6%	29.1%	6.7%	21.6%
2010	37.7%	27.0%	4.6%	30.7%
2011 ^{4/}	43.1%	35.8%	7.0%	14.0%
2012 ^{4/}	42.6%	36.0%	7.5%	13.9%
2013 ^{4/}	43.4%	39.0%	7.6%	10.0%
2014	44.2%	38.6%	6.4%	10.9%
2015	43.6%	39.1%	6.9%	10.4%
2016	43.3%	38.8%	5.8%	12.1%
2017	44.8%	39.9%	4.9%	10.4%

- ^{1/} Excludes balance forward from prior year.
- ^{2/} Excludes Budget Stabilization Fund transfers and withdrawals.
- ^{3/} Excludes Urban Revenue Sharing distributions.
- ^{4/} Excludes temporary 1-cent sales tax.

General Fund Major Tax Sources as a Share of Total Revenue



Major Tax Sources as a Percent of Total Revenue



BUDGET DETAIL

SUMMARY OF GENERAL FUND APPROPRIATIONS
By Individual Chapter
For Fiscal Years 2016 - 2018 1/2/3/

Chap. No.	Bill Number	Reference Title	FY 2016 General Fund	FY 2017 General Fund	FY 2018 General Fund
Fifty-second Legislature - Second Regular Session (2016)					
45	HB 2485	Appropriations; Named Claimants	13,700		
117	HB 2695	General Appropriations Act; 2016-2017	303,737,600	8,216,152,600	953,806,300
120	HB 2702	Environment; Budget Reconciliation; 2016-2017		(12,176,400)	
125	HB 2708	Revenue; Budget Reconciliation; 2016-2017		32,000,000 C	
126	SB 1527	Appropriations; Capital Outlay; 2016-2017		74,500,000 C	
128	SB 1530	Agency Consolidation; Budget Reconciliation; 2016-2017		0 5/	
129	SB 1531	Credit Enhancement; Budget Reconciliation; 2016-2017		500,000	
130	SB 1537	Higher Education; Budget Reconciliation; 2016-2017		(951,900) 6/	
138	HB 2620	Education; Certification Renewal Fees		0 7/	
214	HB 2388	Qualified Disability Expenses; Eligible Individuals		240,000	
248	HB 2665	Charter Schools; Preference; Foster Children			1,500,000
342	SB 1435	Racing Commission; Continuation; Conforming Changes		200,000	
372	HB 2666	Governor's Economic Opportunity Office; Consolidation		0 8/	
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION			303,751,300	8,310,464,300	955,306,300
Fifty-second Legislature - First Special Session (2015)					
1	HB 2001	Schools; Base Level; Appropriations* 9/	52,354,400	50,000,000	50,000,000
2	HB 2002	Statewide Special Election	9,300,000		
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION			61,654,400	50,000,000	50,000,000
Fifty-second Legislature - First Regular Session (2015)					
8	SB 1469	2015-2016; General Appropriations	7,878,148,200	1,162,727,700 10/	
9	SB 1470	Capital Outlay; 2015-2016	6,200,000 C		
13	SB 1474	Environment; Budget Reconciliation; 2015-2016	(8,000,000)		
132	SB 1001	Nuclear Emergency Appropriations; Assessments	2,404,000	2,412,500	
SUBTOTAL APPROPRIATIONS - 1st REGULAR SESSION			7,878,752,200	1,165,140,200	0
Fifty-first Legislature - Second Regular Session (2014)					
18	HB 2703	2014-2015; General Appropriations* 11/	1,131,115,600	4,242,400	4,000,000
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION			1,131,115,600	4,242,400	4,000,000
Fifty-first Legislature - Second Special Session (2014)					
2	SB 1002	Appropriations; Department of Child Safety	32,000,000 12/		
SUBTOTAL APPROPRIATIONS - 2nd SPECIAL SESSION			32,000,000	0	0
Fifty-first Legislature - First Special Session (2013)					
1	HB 2001	2013-2014; General Appropriations	(13,798,000) 13/		
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION			(13,798,000)	0	0
Fiftieth Legislature - Second Regular Session (2012)					
294	SB 1524	General Appropriations; 2012-2013	23,000,000 14/		
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION			23,000,000	0	0
Permanent General Fund Appropriations and Allocations 15/ *					
9-602		Phoenix Convention Center Financing	20,449,000	20,449,000	22,499,000
15-1469.01		Community College Rural County Allocation	2,523,400	2,730,600	2,730,600
15-1670		University Research Infrastructure Financing 16/	34,625,000	34,625,000	33,625,900
26-263		Military Airport Planning; Appropriation 17/	175,000	175,000	175,000
35-192		General Emergency Authority 18/	4,000,000	4,000,000	4,000,000
37-623		Wild Land Fire Emergency 18/	3,000,000	3,000,000	3,000,000
38-810		Elected Officials' Retirement Plan Closure 19/	5,000,000	5,000,000	5,000,000
42-5031		Rio Nuevo Multipurpose Facility District 20/	10,000,000	10,000,000	10,000,000
42-5031.01		Indian Tribal Postsecondary Educational Institutions	2,625,000	2,625,000	2,625,000
43-409		Arizona Commerce Authority/Income Tax Withholding 21/	26,500,000	21,500,000	21,500,000
49-282		WQARF Priority Site Remediation 22/	15,000,000	15,000,000	15,000,000
SUBTOTAL APPROPRIATIONS - PERMANENT			123,897,400	119,104,600	120,155,500
TOTAL APPROPRIATIONS			\$9,540,372,900	\$9,648,951,500	\$1,129,461,800

* Appropriation beyond FY 2018.

C Designates a capital appropriation. All other appropriations are operating appropriations. For Laws 2016, Chapter 125, \$30,000,000 of the \$32,000,000 amount displayed is a capital appropriation.

1/ For FY 2016 - FY 2018, this table summarizes all General Fund appropriations enacted in any session. Equals total spending less administrative adjustments and revertsments.

2/ All appropriations have been rounded to the nearest \$100.

3/ Excludes administrative adjustments, revertsments, and statutory revertsments.

4/ Laws 2016, Chapter 117 appropriates \$953,806,300 in FY 2018 as follows: 1) \$930,727,700 for the payment of the FY 2017 K-12 payment deferral into FY 2018; and 2) \$23,078,600 for SFB New Construction funding.

- 5/ Laws 2016, Chapter 128 transfers \$428,300 of funding from the Arizona Historical Society to the Geological Survey (at University of Arizona) in FY 2017 for use in operating the Mining, Mineral and Natural Resources museum. There is no net change in overall General Fund Appropriations.
- 6/ Laws 2016, Chapter 130 reduces the FY 2017 University Research Infrastructure Financing debt service appropriation to ASU by \$(951,900) to reflect a subsequent refinancing that occurred in 2015. (See Footnote 15)
- 7/ Laws 2016, Chapter 138 transfers \$231,200 of General Fund monies from the State Board of Education to the Department of Education. There is no net change in overall General Fund Appropriations.
- 8/ Laws 2016, Chapter 372 transfers \$568,700 of General Fund monies from the Arizona Department of Administration to the newly-created Office of Economic Opportunity. In addition, \$500,000 of General Fund monies are transferred from the Water Infrastructure Finance Authority to the Office of Economic Opportunity. There is no net change in overall General Fund Appropriations.
- 9/ Laws 2015, 1st Special Session, Chapter 1 appropriates \$50,000,000 annually during FY 2016 - FY 2020, and \$75,000,000 annually during FY 2021 - FY 2025 for additional funding for school districts and charter schools.
- 10/ Laws 2015, Chapter 8 appropriates \$1,162,727,700 in FY 2017 for the payment of FY 2016 payment deferrals into FY 2017 as follows: Department of Child Safety (DCS) - \$11,000,000; Department of Economic Security (DES) - \$21,000,000; Arizona Department of Education (ADE) - \$930,727,700; Universities - \$200,000,000.
- 11/ FY 2016 - FY 2019 Amounts - 1) Laws 2014, Chapter 18 appropriates \$1,130,727,700 in FY 2016 for the payment of FY 2015 payment deferrals into FY 2016 as follows: Arizona Department of Education (ADE) - \$930,727,700; Universities - \$200,000,000; 2) Section 134 makes a \$(8,112,100) reduction to the University Research Infrastructure Financing allocation in FY 2016 and a \$(4,257,600) reduction in FY 2017; 3) Section 133 appropriates \$1,000,000 annually from the General Fund through FY 2019 for deposit into the employer account of the Prescott Fire Department to offset increased pension liability; 4) The bill appropriates \$4,500,000 to the Universities for operating expenditures in FY 2016 and FY 2017; and 5) Section 132 appropriates \$3,000,000 annually from the General Fund through FY 2019 to NAU for biotechnology medical research.
- 12/ Laws 2014, 2nd Special Session, Chapter 2 appropriates \$32,000,000 in FY 2016 for the payment of FY 2015 payment deferrals into FY 2016 as follows: Department of Child Safety - \$11,000,000; Department of Economic Security - \$21,000,000.
- 13/ Laws 2013, 1st Special Session, Chapter 1, Section 1 includes a reduction of \$(13,798,000) made to a prior appropriation to ADOA for automation projects.
- 14/ Automation Funding contained in Laws 2012, Chapter 294 is adjusted as follows:
- FY 2016 Amount - Original \$23,000,000 appropriation was reduced by 2 bills: 1) Laws 2013, 1st Special Session, Chapter 1 - \$(13,798,000) and Laws 2015, Chapter 8 - \$(6,819,000).
- 15/ Permanent law authorizes these appropriations and allocations.
- 16/ Starting in FY 2008 and continuing through FY 2031, A.R.S. § 15-1670 annually appropriates the collective total of \$34,625,000 to Arizona State University, Northern Arizona University, and the University of Arizona for debt service on research infrastructure projects. Laws 2014, Chapter 18 reduces the FY 2015 appropriation by \$(5,590,900), the FY 2016 appropriation by \$(8,112,100) and the FY 2017 appropriation by \$(4,257,600). Laws 2016, Chapter 130 further reduced the FY 2017 appropriation by an additional \$(951,900) and modified the future Research Infrastructure Financing debt service schedule during FY 2018 to FY 2031 to reflect all refinancing activity so far.
- 17/ \$90,000 to DEMA and \$85,000 to the Attorney General.
- 18/ In an emergency, the Governor can order the withdrawal of these monies from the General Fund without specific appropriation authority.
- 19/ Laws 2013, Chapter 217 appropriates \$5,000,000 annually from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost plus an amount to amortize the unfunded accrued liability of the Elected Officials Retirement Plan.
- 20/ Represents an estimated distribution based on monies allocated under A.R.S. § 42-5031.
- 21/ The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12) reduces the Arizona Commerce Authority General Fund deposit by \$(5,000,000) in FY 2016 to \$16,500,000. In FY 2017 and beyond, the deposit is reduced by \$(10,000,000) to \$11,500,000.
- 22/ A.R.S. § 49-282 directs \$18,000,000 annually to the Water Quality Assurance Revolving Fund (WQARF). The statute instructs the State Treasurer to transfer \$15,000,000 from corporate income tax receipts into WQARF at the start of each fiscal year. The statute also instructs the State Treasurer to adjust the corporate income tax deposit at the end of each fiscal year to supplement other deposits, so that WQARF receives \$18,000,000 total from all sources. Laws 2014, Chapter 13 and Laws 2015, Chapter 13 reduces the appropriations by \$(8,000,000) for FY 2016. Laws 2016, Chapter 120 reduces the FY 2017 allocation to \$2,823,600 but utilizes balances of \$2,875,000 from the Air Quality Fund and \$4,250,000 from the Emissions Inspection Fund for total WQARF funding of \$9,948,600.

SUMMARY OF OTHER FUND APPROPRIATIONS By Individual Chapter For Fiscal Years 2016 and 2017 1/2/3/

Chap. Bill No. Number	Reference Title	FY 2016 Other Fund	FY 2017 Other Fund
Fifty-second Legislature - Second Regular Session (2016)			
1	HB 2468	Internet Crimes Against Children; Appropriation	1,800,000
45	HB 2485	Appropriations; Named Claimants	14,100
117	HB 2695	General Appropriations Act; 2016-2017	69,254,700
120	HB 2702	Environment; Budget Reconciliation; 2016-2017	3,609,491,700
124	HB 2707	K-12 education; Budget Reconciliation; 2016-2017	7,125,000
126	SB 1527	Appropriations; Capital Outlay; 2016-2017	500,000
137	HB 2502	Medical Licensure Compact	333,217,500 C
138	HB 2620	Education; Certification Renewal Fees	50,000
153	SB 1246	Corrections Department; Revolving Fund Uses	0 <u>4/</u>
207	HB 2640	Appropriation; Pediatric Neurological Autoimmune Disorders	596,000
221	SB 1270	Pest Management Division	250,000
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION		71,068,800	0 <u>5/</u>
Fifty-second Legislature - First Special Session (2015)			
1	HB 2001	Schools; Base Level; Appropriations	172,081,000
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION		172,081,000	0
Fifty-first Legislature - First Regular Session (2015)			
8	SB 1469	2015-2016; General Appropriations	3,361,385,200 <u>6/</u>
9	SB 1470	Capital Outlay; 2014-2015	282,447,500 C

149	SB 1147	Water Banking Fund <u>7/</u>	237,400	
169	SB 1440	ALTCS; Developmental Disabilities; Rates; Appropriation	120,000	
231	SB 1271	Virtual Border Fence; Appropriation <u>7/</u>	12,100	
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION			<u>3,644,202,200</u>	<u>0</u>
<u>Fifty-first Legislature - Second Regular Session (2014)</u>				
17	SB 1488	K-12 Education; Budget Reconciliation; 2014-2015	246,800	
18	HB 2703	2014-2015; General Appropriations*	<u>2,000,000</u> <u>8/</u>	<u>2,000,000</u> <u>8/</u>
SUBTOTAL APPROPRIATIONS - 2nd REGULAR SESSION			<u>2,246,800</u>	<u>2,000,000</u>
<u>Fifty-first Legislature - First Special Session (2013)</u>				
1	HB 2001	2013-2014; General Appropriations	<u>9,202,000</u> <u>9/</u>	<u>0</u>
SUBTOTAL APPROPRIATIONS - 1st SPECIAL SESSION			<u>9,202,000</u>	<u>0</u>
TOTAL APPROPRIATIONS			<u><u>\$3,898,800,800</u></u>	<u><u>\$3,953,230,200</u></u>

* Appropriation beyond FY 2017.

C Designates a capital appropriation. All other appropriations are operating appropriations.

1/ For FY 2016 and FY 2017, this table summarizes all Other Fund appropriations enacted in any session.

2/ All appropriations have been rounded to the nearest \$100.

3/ Excludes administrative adjustments, revertsments, and statutory revertsments.

4/ Laws 2016, Chapter 138 transfers \$379,800 of Other Fund monies from the State Board of Education to the Department of Education. There is no net change in overall Other Fund Appropriations.

5/ Laws 2016, Chapter 138 transfers \$1,699,500 of Other Fund monies to the Department of Agriculture by moving the Office of Pest Management to become a division within the Department of Agriculture. There is no net change in overall Other Fund Appropriations.

6/ Includes an increase of \$118,494,400 for FY 2016 adjustments for the following items: University Tuition, Lottery Revenues, and ADOA Attorney General ISA Fund.

7/ Represents an estimated amount based on available monies.

8/ Laws 2014, Chapter 18, Section 132 appropriates \$2,000,000 annually from the Health Research Fund through FY 2019 to DHS for biomedical genomic research.

9/ Laws 2015, Chapter 8 reduces this appropriation for ADOA automation by \$(6,819,000) in FY 2016.

SUMMARY OF FISCAL-RELATED VETOES
Fifty-Second Legislature - Second Regular Session

Bill No.	Reference Title	Description of Vetoed Bill
SB 1141	legal tender; taxation; regulation	Would have recognized coin or bullion with gold or silver content as permissible legal tender in Arizona. Starting in tax year 2018, would have prohibited the taxation of gold or silver legal tender from a capital gains perspective. The revenue could not be determined but would have depended on the extent to which gold or silver was used as legal tender.
HB 2434	abandoned vehicles; towing reimbursement	Would have entitled a towing company which towed an abandoned vehicle to 20% of certain towing fees which are currently deposited into the General Fund and the State Highway Fund. The Arizona Department of Transportation estimated the impact to be a loss of about \$1.1 million to the state, primarily in the General Fund.
HB 2484	estimates; state budget; notice	Would have required the calculation of a truth in spending estimate annually by the Directors of the Joint Legislative Budget Committee and Governor's Office of Strategic Planning and Budgeting. Would have required the Legislature, if it transmitted a budget bill to the Governor that exceeded that estimate, to circulate a press release to the media distribution list of each chamber.

SUMMARY OF APPROPRIATED FUNDS BY AGENCY
Fiscal Years 2016 and 2017 1/

	Fiscal Year 2016			Fiscal Year 2017		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
BUDGET UNITS						
Accountancy, State Board of	\$0	\$1,939,100	\$1,939,100	\$0	\$1,937,000	\$1,937,000
Acupuncture Examiners, Board of	0	159,100	159,100	0	178,500	178,500
Administration, Arizona Department of	10,377,300	193,419,500	203,796,800	10,264,500	188,225,000	198,489,500
- Automation Projects Fund	7,783,000	24,794,400	32,577,400	14,881,600	47,774,700	62,656,300
Administrative Hearings, Office of	861,700	0	861,700	860,500	0	860,500
African-American Affairs, Arizona Commission of	125,000	0	125,000	125,000	0	125,000
Agriculture, Arizona Department of	8,287,400	0	8,287,400	9,162,700	3,129,900	12,292,600
AHCCCS	1,205,162,300	169,696,800	1,374,859,100	1,750,941,400	215,012,700	1,965,954,100
Arts, Arizona Commission on the	0	0	0	0	1,500,000	1,500,000
Athletic Training, Board of	0	118,900	118,900	0	119,100	119,100
Attorney General - Department of Law	23,623,700	45,654,000	69,277,700	24,664,800	44,319,700	68,984,500
Automobile Theft Authority	0	5,297,500	5,297,500	0	5,295,500	5,295,500
Barbers, Board of	0	335,400	335,400	0	370,700	370,700
Behavioral Health Examiners, Board of	0	1,760,500	1,760,500	0	1,759,100	1,759,100
Charter Schools, State Board for	1,200,900	0	1,200,900	1,185,200	0	1,185,200
Child Safety, Department of	402,412,800	180,858,800	583,271,600	379,179,400	178,139,100	557,318,500
Chiropractic Examiners, State Board of	0	451,400	451,400	0	451,100	451,100
Commerce Authority, Arizona	26,800,000	0	26,800,000	21,800,000	0	21,800,000
Community Colleges, Arizona	54,373,200	0	54,373,200	54,312,700	0	54,312,700
Contractors, Registrar of	0	12,187,500	12,187,500	0	12,165,400	12,165,400
Corporation Commission	614,200	26,364,100	26,978,300	2,611,600	26,325,600	28,937,200
Corrections, State Department of	1,035,107,500	46,876,200	1,081,983,700	1,046,682,600	50,470,000	1,097,152,600
Cosmetology, Board of	0	1,807,700	1,807,700	0	1,805,200	1,805,200
County Funding	6,000,500	0	6,000,500	14,000,500	0	14,000,500
Criminal Justice Commission, Arizona	0	5,956,200	5,956,200	0	6,445,400	6,445,400
Deaf and the Blind, Schools for the	21,596,400	11,561,400	33,157,800	21,378,100	11,677,700	33,055,800
Deaf and the Hard of Hearing, Commission for the	0	4,312,800	4,312,800	0	4,309,500	4,309,500
Dental Examiners, State Board of	0	1,215,500	1,215,500	0	1,214,500	1,214,500
Economic Opportunity, Office of	0	0	0	1,068,700	0	1,068,700
Economic Security, Department of	523,934,200	297,076,800	821,011,000	530,124,400	293,945,000	824,069,400
Education, State Board of	1,325,200	379,800	1,705,000	1,094,000	0	1,094,000
Education, Department of	3,941,873,900	231,918,100	4,173,792,000	4,069,375,800	233,394,800	4,302,770,600
Emergency and Military Affairs, Department of	11,849,400	0	11,849,400	12,619,500	0	12,619,500
Environmental Quality, Department of	7,000,000	69,273,300	76,273,300	2,823,600	76,334,900	79,158,500
Equal Opportunity, Governor's Office of	189,000	0	189,000	189,100	0	189,100
Equalization, State Board of	642,800	0	642,800	643,000	0	643,000
Executive Clemency, Board of	956,000	0	956,000	952,600	0	952,600
Exposition and State Fair Board, Arizona	0	11,616,100	11,616,100	0	11,613,300	11,613,300
Financial Institutions, Department of	3,008,000	2,279,100	5,287,100	2,978,200	2,268,100	5,246,300
Fire, Building and Life Safety, Department of	2,202,000	0	2,202,000	0	0	0
Forestry and Fire Management, Arizona Department of	9,159,000	0	9,159,000	10,442,800	0	10,442,800
Funeral Directors and Embalmers, Board of	0	352,200	352,200	0	373,300	373,300
Game and Fish Department, Arizona	0	43,597,400	43,597,400	0	42,238,600	42,238,600
Gaming, Department of	1,779,500	16,367,000	18,146,500	1,979,500	16,318,700	18,298,200

	Fiscal Year 2016			Fiscal Year 2017		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Geological Survey, Arizona	941,000	0	941,000	0	0	0
Governor, Office of the	6,889,000	0	6,889,000	6,849,900	0	6,849,900
Governor's Office of Strategic Planning and Budgeting	1,994,000	0	1,994,000	1,994,000	0	1,994,000
Health Services, Department of	602,738,500	106,159,100	708,897,600	86,551,700	52,867,300	139,419,000
Historical Society, Arizona	3,157,200	0	3,157,200	2,722,900	0	2,722,900
Historical Society, Prescott	825,800	0	825,800	824,500	0	824,500
Homeopathic and Integrated Medicine Examiners, Board of	0	102,800	102,800	0	103,000	103,000
Housing, Arizona Department of	0	318,500	318,500	811,400	318,500	1,129,900
Independent Redistricting Commission	1,115,300	0	1,115,300	1,115,300	0	1,115,300
Industrial Commission of Arizona	0	19,940,300	19,940,300	0	19,881,300	19,881,300
Insurance, Department of	5,867,400	0	5,867,400	5,824,300	0	5,824,300
Judiciary						
Supreme Court	17,951,100	28,952,200	46,903,300	19,219,500	29,208,800	48,428,300
Court of Appeals	14,315,500	0	14,315,500	14,280,400	0	14,280,400
Superior Court	73,911,400	12,066,600	85,978,000	79,517,800	11,953,300	91,471,100
SUBTOTAL - Judiciary	106,178,000	41,018,800	147,196,800	113,017,700	41,162,100	154,179,800
Juvenile Corrections, Department of	26,984,600	16,132,100	43,116,700	24,180,400	15,379,800	39,560,200
Land Department, State	12,520,500	4,525,400	17,045,900	12,491,400	4,797,100	17,288,500
Legislature						
Auditor General	17,933,300	0	17,933,300	18,066,500	0	18,066,500
House of Representatives	13,289,500	0	13,289,500	13,201,500	0	13,201,500
Joint Legislative Budget Committee	2,490,900	0	2,490,900	2,488,300	0	2,488,300
Legislative Council	8,233,300	0	8,233,300	8,215,400	250,000	8,465,400
Senate	8,223,900	0	8,223,900	9,408,500	0	9,408,500
SUBTOTAL - Legislature	50,170,900	0	50,170,900	51,380,200	250,000	51,630,200
Liquor Licenses and Control, Department of	0	3,355,300	3,355,300	0	3,007,400	3,007,400
Lottery Commission, Arizona State	0	108,373,000	108,373,000	0	113,437,800	113,437,800
Massage Therapy, Board of	0	455,800	455,800	0	470,100	470,100
Medical Board, Arizona	0	6,426,000	6,426,000	0	6,463,600	6,463,600
Mine Inspector, State	1,215,200	112,800	1,328,000	1,212,500	112,900	1,325,400
Naturopathic Physicians Medical Board	0	179,700	179,700	0	184,200	184,200
Navigable Stream Adjudication Commission	126,600	200,000	326,600	124,000	200,000	324,000
Nursing, State Board of	0	4,802,600	4,802,600	0	4,784,800	4,784,800
Nursing Care Institution Administrators Board <u>2/</u>	0	422,100	422,100	0	445,400	445,400
Occupational Therapy Examiners, Board of	0	172,000	172,000	0	170,700	170,700
Opticians, State Board of Dispensing	0	136,800	136,800	0	140,000	140,000
Optometry, State Board of	0	230,200	230,200	0	210,100	210,100
Osteopathic Examiners, Arizona Board of <u>3/</u>	0	803,700	803,700	0	940,500	940,500
Parks Board, Arizona State	0	12,854,800	12,854,800	0	14,486,900	14,486,900
Personnel Board, State	0	375,700	375,700	0	375,300	375,300
Pest Management, Office of	0	1,699,500	1,699,500	0	0	0
Pharmacy, Arizona State Board of	0	2,020,500	2,020,500	0	2,135,200	2,135,200
Physical Therapy, Board of	0	480,400	480,400	0	484,200	484,200
Pioneers' Home, Arizona	0	6,204,900	6,204,900	0	6,174,600	6,174,600
Podiatry Examiners, State Board of	0	148,200	148,200	0	148,400	148,400
Postsecondary Education, Commission for	1,396,800	1,534,800	2,931,600	1,396,800	1,534,100	2,930,900
Private Postsecondary Education, Board for	0	996,300	996,300	0	396,100	396,100
Psychologist Examiners, State Board of	0	448,500	448,500	0	475,400	475,400
Public Safety, Department of	93,374,800	164,164,700	257,539,500	121,195,700	171,389,100	292,584,800
Public Safety Personnel Retirement System	6,000,000	0	6,000,000	6,000,000	0	6,000,000
Radiation Regulatory Agency	1,595,000	851,200	2,446,200	1,563,100	848,100	2,411,200

	Fiscal Year 2016			Fiscal Year 2017		
	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Real Estate Department, State	2,985,200	0	2,985,200	2,994,900	0	2,994,900
Residential Utility Consumer Office	0	1,335,000	1,335,000	0	1,331,400	1,331,400
Respiratory Care Examiners, Board of	0	300,100	300,100	0	300,300	300,300
Retirement System, Arizona State	0	27,981,600	27,981,600	0	27,484,200	27,484,200
Revenue, Department of	30,343,900	47,484,400	77,828,300	31,998,300	46,234,900	78,233,200
School Facilities Board	230,599,400	23,900,000	254,499,400	228,094,400	0	228,094,400
Secretary of State	30,436,500	3,683,500	34,120,000	14,969,200	3,681,500	18,650,700
State Boards' Office	0	215,800	215,800	0	0	0
Tax Appeals, State Board of	266,400	0	266,400	266,600	0	266,600
Technical Registration, State Board of	0	2,122,600	2,122,600	0	2,916,400	2,916,400
Tourism, Office of	7,110,400	0	7,110,400	7,112,000	0	7,112,000
Transportation, Department of	50,400	367,367,900	367,418,300	50,400	373,809,500	373,859,900
Treasurer, State	1,205,100	5,044,000	6,249,100	1,205,100	5,018,100	6,223,200
Tribal Relations, Governor's Office on	57,400	0	57,400	57,500	0	57,500
Universities						
Board of Regents	21,928,400	0	21,928,400	21,928,400	0	21,928,400
Arizona State University - Tempe/DPC	315,844,800	551,220,900	867,065,700	253,541,200	551,220,900	804,762,100
Arizona State University - East Campus	28,095,600	37,722,900	65,818,500	22,575,300	37,722,900	60,298,200
Arizona State University - West Campus	39,024,400	45,841,400	84,865,800	29,281,100	45,841,400	75,122,500
Northern Arizona University	131,452,600	145,286,600	276,739,200	105,227,000	145,286,600	250,513,600
University of Arizona - Main Campus	242,983,200	361,149,600	604,132,800	197,059,600	361,149,600	558,209,200
University of Arizona - Health Sciences Center	85,592,100	44,053,800	129,645,900	68,859,800	44,053,800	112,913,600
SUBTOTAL - Universities	864,921,100	1,185,275,200	2,050,196,300	698,472,400	1,185,275,200	1,883,747,600
Veterans' Services, Department of	6,077,800	32,167,500	38,245,300	6,054,100	32,046,800	38,100,900
Veterinary Medical Examining Board	0	545,200	545,200	0	651,900	651,900
Water Resources, Department of	12,803,100	2,356,300	15,159,400	13,012,600	2,119,100	15,131,700
Weights and Measures, Department of	1,400,300	1,769,200	3,169,500	0	0	0
OPERATING BUDGET SUBTOTAL	\$9,419,592,500	\$3,614,821,400	\$13,034,413,900	\$9,429,885,100	\$3,624,055,400	\$13,053,940,500
Unallocated Adjustments	16,800	1,531,900	1,548,700	0	(4,619,500)	(4,619,500)
Agency Relocation <u>4</u> /	0	0	0	0	576,800	576,800
Transportation Funding	0	0	0	86,500,000	0	86,500,000
Capital Outlay Projects	6,200,000	282,447,500	288,647,500	18,000,000	333,217,500	351,217,500
Capital Outlay - Debt Service	84,114,600	0	84,114,600	84,117,400	0	84,117,400
Civic Center Debt Service	20,449,000	0	20,449,000	20,449,000	0	20,449,000
Rio Nuevo Distribution	10,000,000	0	10,000,000	10,000,000	0	10,000,000
Administrative Adjustments	85,000,000	0	85,000,000	70,000,000	0	70,000,000
Revertments	(110,000,000)	0	(110,000,000)	(110,682,500)	0	(110,682,500)
GRAND TOTAL	\$9,515,372,900	\$3,898,800,800	\$13,414,173,700	\$9,608,269,000	\$3,953,230,200	\$13,561,499,200

1/ This table summarizes FY 2016 and FY 2017 appropriations from the 2nd Regular Session of the 52nd Legislature and all prior sessions.

2/ The full agency name is the Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers.

3/ The full agency name is the Arizona Board of Osteopathic Examiners in Medicine and Surgery.

4/ These monies will be distributed at a later date.

SUMMARY OF CAPITAL OUTLAY APPROPRIATIONS
(Capital Outlay Bill and Other Bills with Capital Appropriations) 1/2/3/

	FY 2016 4/		FY 2017 5/	
	General Fund	Other Funds	General Fund	Other Funds
ARIZONA DEPARTMENT OF ADMINISTRATION BUILDING SYSTEM				
Administration, Arizona Department of				
Building Renewal for ADOA System (excluding Corrections) 6/7/8/9/10/11/	\$5,000,000	\$9,000,000	\$8,000,000	\$19,000,000
Corrections, State Department of				
Building Renewal for Corrections Facilities 12/13/		\$5,464,300		\$5,464,300
Exposition and State Fair Board, AZ				
Capital Improvement Projects 14/		\$1,000,000		\$1,000,000
Game and Fish Department, Arizona 15/				
Building Renewal		\$530,000		530,000
Radio Towers 16/				306,000
Boat Structures 16/				874,900
Capital Improvements 16/				3,867,000
Subtotal - Arizona Game and Fish Department	\$0	\$530,000	\$0	\$5,577,900
Juvenile Corrections, Department of				
Building Renewal 17/				\$1,100,000
Lottery Commission, Arizona State				
Building Renewal 18/		\$103,600		\$118,100
Parks Board, Arizona State				
Capital Improvement Projects 19/		\$1,500,000		\$1,500,000
Veterans' Services, Department of				
Flagstaff Veterans' Home Construction 20/			\$10,000,000	
SUBTOTAL - ADOA BUILDING SYSTEM	\$5,000,000	\$17,597,900	\$18,000,000	\$33,760,300
ARIZONA DEPARTMENT OF TRANSPORTATION BUILDING SYSTEM				
Arizona Department of Transportation				
Building Renewal 21/		\$3,396,800		\$4,232,300
Navajo Nation Projects 22/	\$1,200,000			
Airport Planning and Development 23/24/		21,791,800		19,079,900
Highway Construction 23/25/26/		234,471,000		270,615,000
Interstate 10 Projects 23/27/			\$30,000,000	
State Route 189 23/28/			25,000,000	
Route H60 23/29/			1,500,000	
De-Icer Storage 30/		2,280,000		
Vehicle Wash Systems 30/		2,910,000		5,530,000
One-time HURF Distribution 31/			30,000,000	
SUBTOTAL - ADOT BUILDING SYSTEM 32/33/	\$1,200,000	\$264,849,600	\$86,500,000	\$299,457,200
GRAND TOTAL - ALL APPROPRIATIONS	\$6,200,000	\$282,447,500	\$104,500,000	\$333,217,500
SUMMARY OF CAPITAL APPROPRIATIONS BY SESSION				
Laws 2015, 1st Regular Session 4/	\$6,200,000	\$282,447,500		
Laws 2016, 2nd Regular Session 5/20/23/			\$104,500,000	\$333,217,500

- 1/ This table summarizes all capital appropriations for FY 2016 and FY 2017. Appropriations are listed by the state's "building systems." Capital Outlays are budgeted on an annual basis except under special circumstances.
- 2/ FY 2016 amounts represent appropriations from the FY 2016 Capital Outlay Appropriation Act (Laws 2015, Chapter 9). FY 2017 amounts represent appropriations from the FY 2017 Capital Outlay Appropriation Act (Laws 2016, Chapter 126), except for the \$30,000,000 appropriation for a one-time HURF distribution which is from the FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125).
- 3/ A.R.S. § 41-1252 requires review of any capital projects over \$250,000 by the Joint Committee on Capital Review (JCCR).
- 4/ ADOT appropriations (excluding building renewal) do not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance. Most other capital appropriations lapse at the end of the following fiscal year.
- 5/ Notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 that are unexpended on June 30, 2018 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote). FY 2017 Arizona Department of Transportation (ADOT) airport and highway construction appropriations and the FY 2017 Department of Veterans' Services appropriation are exempt from this provision. See footnotes 20 and 23.
- 6/ Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2017 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Arizona Department of Administration (ADOA), up to \$275,000 in Personal Services and Employee Related Expenditures (ERE) for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section shall not be spent for Personal Services or ERE or for maintenance contracts on building components and equipment without review by the JCCR. (Capital Outlay Appropriation Act footnote)

- 7/ ADOA shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund (COSF) established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the ADOA for building renewal, the appropriation to the ADOA is reduced by the difference between the amount appropriated to the ADOA from COSF and the balance in COSF. (Capital Outlay Appropriation Act footnote)
- 8/ The FY 2016 appropriation represents 38.8% of the ADOA building renewal formula, while the FY 2017 appropriation represents 67.8%
- 9/ The amount appropriated in FY 2017 includes \$4,200,000 for the renovation of the Department of Health Services building at 1740 West Adams. Before spending the monies allocated for this purpose, ADOA shall submit a report on tenant relocation, including any planned consolidation of state agencies, the current commitment of new tenants and the timeline and estimated costs for relocation for review by the JCCR. (Capital Outlay Appropriation Act footnote)
- 10/ The amount appropriated in FY 2017 includes \$120,000 to repair the 1938 Works Progress Administration Civic Building on the State Fair grounds. The department may not spend the monies allocated for this purpose unless the department receives matching monies from the City of Phoenix to repair the building and this state maintains control and ownership of the building. (Capital Outlay Appropriation Act footnote)
- 11/ On or before January 31, 2017 and July 31, 2017, ADOA shall report to the Joint Legislative Budget Committee (JLBC) Staff on the status of all building renewal projects and building renewal expenditures. (Capital Outlay Appropriation Act footnote)
- 12/ On or before January 31, 2017 and July 31, 2017, the State Department of Corrections shall report to the JLBC Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. (Capital Outlay Appropriation Act footnote)
- 13/ The FY 2016 appropriations represent 31.1% of the Department of Corrections (ADC) building renewal formula, while the FY 2017 appropriation represents 27.2%.
- 14/ The sum of \$1,000,000 is appropriated from the Arizona Exposition and State Fair Fund established by A.R.S. § 3-1005, in FY 2017 to the Arizona Exposition and State Fair Board for capital improvements. The Arizona Exposition and State Fair Board shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 15/ The FY 2016 appropriation represents 69.1% funding of the Arizona Game and Fish Department building renewal formula, while the FY 2017 appropriation represents 59.4%.
- 16/ The Arizona Game and Fish Department shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 17/ The FY 2017 appropriation represents 126.7% funding of the Department of Juvenile Corrections building renewal formula.
- 18/ Both the FY 2016 and FY 2017 appropriations represent 100% funding of the building renewal formula.
- 19/ The sum of \$1,500,000 is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 in FY 2017 to the Arizona State Parks Board for capital improvements. The Arizona State Parks Board shall submit the scope, purpose and estimated cost of the capital improvements to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 20/ The sum of \$10,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Veterans' Services for the establishment and construction of a veterans' home facility in Flagstaff. The amount appropriated in Subsection A of this section is intended to be this state's share of the costs of a veterans' home facility in Flagstaff. The department may not spend the appropriation for any purpose unless the department receives an irrevocable commitment from the United States government to fund at least 65% of the total costs of a veterans' home facility in Flagstaff. The appropriation made in subsection A of this section is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. The Department of Veterans' Services shall submit the scope, purpose and estimated cost of the veterans' home facility in Flagstaff to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 21/ Includes \$3,191,900 from the State Highway Fund in FY 2016 to fund 27.1% of the revised highways building renewal formula in FY 2016 and \$4,000,000 in FY 2017 to fund 32.6% of the formula in FY 2017. Also includes \$204,900 from the State Aviation Fund in FY 2016 to fund 93.2% of the aviation building renewal formula in FY 2016 and \$232,300 in FY 2017 to fund 100% formula in FY 2017.
- 22/ The sum of \$1,200,000 is appropriated from the state General Fund in FY 2016 to ADOT for distribution to the Navajo Nation for transportation projects on reservation land in this state. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the JCCR. (Capital Outlay Appropriation Act footnote)
- 23/ Appropriations made in Section 8, 9, 10, and 11 of this act do not lapse until the purpose for which the appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or encumbrance. (Capital Outlay Appropriation Act footnote)
- 24/ The amount is appropriated from the State Aviation Fund established in A.R.S. § 28-8202 for the planning, construction, development, and improvement of state, county, city, or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to ADOT for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 25/ The amount appropriated for highway construction is from the SHF established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the SHF in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 26/ The Department of Transportation shall report on or before November 1, 2016 to JCCR on its actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. The report must be in the same format as in the prior year unless modifications have been approved by the Directors of JLBC and the Governor's Office of Strategic Planning and Budgeting (OSP). (Capital Outlay Appropriation Act footnote)
- 27/ The sum of \$30,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for Interstate 10 widening projects. These monies shall be combined with funding from the Federal Fostering Advancements in Shipping and Transportation for the Long Term Achievement of National Efficiencies grant to widen: (1) Interstate 10 from Earley Road to Interstate 8. (2) The Interstate 10 interchange with State Route 87. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the JCCR. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation does not receive a Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)

- 28/ The sum of \$25,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for the acceleration of the State Route 189 construction project from the Mariposa Port of Entry to Interstate 19. Notwithstanding A.R.S. § 41-1252 the appropriation made in subsection A of this section is not subject to review by the JCCR. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation is unable to use the appropriation made in subsection A of this section to accelerate construction of the State Route 189 project from FY 2021 to at least FY 2019, or if the department is successful in its application for a \$25,000,000 Transportation Investment Generating Economic Recovery grant for the State Route 189 project, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)
- 29/ The sum of \$1,500,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for distribution to the Navajo Nation for the Route H60 construction project. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the JCCR. (Capital Outlay Appropriation Act footnote)
- 30/ The Department of Transportation shall submit the scope, purpose and estimated cost of the projects to the JCCR for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 31/ A. The sum of \$30,000,000 is appropriated on a one-time basis from the state General Fund in FY 2017 to the Department of Transportation for distribution as follows:
1. To the counties, 33.231%.
 2. To the incorporated cities and towns, 48.097%.
 3. To incorporated cities with a population of 300,000 or more persons, 5.247%.
 4. To counties with a population of more than 800,000 persons, 13.425%.
- B. The allocation and distribution made pursuant to subsection A, paragraphs 1, 2 and 3 of this section shall be made as prescribed in A.R.S. § 28-6540. The allocation and distribution made pursuant to subsection A, paragraph 4 of this section shall be made as prescribed in A.R.S. § 28-6538B.
- C. The amount appropriated in this section may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights of way acquisitions and expenses related thereto. (Laws 2016, Chapter 125)
- 32/ On or before November 1, 2016, ADOT shall report capital outlay information for FY 2016, FY 2017, and FY 2018 to the Directors of JLBC and OSPB. This information must appear in the same format as tables 2, 3 and 5, as found in the *FY 2016 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 33/ On or before November 1, 2016, ADOT shall report the department's estimated outstanding debt principal balance at the end of FY 2018 and the estimated debt service payment amount for FY 2018 to the Directors of the JLBC and OSPB. This report shall include State Highway Fund statewide construction bonds, Arizona Highway User Revenue Fund, Maricopa Association of Governments and Pima Association of Governments controlled access bonds, Maricopa Regional Area Road Fund bonds and grant anticipation notes and is intended to be comparable to the information in the *FY 2016 Appropriations Report*. (Capital Outlay Appropriation Act footnote)

SUMMARY OF ADDITIONAL OPERATING AND STATUTORY APPROPRIATIONS 1/ 2/

GENERAL FUND

	<u>FY 2016</u>	<u>FY 2017</u>
Administration, Arizona Department of Laws 2016, Ch. 372 (HB 2666) Governor's Economic Opportunity Office; Consolidation		(568,700)
Agriculture, Department of Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments	198,400	198,400
Attorney General - Department of Law 23-263 - Military Airport Planning; Appropriation	85,000	85,000
Commerce Authority, Arizona 43-409 - Arizona Commerce Authority Income Tax Withholding	26,500,000 <u>3/</u>	21,500,000
Community Colleges 42-5031.01 - Indian Tribal Postsecondary Educational Institutions 15-1469.01 - Rural County Allocation Subtotal - Community Colleges	<u>2,625,000</u> <u>2,523,400</u> 5,148,400	<u>2,625,000</u> <u>2,730,600</u> 5,355,600
Corrections, State Department of Laws 2016, Ch. 45 (HB 2485) Appropriations; Named Claimants	6,900	
Economic Opportunity, Office of Laws 2016, Ch. 372 (HB 2666) Governor's Economic Opportunity Office; Consolidation		1,068,700
Economic Security, Department of Laws 2016, Ch. 214 (HB 2388) Qualified Disability Expenses; Eligible Individuals		240,000
Education, State Board of Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees		(231,200)
Education, Department of Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees Laws 2015, 1st Special Session, Ch. 1 (HB 2001) Schools; Base Level; Appropriations		231,200 50,000,000
Emergency and Military Affairs, Department of 26-263 - Military Airport Planning; Appropriation Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments 35-192 - Governor's Emergency Authority Subtotal - Department of Emergency and Military Affairs	90,000 1,385,900 <u>4,000,000</u> 5,475,900	90,000 1,424,400 <u>4,000,000</u> 5,514,400
Environmental Quality, Department of 49-282 - WQARF Priority Site Remediation Laws 2016, Ch. 120 (HB 2702) Environment BRB Laws 2015, Ch. 13 (SB 1474) Environment BRB Subtotal - Department of Environmental Quality	15,000,000 <u>(8,000,000)</u> 7,000,000	15,000,000 <u>(12,176,400)</u> 2,823,600
Forestry and Fire Management, Arizona Department of 37-623 - Wild Land Fire Emergency	3,000,000	3,000,000
Gaming, Department of Laws 2016, Ch. 342 (SB 1435) Racing Commission; Continuation; Conforming Changes Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB	1,779,500	200,000
Health Services, Department of Laws 2016, Ch. 45 (HB 2485) Appropriations; Named Claimants	200	
Historical Society, Arizona Laws 2016, Ch. 128 (SB 1530) Agency Consolidation BRB		(428,300)
Judiciary - Supreme Court Laws 2015, Ch. 276 (HB 2088) Magistrates; Municipal Courts (Reallocation of Judiciary funding)	2,810,500	
Judiciary - Superior Court Laws 2015, Ch. 276 (HB 2088) Magistrates; Municipal Courts (Reallocation of Judiciary funding)	(2,810,500)	
Public Safety Personnel Retirement System 38-810 - EORP Closure	5,000,000	5,000,000

	FY 2016	FY 2017
Racing, Department of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB	(1,779,500)	
Radiation Regulatory Agency		
Laws 2015, Ch. 132 (SB 1001) Nuclear Emergency Appropriations; Assessments	819,700	789,700
Department of Revenue		
Laws 2016, Ch. 45 (HB 2485) Appropriations; Named Claimants	5,300	
School Facilities Board		
Laws 2016, Ch. 129 (SB 1531) Credit Enhancement; Budget Reconciliation; 2016-2017		500,000
Secretary of State		
Laws 2015, 1st Special Session, Ch. 2 (HB 2002) Statewide Special Election	9,300,000	
Arizona State University - Tempe/DPC		
15-1670 - University Research Infrastructure Financing	13,555,000	13,555,000
Laws 2016, Ch. 130 (SB 1537) Higher Education BRB		(951,900)
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(3,045,900)	(2,329,800)
Subtotal - Arizona State University - Tempe/DPC	<u>10,509,100</u>	<u>10,273,300</u>
Arizona State University - West Campus		
15-1670 - University Research Infrastructure Financing	917,000	917,000
Northern Arizona University		
15-1670 - University Research Infrastructure Financing	5,900,000	5,900,000
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(406,800)	(1,653,200)
Subtotal - Northern Arizona University	<u>5,493,200</u>	<u>4,246,800</u>
University of Arizona - Main Campus		
Laws 2016, Ch. 128 (SB 1530) Agency Consolidation BRB		428,300
15-1670 - University Research Infrastructure Financing	14,253,000	14,253,000
Laws 2014, Ch. 18 (HB 2703) General Appropriations	(4,659,400)	(274,600)
Subtotal - University of Arizona - Main Campus	<u>9,593,600</u>	<u>14,406,700</u>
Water Infrastructure Finance Authority		
Laws 2016, Ch. 372(HB 2666) Governor's Economic Opportunity Office; Consolidation		(500,000)
Weights and Measures, Department of		
Laws 2016, Ch. 45 (HB 2485) Appropriations; Named Claimants	1,300	
Other		
9-602 - Phoenix Convention Center Financing	20,449,000	20,449,000
42-5031 - Rio Nuevo Multi-Purpose Facility District 4/	10,000,000	10,000,000
GENERAL FUND TOTAL	<u>119,503,000</u>	<u>155,071,200</u>

OTHER FUNDS

	FY 2016	FY 2017
Administration, Arizona Department of		
Laws 2016, Ch. 45 (HB 2485) Appropriations; Named Claimants	9,500	
Agriculture, Department of		
Laws 2016, Ch. 221 (SB 1270) Pest Management Division		1,699,500
Appraisal, State Board of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB	(821,400)	
Attorney General - Department of Law		
Laws 2016, Ch. 1 (HB 2468) Internet Crimes Against Children; Appropriation	1,800,000	
Corrections, State Department of		
Laws 2016, Ch. 153 (SB 1246) Corrections Department; Revolving Fund Uses		596,000
Economic Security, Department of		
Laws 2015, Ch. 169 (SB 1440) ALTCS; Developmental Disabilities; Rates; Appropriation	120,000	
Education, State Board of		
Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees		(379,800)

	<u>FY 2016</u>	<u>FY 2017</u>
Education, Department of		
Laws 2016, Ch. 124 (HB 2707) K-12 Education BRB		500,000
Laws 2016, Ch. 138 (HB 2620) Education; Certification Renewal Fees		379,800
Laws 2014, Ch. 17 (SB 1488) K-12 Education BRB (English Language Pilot)	246,800	
Emergency and Military Affairs, Department of		
Laws 2015, Ch. 208 (HB 2274) Emergency and Military Affairs Omnibus (Emergency Response)	(132,800)	
Environmental Quality, Department of		
Laws 2016, Ch. 120 (HB 2702) Environment BRB		7,125,000
Laws 2015, Ch. 208 (HB 2274) Emergency and Military Affairs Omnibus (Emergency Response)	132,800	
Financial Institutions, Department of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB	821,400	
Gaming, Department of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB	2,894,200	
Health Services, Department of		
Laws 2016, Ch. 45 (HB 2485) Appropriations; Named Claimants	1,100	
Laws 2016, Ch. 207 (HB 2640) Appropriation; Pediatric Neurological Autoimmune Disorders		250,000
Medical Board, Arizona		
Laws 2016, Ch. 137 (HB 2502) Medical Licensure Compact		50,000
Pest Management, Office of		
Laws 2016, Ch. 221 (SB 1270) Pest Management Division		(1,699,500)
Racing, Department of		
Laws 2015, Ch. 19 (SB 1480) Agency Consolidation BRB	(2,894,200)	
Transportation, Department of		
Laws 2016, Ch. 45 (HB 2485) Appropriations; Named Claimants	3,500	
Treasurer, State		
Laws 2015, Ch. 231 (SB 1271) Virtual Border Fence; Appropriation <u>4/</u>	12,100	
Water Resources, Department of		
Laws 2015, Ch. 149 (SB 1147) Water Banking Fund <u>4/</u>	<u>237,400</u>	
OTHER FUNDS TOTAL	<u><u>2,430,400</u></u>	<u><u>8,521,000</u></u>

1/ All appropriations have been rounded to the nearest \$100.

2/ Excludes all FY 2017 General Appropriation Act and all FY 2017 Capital Outlay Appropriations amounts.

3/ The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12, Section 6) permanently reduced the annual General Fund deposit into the Arizona Competes Fund to \$16,500,000 in FY 2016 and \$11,500,000 for each fiscal year after 2016. The distribution to the Arizona Commerce Authority Fund remains at \$10,000,000 each fiscal year.

4/ Represents an estimate of available funding.

**SUMMARY OF TOTAL SPENDING AUTHORITY BY AGENCY
(APPROPRIATED AND NON-APPROPRIATED FUNDS)
Fiscal Years 2016 and 2017 1/**

	Fiscal Year 2016			Fiscal Year 2017		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
<u>BUDGET UNITS</u>						
Accountancy, State Board of	\$1,939,100	\$0	\$1,939,100	\$1,937,000	\$0	\$1,937,000
Acupuncture Examiners, Board of	159,100	0	159,100	178,500	0	178,500
Administration, Arizona Department of	203,796,800	993,463,900	1,197,260,700	198,489,500	1,018,810,800	1,217,300,300
- Automation Projects Fund	32,577,400	0	32,577,400	62,656,300	0	62,656,300
Administrative Hearings, Office of	861,700	749,500	1,611,200	860,500	749,500	1,610,000
African-American Affairs, Arizona Commission of	125,000	0	125,000	125,000	0	125,000
Agriculture, Arizona Department of	8,287,400	17,122,800	25,410,200	12,292,600	16,635,600	28,928,200
AHCCCS	1,374,859,100	7,869,779,300	9,244,638,400	1,965,954,100	9,672,023,800	11,637,977,900
Arts, Arizona Commission on the	0	2,318,600	2,318,600	1,500,000	2,318,600	3,818,600
Athletic Training, Board of	118,900	0	118,900	119,100	0	119,100
Attorney General - Department of Law	69,277,700	51,528,300	120,806,000	68,984,500	51,729,700	120,714,200
Automobile Theft Authority	5,297,500	66,500	5,364,000	5,295,500	66,500	5,362,000
Barbers, Board of	335,400	0	335,400	370,700	0	370,700
Behavioral Health Examiners, Board of	1,760,500	0	1,760,500	1,759,100	0	1,759,100
Charter Schools, State Board for	1,200,900	48,500	1,249,400	1,185,200	48,500	1,233,700
Child Safety, Department of	583,271,600	351,819,600	935,091,200	557,318,500	415,269,400	972,587,900
Chiropractic Examiners, State Board of	451,400	0	451,400	451,100	0	451,100
Citizens Clean Elections Commission	0	11,732,600	11,732,600	0	11,732,600	11,732,600
Commerce Authority, Arizona	26,800,000	10,678,100	37,478,100	21,800,000	6,971,000	28,771,000
Community Colleges, Arizona	54,373,200	18,200,300	72,573,500	54,312,700	18,200,300	72,513,000
Constable Ethics Standards and Training Board	0	383,000	383,000	0	383,000	383,000
Contractors, Registrar of	12,187,500	4,666,800	16,854,300	12,165,400	4,666,800	16,832,200
Corporation Commission	26,978,300	825,000	27,803,300	28,937,200	825,000	29,762,200
Corrections, State Department of	1,081,983,700	60,891,900	1,142,875,600	1,097,152,600	60,883,900	1,158,036,500
Cosmetology, Board of	1,807,700	0	1,807,700	1,805,200	0	1,805,200
County Funding	6,000,500	0	6,000,500	14,000,500	0	14,000,500
Criminal Justice Commission, Arizona	5,956,200	17,472,800	23,429,000	6,445,400	13,020,400	19,465,800
Deaf and the Blind, Schools for the	33,157,800	21,134,300	54,292,100	33,055,800	21,134,300	54,190,100
Deaf and the Hard of Hearing, Commission for the	4,312,800	0	4,312,800	4,309,500	0	4,309,500
Dental Examiners, State Board of	1,215,500	0	1,215,500	1,214,500	0	1,214,500
Early Childhood Development and Health Board, Arizona	0	145,673,700	145,673,700	0	151,768,600	151,768,600
Economic Opportunity, Office of	0	0	0	1,068,700	283,401,900	284,470,600
Economic Security, Department of	821,011,000	3,152,493,400	3,973,504,400	824,069,400	3,232,286,600	4,056,356,000
Education, State Board of	1,705,000	0	1,705,000	1,094,000	0	1,094,000
Education, Department of	4,173,792,000	1,767,774,300	5,941,566,300	4,302,770,600	1,780,751,100	6,083,521,700
Emergency and Military Affairs, Department of	11,849,400	68,491,800	80,341,200	12,619,500	52,546,300	65,165,800
Environmental Quality, Department of	76,273,300	55,488,700	131,762,000	79,158,500	77,488,700	156,647,200
Equal Opportunity, Governor's Office of	189,000	0	189,000	189,100	0	189,100
Equalization, State Board of	642,800	0	642,800	643,000	0	643,000
Executive Clemency, Board of	956,000	41,200	997,200	952,600	41,200	993,800
Exposition and State Fair Board, Arizona	11,616,100	0	11,616,100	11,613,300	0	11,613,300

	Fiscal Year 2016			Fiscal Year 2017		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
Financial Institutions, Department of	5,287,100	1,806,400	7,093,500	5,246,300	927,000	6,173,300
Fire, Building and Life Safety, Department of	2,202,000	703,700	2,905,700	0	0	0
Forestry and Fire Management, Arizona Department of	9,159,000	25,270,500	34,429,500	10,442,800	25,577,400	36,020,200
Funeral Directors and Embalmers, Board of	352,200	0	352,200	373,300	0	373,300
Game and Fish Department, Arizona	43,597,400	67,009,000	110,606,400	42,238,600	67,009,000	109,247,600
Gaming, Department of	18,146,500	1,370,000	19,516,500	18,298,200	1,370,000	19,668,200
Geological Survey, Arizona	941,000	4,162,100	5,103,100	0	0	0
Governor, Office of the	6,889,000	17,441,100	24,330,100	6,849,900	17,441,100	24,291,000
Governor's Office of Strategic Planning and Budgeting	1,994,000	0	1,994,000	1,994,000	0	1,994,000
Health Services, Department of	708,897,600	1,771,577,400	2,480,475,000	139,419,000	315,130,300	454,549,300
Historical Society, Arizona	3,157,200	1,282,000	4,439,200	2,722,900	1,089,300	3,812,200
Historical Society, Prescott	825,800	901,200	1,727,000	824,500	726,200	1,550,700
Homeland Security, Arizona Department of	0	25,423,300	25,423,300	0	19,744,500	19,744,500
Homeopathic and Integrated Medicine Examiners, Board of	102,800	0	102,800	103,000	0	103,000
Housing, Arizona Department of	318,500	93,426,400	93,744,900	1,129,900	95,131,700	96,261,600
Independent Redistricting Commission	1,115,300	0	1,115,300	1,115,300	0	1,115,300
Industrial Commission of Arizona	19,940,300	25,112,800	45,053,100	19,881,300	21,853,900	41,735,200
Insurance, Department of	5,867,400	34,604,700	40,472,100	5,824,300	33,511,400	39,335,700
Judiciary						
Supreme Court	46,903,300	21,403,800	68,307,100	48,428,300	21,403,800	69,832,100
Court of Appeals	14,315,500	0	14,315,500	14,280,400	0	14,280,400
Superior Court	85,978,000	6,427,800	92,405,800	91,471,100	6,427,800	97,898,900
SUBTOTAL - Judiciary	147,196,800	27,831,600	175,028,400	154,179,800	27,831,600	182,011,400
Juvenile Corrections, Department of	43,116,700	1,833,900	44,950,600	39,560,200	1,833,900	41,394,100
Land Department, State	17,045,900	900,000	17,945,900	17,288,500	800,000	18,088,500
Legislature						
Auditor General	17,933,300	1,940,300	19,873,600	18,066,500	1,940,300	20,006,800
House of Representatives	13,289,500	0	13,289,500	13,201,500	0	13,201,500
Joint Legislative Budget Committee	2,490,900	0	2,490,900	2,488,300	0	2,488,300
Legislative Council	8,233,300	0	8,233,300	8,465,400	0	8,465,400
Senate	8,223,900	0	8,223,900	9,408,500	0	9,408,500
SUBTOTAL - Legislature	50,170,900	1,940,300	52,111,200	51,630,200	1,940,300	53,570,500
Liquor Licenses and Control, Department of	3,355,300	934,200	4,289,500	3,007,400	934,200	3,941,600
Lottery Commission, Arizona State	108,373,000	601,775,500	710,148,500	113,437,800	628,863,300	742,301,100
Massage Therapy, Board of	455,800	0	455,800	470,100	0	470,100
Medical Board, Arizona	6,426,000	0	6,426,000	6,463,600	0	6,463,600
Mine Inspector, State	1,328,000	344,200	1,672,200	1,325,400	344,200	1,669,600
Naturopathic Physicians Medical Board	179,700	0	179,700	184,200	0	184,200
Navigable Stream Adjudication Commission	326,600	0	326,600	324,000	0	324,000
Nursing, State Board of	4,802,600	414,700	5,217,300	4,784,800	414,700	5,199,500
Nursing Care Institution Administrators Board <u>3/</u>	422,100	0	422,100	445,400	0	445,400
Occupational Therapy Examiners, Board of	172,000	0	172,000	170,700	0	170,700
Opticians, State Board of Dispensing	136,800	0	136,800	140,000	0	140,000
Optometry, State Board of	230,200	0	230,200	210,100	0	210,100
Osteopathic Examiners, Arizona Board of <u>4/</u>	803,700	0	803,700	940,500	0	940,500
Parents Commission on Drug Educ. & Prev., Arizona	0	4,641,700	4,641,700	300,000	4,641,700	4,941,700
Parks Board, Arizona State	12,854,800	22,636,700	35,491,500	14,486,900	16,766,400	31,253,300

	Fiscal Year 2016			Fiscal Year 2017		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
Personnel Board, State	375,700	0	375,700	375,300	0	375,300
Pest Management, Office of	1,699,500	113,500	1,813,000	0	0	0
Pharmacy, Arizona State Board of	2,020,500	710,500	2,731,000	2,135,200	710,500	2,845,700
Physical Therapy, Board of	480,400	0	480,400	484,200	0	484,200
Pioneers' Home, Arizona	6,204,900	14,100	6,219,000	6,174,600	14,100	6,188,700
Podiatry Examiners, State Board of	148,200	0	148,200	148,400	0	148,400
Postsecondary Education, Commission for	2,931,600	733,100	3,664,700	2,930,900	733,100	3,664,000
Power Authority, Arizona	0	35,900,100	35,900,100	0	35,900,100	35,900,100
Private Postsecondary Education, Board for	996,300	322,700	1,319,000	396,100	223,600	619,700
Psychologist Examiners, State Board of	448,500	0	448,500	475,400	0	475,400
Public Safety, Department of	257,539,500	94,327,200	351,866,700	292,584,800	87,876,500	380,461,300
Public Safety Personnel Retirement System	6,000,000	10,885,400	16,885,400	6,000,000	11,212,000	17,212,000
Radiation Regulatory Agency	2,446,200	301,100	2,747,300	2,411,200	301,100	2,712,300
Real Estate Department, State	2,985,200	185,100	3,170,300	2,994,900	185,100	3,180,000
Residential Utility Consumer Office	1,335,000	0	1,335,000	1,331,400	0	1,331,400
Respiratory Care Examiners, Board of	300,100	0	300,100	300,300	0	300,300
Retirement System, Arizona State	27,981,600	87,805,200	115,786,800	27,484,200	78,165,000	105,649,200
Revenue, Department of	77,828,300	3,017,100	80,845,400	78,233,200	3,017,100	81,250,300
School Facilities Board	254,499,400	90,646,800	345,146,200	228,094,400	89,073,400	317,167,800
Secretary of State	34,120,000	4,978,700	39,098,700	18,650,700	4,978,700	23,629,400
State Boards' Office	215,800	0	215,800	0	0	0
Tax Appeals, State Board of	266,400	0	266,400	266,600	0	266,600
Technical Registration, State Board of	2,122,600	20,400	2,143,000	2,916,400	20,400	2,936,800
Tourism, Office of	7,110,400	13,779,000	20,889,400	7,112,000	13,779,000	20,891,000
Transportation, Department of	367,418,300	108,889,800	476,308,100	373,859,900	108,889,800	482,749,700
Treasurer, State	6,249,100	4,495,400	10,744,500	6,223,200	4,495,400	10,718,600
Tribal Relations, Governor's Office on	57,400	14,800	72,200	57,500	14,800	72,300
Universities						
Board of Regents	21,928,400	14,240,700	36,169,100	21,928,400	10,519,800	32,448,200
Arizona State University - Tempe/DPC	867,065,700	1,319,785,000	2,186,850,700	804,762,100	1,352,557,900	2,157,320,000
Arizona State University - East Campus	65,818,500	27,424,300	93,242,800	60,298,200	28,824,500	89,122,700
Arizona State University - West Campus	84,865,800	64,204,800	149,070,600	75,122,500	66,037,600	141,160,100
Northern Arizona University	276,739,200	308,066,500	584,805,700	250,513,600	320,489,100	571,002,700
University of Arizona - Main Campus	604,132,800	1,195,556,700	1,799,689,500	558,209,200	1,228,253,500	1,786,462,700
University of Arizona - Health Sciences Center	129,645,900	437,634,300	567,280,200	112,913,600	384,775,500	497,689,100
SUBTOTAL - Universities	2,050,196,300	3,366,912,300	5,417,108,600	1,883,747,600	3,391,457,900	5,275,205,500
Veterans' Services, Department of	38,245,300	10,131,600	48,376,900	38,100,900	2,945,400	41,046,300
Veterinary Medical Examining Board	545,200	0	545,200	651,900	0	651,900
Water Infrastructure Finance Authority	0	275,958,600	275,958,600	0	0	0
Water Resources, Department of	15,159,400	10,955,100	26,114,500	15,131,700	10,955,100	26,086,800
Weights and Measures, Department of	3,169,500	0	3,169,500	0	0	0
OPERATING BUDGET SUBTOTAL	\$13,034,413,900	\$21,477,285,900	\$34,511,699,800	\$13,053,940,500	\$22,022,584,300	\$35,076,524,800
Unallocated Adjustments	1,548,700	0	1,548,700	(4,619,500)	0	(4,619,500)
Agency Relocation <u>5/</u>	0	0	0	576,800	0	576,800
Transportation Funding	0	0	0	86,500,000	0	86,500,000
Capital Outlay Projects	288,647,500	1,474,418,000	1,763,065,500	351,217,500	1,012,851,000	1,364,068,500

	Fiscal Year 2016			Fiscal Year 2017		
	Appropriated	Non-Appropriated	Total	Appropriated	Non-Appropriated	Total
	General and Other Funds	Federal and Other Funds <u>2/</u>		General and Other Funds	Federal and Other Funds <u>2/</u>	
Capital Outlay - Debt Service	84,114,600	0	84,114,600	84,117,400	0	84,117,400
Civic Center Debt Service	20,449,000	0	20,449,000	20,449,000	0	20,449,000
Rio Nuevo Distribution	10,000,000	0	10,000,000	10,000,000	0	10,000,000
Administrative Adjustments	85,000,000	0	85,000,000	70,000,000	0	70,000,000
Revertments	(110,000,000)	0	(110,000,000)	(110,682,500)	0	(110,682,500)
GRAND TOTAL	<u>\$13,414,173,700</u>	<u>\$22,951,703,900</u>	<u>\$36,365,877,600</u>	<u>\$13,561,499,200</u>	<u>\$23,035,435,300</u>	<u>\$36,596,934,500</u>

1/ This table summarizes FY 2016 and FY 2017 appropriations from the 2nd Regular Session of the 52nd Legislature and all prior sessions.

2/ The amounts shown are generally based on estimates published in the JLBC Staff's Baseline Book (January 2016), but may have been updated for later information.

3/ The full agency name is the Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers.

4/ The full agency name is the Arizona Board of Osteopathic Examiners in Medicine and Surgery.

5/ These monies will be distributed at a later date.

STATE PERSONNEL SUMMARY

Full-Time Equivalent Positions by Agency for Fiscal Years 2016 and 2017 1/

BUDGET UNITS	Fiscal Year 2016			Fiscal Year 2017		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
Accountancy, State Board of	0.0	13.0	13.0	0.0	13.0	13.0
Acupuncture Board of Examiners	0.0	1.0	1.0	0.0	1.0	1.0
Administration, Arizona Department of	114.2	417.9	532.1	114.2	417.9	535.1
Automation Projects Fund	0.0	75.0	75.0	0.0	15.0	15.0
Capital Outlay	0.0	5.0	5.0	0.0	5.0	5.0
SUBTOTAL - Administration, Arizona Department of	114.2	497.9	612.1	114.2	437.9	555.1
Administrative Hearings, Office of	12.0	0.0	12.0	12.0	0.0	12.0
African-American Affairs, Arizona Commission of	3.0	0.0	3.0	3.0	0.0	3.0
Agriculture, Arizona Department of <u>2/3/4/</u>	162.9	0.0	162.9	182.0	44.3	226.3
AHCCCS	432.2	597.0	1,029.2	440.1	701.1	1,141.2
AHCCCS - DES Eligibility	564.2	620.9	1,185.1	564.2	620.9	1,185.1
SUBTOTAL - AHCCCS <u>5/6/</u>	996.4	1,217.9	2,214.3	1,004.3	1,322.0	2,326.3
Athletic Training, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Attorney General - Department of Law <u>7/</u>	212.6	370.9	583.5	218.6	356.1	574.7
Automobile Theft Authority	0.0	6.0	6.0	0.0	6.0	6.0
Barbers, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Behavioral Health Examiners, Board of	0.0	17.0	17.0	0.0	17.0	17.0
Charter Schools, State Board for	14.0	0.0	14.0	14.0	0.0	14.0
Child Safety, Department of <u>8/</u>	1,414.9	1,642.2	3,057.1	1,550.9	1,642.2	3,193.1
Chiropractic Examiners, State Board of	0.0	5.0	5.0	0.0	5.0	5.0
Contractors, Registrar of	0.0	105.6	105.6	0.0	105.6	105.6
Corporation Commission	6.0	294.9	300.9	6.0	294.9	300.9
Corrections, State Department of	9,528.0	6.0	9,534.0	9,535.0	6.0	9,541.0
Cosmetology, Board of	0.0	24.5	24.5	0.0	24.5	24.5
Criminal Justice Commission, Arizona	0.0	9.0	9.0	0.0	9.0	9.0
Deaf and the Blind, Arizona State Schools for the	263.8	277.4	541.2	263.8	277.4	541.2
Deaf and the Hard of Hearing, Commission for the	0.0	15.0	15.0	0.0	15.0	15.0
Dental Examiners, State Board of	0.0	11.0	11.0	0.0	11.0	11.0
Economic Security, Department of <u>9/</u>	1,336.1	2,811.6	4,147.7	1,356.9	2,861.1	4,218.0
Education, State Board of <u>10/</u>	6.0	5.0	11.0	4.0	0.0	4.0
Education, Department of <u>10/</u>	137.2	27.7	164.9	139.2	32.7	171.9
Emergency and Military Affairs, Department of <u>2/11/</u>	69.6	0.0	69.6	69.6	0.0	69.6
Environmental Quality, Department of	0.0	322.0	322.0	0.0	322.0	322.0
Equal Opportunity, Governor's Office of	4.0	0.0	4.0	4.0	0.0	4.0
Equalization, State Board of	7.0	0.0	7.0	7.0	0.0	7.0
Executive Clemency, Board of	14.0	0.0	14.0	14.0	0.0	14.0
Exposition and State Fair Board, Arizona	0.0	184.0	184.0	0.0	184.0	184.0
Financial Institutions, State Department of	46.1	23.0	69.1	46.1	23.0	69.1
Fire, Building and Life Safety, Department of <u>12/</u>	48.0	0.0	48.0	0.0	0.0	0.0
Forestry and Fire Management, Arizona Department of <u>12/</u>	55.0	0.0	55.0	67.0	0.0	67.0
Funeral Directors and Embalmers, State Board of	0.0	4.0	4.0	0.0	4.0	4.0
Game and Fish Department, Arizona	0.0	273.5	273.5	0.0	273.5	273.5
Gaming, Department of	0.0	155.8	155.8	0.0	155.8	155.8
Geological Survey, Arizona <u>13/</u>	10.3	0.0	10.3	0.0	0.0	0.0
Governor's Office of Strategic Planning and Budgeting	22.0	0.0	22.0	22.0	0.0	22.0
Health Services, Department of <u>6/</u>	900.9	275.8	1,176.7	888.6	176.9	1,065.5
Historical Society, Arizona <u>14/</u>	51.9	0.0	51.9	50.9	0.0	50.9
Historical Society of Arizona, Prescott	13.0	0.0	13.0	13.0	0.0	13.0
Homeopathic and Integrated Medicine Examrs., Bd. of	0.0	1.0	1.0	0.0	1.0	1.0
Housing, Department of <u>12/</u>	0.0	3.0	3.0	17.0	3.0	20.0
Industrial Commission of Arizona	0.0	235.6	235.6	0.0	235.6	235.6
Insurance, Department of <u>15/</u>	95.5	0.0	95.5	72.3	0.0	72.3
Judiciary						
Supreme Court	136.6	38.4	175.0	138.6	38.4	177.0
Court of Appeals	136.8	0.0	136.8	136.8	0.0	136.8
Superior Court	128.8	8.7	137.5	128.8	8.7	137.5
SUBTOTAL - Judiciary	402.2	47.1	449.3	404.2	47.1	451.3
Juvenile Corrections, Department of	478.5	260.0	738.5	478.5	260.0	738.5
Land Department, State	125.7	4.0	129.7	125.7	4.0	129.7
Legislature						
Auditor General	184.8	0.0	184.8	184.8	0.0	184.8

BUDGET UNITS	Fiscal Year 2016			Fiscal Year 2017		
	General	Other	Total	General	Other	Total
	Fund	Fund		Fund	Fund	
Joint Legislative Budget Committee	29.0	0.0	29.0	29.0	0.0	29.0
Legislative Council	49.0	0.0	49.0	49.0	0.0	49.0
SUBTOTAL - Legislature	262.8	0.0	262.8	262.8	0.0	262.8
Liquor Licenses and Control, Department of	0.0	45.2	45.2	0.0	45.2	45.2
Lottery Commission, Arizona State	0.0	98.8	98.8	0.0	98.8	98.8
Massage Therapy, Board of	0.0	5.0	5.0	0.0	5.0	5.0
Medical Board, Arizona	0.0	58.5	58.5	0.0	61.5	61.5
Mine Inspector, State	14.0	0.0	14.0	14.0	0.0	14.0
Naturopathic Physicians Medical Board	0.0	2.0	2.0	0.0	2.0	2.0
Navigable Stream Adjudication Commission, Arizona	2.0	0.0	2.0	2.0	0.0	2.0
Nursing, State Board of	0.0	42.2	42.2	0.0	42.2	42.2
Nursing Care Institution of Administrators, Bd	0.0	6.0	6.0	0.0	6.0	6.0
Occupational Therapy Examiners, Board of	0.0	1.5	1.5	0.0	1.5	1.5
Opticians, State Board of Dispensing	0.0	1.0	1.0	0.0	1.0	1.0
Optometry, State Board of	0.0	2.0	2.0	0.0	2.0	2.0
Osteopathic Examiners, Arizona Board of	0.0	6.7	6.7	0.0	7.2	7.2
Parks Board, Arizona State	0.0	163.0	163.0	0.0	163.0	163.0
Personnel Board, State	0.0	3.0	3.0	0.0	3.0	3.0
Pest Management, Office of 4/	0.0	30.0	30.0	0.0	0.0	0.0
Pharmacy, Arizona State Board of	0.0	18.0	18.0	0.0	18.0	18.0
Physical Therapy, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Pioneers' Home, Arizona	17.0	89.3	106.3	17.0	89.3	106.3
Podiatry Examiners, State Board of	0.0	1.0	1.0	0.0	1.0	1.0
Postsecondary Education, Commission of	0.0	5.0	5.0	0.0	5.0	5.0
Private Postsecondary Education, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Psychologist Examiners, State Board of	0.0	4.0	4.0	0.0	4.0	4.0
Public Safety, Department of 3/	705.8	1,201.9	1,907.7	754.8	1,201.9	1,956.7
Radiation Regulatory Agency 2/	25.5	9.0	34.5	25.5	9.0	34.5
Real Estate Department, State 12/	37.0	0.0	37.0	37.0	0.0	37.0
Residential Utility Consumer Office	0.0	11.0	11.0	0.0	11.0	11.0
Respiratory Care Examiners, Board of	0.0	4.0	4.0	0.0	4.0	4.0
Retirement System, Arizona State	0.0	250.9	250.9	0.0	250.9	250.9
Revenue, Department of	867.8	13.0	880.8	867.8	13.0	880.8
School Facilities Board	17.0	0.0	17.0	17.0	0.0	17.0
Secretary of State, Department of State	131.1	10.0	141.1	131.1	10.0	141.1
State Boards' Office	0.0	3.0	3.0	0.0	0.0	0.0
Tax Appeals, State Board of	4.0	0.0	4.0	4.0	0.0	4.0
Technical Registration, State Board of	0.0	25.0	25.0	0.0	25.0	25.0
Tourism, Office of	28.0	0.0	28.0	28.0	0.0	28.0
Transportation, Department of 3/	1.0	4,547.0	4,548.0	1.0	4,551.0	4,552.0
Treasurer, State	0.0	30.4	30.4	0.0	30.4	30.4
Tribal Relations, Governor's Office on	3.0	0.0	3.0	3.0	0.0	3.0
Universities 16/17/						
Regents, Arizona Board of	25.9	0.0	25.9	25.9	0.0	25.9
Arizona State University - Tempe/DPC Campus	1,943.2	4,609.4	6,552.6	1,943.2	4,609.4	6,552.6
Arizona State University - East Campus	155.2	261.0	416.2	155.2	261.0	416.2
Arizona State University - West Campus	205.3	315.8	521.1	205.3	315.8	521.1
Northern Arizona University	866.1	1,383.6	2,249.7	866.1	1,383.6	2,249.7
University of Arizona - Main Campus 13/14/	1,937.7	3,667.8	5,605.5	1,938.7	3,667.8	5,606.5
University of Arizona - Health Sciences Center	845.7	530.2	1,375.9	845.7	530.2	1,375.9
SUBTOTAL - Universities	5,979.1	10,767.8	16,746.9	5,980.1	10,767.8	16,747.9
Veterans' Services, Department of	106.3	406.0	512.3	106.3	406.0	512.3
Veterinary Medical Examining Board, Arizona. State	0.0	6.0	6.0	0.0	6.0	6.0
Water Resources, Department of	94.0	6.0	100.0	123.0	6.0	129.0
Weights and Measures, Department of 3/	20.9	17.5	38.4	0.0	0.0	0.0
TOTAL APPROPRIATED FUNDS	24,864.1	27,051.6	51,915.7	25,055.2	27,032.8	52,091.0

1/ Full-Time Equivalent (FTE) Positions shown for individual agencies include only those positions funded by appropriated funds. The detail for changes in FTE Positions that occurred between FY 2016 and FY 2017 can be found in the individual agency pages.

2/ Laws 2015, Chapter 132 appropriated 5.5 General Fund FTE Positions in the Department of Emergency and Military Affairs, 5.5 General Fund FTE Positions in the Radiation Regulatory Agency, and 1.88 General Fund FTE Positions in the Department of Agriculture for FY 2016 and FY 2017.

BUDGET UNITS	Fiscal Year 2016			Fiscal Year 2017		
	General Fund	Other Fund	Total	General Fund	Other Fund	Total
<u>3/</u>	Laws 2015, Chapter 244 transfers the Arizona Department of Weights and Measures to the Arizona Department of Agriculture. A total of 19.1 GF and 17.4 OF FTE Positions are transferred to the Department of Agriculture, 1 GF FTE Position is transferred to the Department of Public Safety, and 4 OF FTE Positions are transferred to the Department of Transportation effective July 1, 2016.					
<u>4/</u>	Laws 2016, Chapter 221 transfers the Office of Pest Management to the Department of Agriculture. A total of 30 OF FTE Positions are transferred to the Department of Agriculture effective July 1, 2016.					
<u>5/</u>	Includes 1,180.2 FTE Positions in FY 2016 and 1,281.8 FTE Positions in FY 2017 in the Other Fund FTE Positions columns funded from Federal Medicaid Expenditure Authority.					
<u>6/</u>	Laws 2015, Chapters 19 and 195 transfer behavioral health services from the Department of Health Services (DHS) to AHCCCS effective July 1, 2016. The transfer results in a decrease of (140.2) FTE Positions in DHS and an increase of 112 FTE Positions in AHCCCS, resulting in a net decrease of (28.2) FTE Positions in FY 2017.					
<u>7/</u>	In October 2015, the Attorney General notified the JLBC that it expected to use its full FY 2016 ISA Fund appropriation as well as 8.8 FTE Positions of the 11 FTE Positions and the entire \$800,000 of the ISA Reserve appropriation. As a result, the FY 2016 estimate has increased by 8.5 FTE positions and \$800,000 over the FY 2016 appropriated amounts.					
<u>8/</u>	Includes 1,034.9 FTE Positions in FY 2016 and FY 2017 in the Other Fund FTE Positions column funded with Expenditure Authority.					
<u>9/</u>	Includes 1,863.3 FTE Positions in FY 2016 and 1,912.8 FTE Positions in FY 2017 in the Other Fund FTE Positions columns funded by the Long Term Care System Fund and Federal Funds for Child Support Enforcement.					
<u>10/</u>	A total of 11 FTE Positions in the State Board of Education (SBE) were included in the Arizona Department of Education (ADE) budget prior to FY 2016. Laws 2016, Chapter 138 transfers 7 staff from SBE to ADE in FY 2017 as part of the clarification of duties and responsibilities of the 2 entities. This transfer results in an increase of 7 FTE Positions in ADE and a decrease of (7) FTE Positions in SBE in FY 2017.					
<u>11/</u>	Includes 1 General Fund FTE Position in the Department of Emergency and Military Affairs for the administration of the Military Installation Fund per A.R.S. § 26-263.					
<u>12/</u>	The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transfers the duties of the Department of Fire, Building and Life Safety (FBLS) to the Arizona Department of Forestry and Fire Management (FFM), the Department of Housing (DOH), and the State Real Estate Department (REA), effective July 1, 2016. Of the 48 appropriated FTE Positions in FBLS, A total of 12 GF FTE Positions are transferred to FFM, 17 GF FTE Positions are transferred to DOH, no positions are transferred to REA, and the remaining 19 FTE Positions were eliminated.					
<u>13/</u>	The FY 2017 Agency Consolidation BRB transfers the Geological Survey to the University of Arizona and the Oil and Gas Commission to the Department of Environmental Quality.					
<u>14/</u>	The FY 2017 Agency Consolidation BRB transfers the Mines and Minerals Museum and 1 FTE Position from the Arizona Historical Society to the University of Arizona.					
<u>15/</u>	The FY 2016 budget included 95.5 FTE Positions for the Department of Insurance (DOI). However, DOI reports needing only 72.3 filled FTE Positions. The FY 2017 budget includes a decrease of (23.2) FTE Positions in DOI to match the number of appropriated FTE Positions and filled FTE Positions.					
<u>16/</u>	The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) originally appropriated 15,661.6 FTE Positions to Universities for FY 2016. This FTE amount has been revised to 16,746.9 to account for increased tuition and fee collections that exceeded what was originally included in the FY 2016 budget.					
<u>17/</u>	The Other Fund FTE Positions are funded by the University Collections Fund, which includes a portion of tuition, fees, and a portion of land earnings.					

BUDGET UNITS

Arizona State Board of Accountancy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	13.0
Personal Services	620,400	821,000	821,000
Employee Related Expenditures	271,000	346,500	343,000
Professional and Outside Services	294,600	440,600	440,600
Travel - In State	1,800	5,000	5,000
Travel - Out of State	6,900	10,600	10,600
Other Operating Expenditures	197,600	290,900	292,300
Equipment	8,400	24,500	24,500
AGENCY TOTAL	1,400,700	1,939,100	1,937,000^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Accountancy Fund	1,400,700	1,939,100	1,937,000
SUBTOTAL - Other Appropriated Funds	1,400,700	1,939,100	1,937,000
SUBTOTAL - Appropriated Funds	1,400,700	1,939,100	1,937,000
TOTAL - ALL SOURCES	1,400,700	1,939,100	1,937,000
AGENCY DESCRIPTION — The board licenses, investigates, and conducts examinations of certified public accountants and public accountants. The board is also responsible for registering and investigating accounting firms owned by certified public accountants.			

Operating Budget

The budget includes \$1,937,000 and 13 FTE Positions from the Board of Accountancy Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,100) from the Board of Accountancy Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Acupuncture Board of Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	89,000	88,600	88,600
Employee Related Expenditures	18,200	20,500	20,500
Professional and Outside Services	10,000	16,000	21,900
Travel - In State	1,000	1,500	1,500
Other Operating Expenditures	30,200	31,200	31,500
Equipment	800	1,300	1,300
OPERATING SUBTOTAL	149,200	159,100	165,300
SPECIAL LINE ITEMS			
Annual Leave Payout	0	0	13,200
AGENCY TOTAL	149,200	159,100	178,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Acupuncture Board of Examiners Fund	149,200	159,100	178,500
SUBTOTAL - Other Appropriated Funds	149,200	159,100	178,500
SUBTOTAL - Appropriated Funds	149,200	159,100	178,500
TOTAL - ALL SOURCES	149,200	159,100	178,500

AGENCY DESCRIPTION — The Acupuncture Board of Examiners licenses and regulates the practice of acupuncture by individuals who are not licensed to practice acupuncture by another professional board. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$165,300 and 1 FTE Position from the Acupuncture Board of Examiners Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(3,000) from the Acupuncture Board of Examiners Fund in FY 2017 to eliminate one-time funding for rule writing completed in FY 2016.

Board Member Training

The budget includes an increase of \$5,900 from the Acupuncture Board of Examiners Fund in FY 2017 to contract with professional services for board member training.

One-Time Rulemaking

The budget includes a one-time increase of \$3,000 from the Acupuncture Board of Examiners Fund in FY 2017 for rule writing.

Statewide Adjustments

The budget includes an increase of \$300 from the Acupuncture Board of Examiners Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Annual Leave Payout

The budget includes an increase of \$13,200 from the Acupuncture Board of Examiners Fund in FY 2017 for an annual leave payout for the retiring Executive Director.

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Arizona Department of Administration

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	504.1	532.1	535.1 ^{1/}
Personal Services	28,487,200	29,667,600	29,972,800
Employee Related Expenditures	10,986,600	11,719,000	11,642,500
Professional and Outside Services	8,964,500	8,635,300	8,637,500
Travel - In State	205,500	225,600	228,000
Travel - Out of State	14,600	29,000	25,000
Other Operating Expenditures	30,606,500	36,755,500	36,927,400
Equipment	2,404,100	3,704,400	3,714,400
OPERATING SUBTOTAL	81,669,000	90,736,400	91,147,600 ^{2/3/}
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	7,026,500	8,275,600	8,275,600
Financial Services			
Arizona Financial Information System	0	7,567,800	9,406,300
County Attorney Immigration Enforcement	231,400	0	0
Named Claimants	184,600	9,500	0
Information Technology Services			
Statewide Information Security and Privacy Office	735,600	872,200	870,900 ^{4/}
Telecommunications Infrastructure	0	0	175,000
Risk Management			
Federal Transfer Payment	10,462,100	9,781,700 ^{5/}	0
Risk Management Administrative Expenses	3,757,500	8,747,200	8,747,200
Risk Management Losses and Premiums	31,368,800	44,362,200	45,372,700
Workers' Compensation Losses and Premiums	25,604,300	31,159,200	31,159,200
Support Services			
Government Transformation Office	0	1,000,000	1,500,000
State Surplus Property Sales Proceeds	1,761,700	1,260,000	1,810,000 ^{6/}
Other			
Southwest Defense Contracts	25,000	25,000	25,000 ^{7/}
AGENCY TOTAL	162,826,500	203,796,800	198,489,500 ^{8/}
FUND SOURCES			
General Fund	11,307,200	10,377,300	10,264,500
<u>Other Appropriated Funds</u>			
Air Quality Fund	578,600	927,300	927,300 ^{9/}
Arizona Financial Information System Collections Fund	0	7,567,800	9,406,300
Automation Operations Fund	21,251,400	23,964,100	23,937,600 ^{10/}
Capital Outlay Stabilization Fund	15,902,900	18,083,200	18,069,600
Corrections Fund	352,600	571,200	570,400
Federal Surplus Materials Revolving Fund	51,200	464,600	464,500
Information Technology Fund	2,791,600	2,942,100	3,436,000
Motor Vehicle Pool Revolving Fund	7,123,100	10,148,800	10,151,300 ^{11/12/}
Personnel Division Fund	12,878,300	12,885,100	12,857,900
Risk Management Revolving Fund	78,016,900	95,646,100	93,046,300
Special Employee Health Insurance Trust Fund	4,094,800	11,429,900	5,256,100
Special Services Revolving Fund	0	0	592,200
State Surplus Materials Revolving Fund	2,770,500	2,397,900	2,947,000 ^{6/}
State Web Portal Fund	3,940,800	4,543,000	4,542,400

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
Telecommunications Fund	1,766,600	1,848,400	2,020,100
SUBTOTAL - Other Appropriated Funds	151,519,300	193,419,500	188,225,000
SUBTOTAL - Appropriated Funds	162,826,500	203,796,800	198,489,500
Other Non-Appropriated Funds	990,263,500	984,697,800	1,012,832,300
Federal Funds	3,710,900	8,766,100	5,978,500
TOTAL - ALL SOURCES	1,156,800,900	1,197,260,700	1,217,300,300

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) provides centralized general support services to state agencies, including accounting, financial, purchasing, building and grounds maintenance, personnel, information technology, motor pool, travel reduction, and risk management services.

Operating Budget

The budget includes \$91,147,600 and 504.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$8,613,800
Air Quality Fund	927,300
Automation Operations Fund	23,937,600
Capital Outlay Stabilization Fund (COSF)	10,419,700
Corrections Fund	570,400
Federal Surplus Materials Revolving Fund	464,500

Information Technology Fund	2,065,100
Motor Vehicle Pool Revolving Fund	10,151,300
Personnel Division Fund	12,857,900
Risk Management Revolving Fund	7,767,200
Special Employee Health Insurance Trust Fund	5,256,100
Special Services Revolving Fund	592,200
State Surplus Materials Revolving Fund	1,137,000
State Web Portal Fund	4,542,400
Telecommunications Fund	1,845,100

These amounts fund the following adjustments:

- 1/ Includes 31 OF FTE Positions funded from Special Line Items in FY 2017.
- 2/ The appropriation includes \$500,000 from the state General Fund for additional resources at the State Procurement Office. (General Appropriation Act footnote)
- 3/ On or before October 1, 2016, the department shall submit a report for review by the Joint Legislative Budget Committee of the expenditures to date and progress of implementation for any monies received from the State and Local Implementation Grant Program associated with the National Public Safety Broadband Network Initiative. The Joint Legislative Budget Committee may require the department to submit more frequent reports as necessary for further review. (General Appropriation Act footnote)
- 4/ On or before October 1, 2016, the department shall submit a report on the structure, allocation and fund sources for all information technology and automation project oversight FTE Positions within the department. (General Appropriation Act footnote)
- 5/ It is the intent of the Legislature that the Department of Administration not enter into any agreements to pay for any federal reimbursements related to excess balances in the Special Employee Health Insurance Trust Fund established by A.R.S. § 38-654, or interest payments made for the Human Resource Information Solution Certificate of Participation unless the proposed agreements have been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 6/ All State Surplus Materials Revolving Fund monies received by the Department of Administration in excess of the \$2,947,000 in FY 2017 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund monies in excess of \$2,947,000 in FY 2017, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 7/ The amount appropriated for Southwest Defense Contracts shall be used for distribution to a nonprofit organization that advocates for the preservation and enhancement of critical defense missions and assets in the southwest United States. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 9/ The amounts appropriated for the State Employee Transportation Service Subsidy shall be used for up to a 50% subsidy of charges payable for public transportation service expenses as provided in A.R.S. § 41-710.01, of nonuniversity state employees in a vehicle emissions control area as defined in A.R.S. § 49-541, of a county with a population of more than 400,000 persons. (General Appropriation Act footnote)
- 10/ The appropriation from the Automation Operations Fund established by A.R.S. § 41-711 is an estimate representing all monies, including balance forward, revenues and transfers during FY 2017. These monies are appropriated to the Department of Administration for the purposes established in A.R.S. § 41-711. The appropriation is adjusted as necessary to reflect receipts credited to the Automation Operations Fund for automation operation center projects. Before the expenditure of any Automation Operations Fund monies in excess of \$23,937,600 in FY 2017, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 11/ It is the intent of the Legislature that the department not replace vehicles until they have an average of 80,000 miles or more. (General Appropriation Act footnote)
- 12/ On or before August 1, 2017, the department shall submit a report for review by the Joint Legislative Budget Committee on the maintenance savings achieved by replacing vehicles with an average of 80,000 miles. (General Appropriation Act footnote)

Procurement Funding

The budget includes an increase of \$500,000 from the General Fund in FY 2017 for additional resources at the State Procurement Office (SPO).

State Boards' Office/Central Services Bureau Consolidation

The budget includes an increase of \$540,700 and 3 FTE Positions from the Special Services Revolving Fund in FY 2017 for operating costs previously included in the State Board's Office. The FY 2017 budget eliminates the State Boards' Office as a separate budget unit.

State Boards' Office/Central Services Support to Additional Agencies

The budget includes an increase of \$50,000 from the Special Services Revolving Fund in FY 2017 to allow the Central Services Bureau to provide accounting services to additional agencies.

Office of Economic Opportunity

The budget includes a decrease of \$(568,700) from the General Fund in FY 2017. Laws 2016, Chapter 372, establishes the Office of Economic Opportunity and transfers the operating costs for the Office of Employment and Population Statistics and the Governor's Regulatory Review Council to the Office. (Please see the Office of Economic Opportunity section for more information.)

Statewide Adjustments

The budget includes a decrease of \$(110,800) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(44,100)
Automation Operations Fund	(26,500)
Capital Outlay Stabilization Fund (COSF)	(13,200)
Corrections Fund	(800)
Federal Surplus Materials Revolving Fund	(100)
Information Technology Fund	(4,800)
Motor Vehicle Pool Revolving Fund	2,500
Personnel Division Fund	(27,200)
Risk Management Revolving Fund	12,900
Special Employee Health Insurance Trust Fund	(6,200)
Special Services Revolving Fund	1,500
State Surplus Materials Revolving Fund	(900)
State Web Portal Fund	(600)
Telecommunications Fund	(3,300)

(Please see the Agency Detail and Allocations section.)

In addition, a General Appropriation Act footnote requires ADOA to submit a report for review by the JLBC on the maintenance savings achieved by replacing vehicles with an average of 80,000 miles on or before August 1, 2017.

The FY 2017 budget allows the department to replace vehicles with an average of 80,000 miles. Previously, the department replaced vehicles with an average of 120,000 miles.

Facilities Management

Utilities

The budget includes \$8,275,600 in FY 2017 for Utilities. This amount consists of:

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2016.

This line item funds utility charges, including electric, water, gas, and garbage disposal for state-owned buildings.

Financial Services

Arizona Financial Information System

The budget includes \$9,406,300 and 28 FTE Positions in FY 2017 from the Arizona Financial Information System Collections Fund for the Arizona Financial Information System (AFIS). These amounts fund the following adjustments:

AFIS Maintenance and Upgrade Charges

The budget includes an increase of \$1,838,500 from the AFIS Collections Fund in FY 2017 to fund increased operating costs associated with the state's accounting system.

This line item funds the operation of AFIS including staffing and support, software licensing and maintenance, hosted production and disaster recovery.

Named Claimants

The budget includes no funding in FY 2017 for Named Claimants. This amount funds the following adjustments:

One-Time Named Claimants Funding

The budget includes a decrease of \$(9,427.68) in FY 2017 for the elimination of one-time funding of prior year unpaid claims. This amount consists of:

COSF	(375.13)
Risk Management Revolving Fund	(9,052.55)

The state must annually settle legitimate unpaid claims against received goods and services. Monies in this line item are not included in the General Appropriation Act. A separate legislative act usually makes this appropriation. Laws 2016, Chapter 45 appropriates \$375.13 from COSF and \$9,052.55 from the Risk Management Revolving Fund in FY 2016 to the department for prior year unpaid claims.

Vendors providing goods and services to the state can make claims against the receiving agencies if invoices are not paid in full. Up to 1 year following receipt, state agencies have the financial authority to pay such claims through administrative adjustments. However, the Legislature must grant special appropriation authority to pay claims older than 1 year.

(Please see Named Claimants discussion in Other Issues.)

Information Technology Services

Telecommunications Infrastructure

The budget includes \$175,000 from the Telecommunications Fund in FY 2017 for one-time telecommunication infrastructure costs. This amount funds the following adjustments:

Analog Communication Services Maintenance

The budget includes a one-time increase of \$100,000 from the Telecommunications Fund in FY 2017 to replace the uninterruptable power supply for analog communication devices at the Capitol Mall.

Capitol Mall Repair and Expansion

The budget includes a one-time increase of \$75,000 from the Telecommunications Fund in FY 2017 to repair and expand fiber on the Capitol Mall.

Statewide Information Security and Privacy Office

The budget includes \$870,900 and 3 FTE Positions from the Information Technology Fund in FY 2017 for the Statewide Information Security and Privacy Office (SISPO). These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,300) from the Information Technology Fund in FY 2017 for statewide adjustments.

In addition, a General Appropriation Act footnote requires ADOA to submit a report to the JLBC on the structure, allocation, and fund source for all information technology

and automation projects oversight FTE Positions within the department on or before October 1, 2016.

As part of the Arizona Strategic Enterprise Technology (ASET) Office, the office performs strategic planning, policy development, and risk assessment to protect the state's information resources. *(Please see the ADOA Automation Projects Fund section for additional discussion on ASET administrative resources.)*

Risk Management

Federal Transfer Payment

The budget includes no funding in FY 2017 for one-time payments to the federal government. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(9,781,700) in FY 2017 to eliminate FY 2016 payments to the federal government for disallowed costs and other charges; any FY 2017 payment is not finalized. This amount consists of:

Risk Management Revolving Fund	(3,614,100)
Special Employee Health Insurance Trust Fund	(6,167,600)

Laws 2016, Chapter 117, Section 110 included an FY 2016 supplemental appropriation of \$3,614,100 from the Risk Management Revolving Fund. This amount consisted of:

- \$3,444,900 related to FY 2015 fund transfers from the Risk Management Revolving Fund and Automation Operations Fund.
- \$169,200 for disallowed costs related to statewide IT charges in FY 2015.

In addition, Laws 2016, Chapter 117 included an FY 2016 supplemental appropriation of \$6,167,600 from the Special Employee Health Insurance Trust Fund (HITF) to repay the federal government for their proportional share of HITF transfers to the General Fund in FY 2015.

Laws 2016, Chapter 117 also specifies that it is the intent of the Legislature that ADOA shall not enter into any agreements to pay for any federal reimbursements related to excess retained earnings in HITF or interest payments made for the Human Resource Information Solution (HRIS) Certificate of Participation (COP), unless the proposed agreements are reviewed by the JLBC.

In order to receive Federal Funds, the state enters into a contractual obligation with the federal government, which

restricts the use of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds. *(Please see the Federal Financial Participation section in Other Issues for more information.)*

Risk Management Administrative Expenses

The budget includes \$8,747,200 from the Risk Management Revolving Fund in FY 2017 for Risk Management Administrative Expenses. This amount is unchanged from FY 2016.

This line item funds financial and actuarial analyses, relevant investigations, and related travel. This line item also funds legal representation from outside the Office of the Attorney General.

Risk Management Losses and Premiums

The budget includes \$45,372,700 from the Risk Management Revolving Fund in FY 2017 for Risk Management Losses and Premiums. This amount funds the following adjustments:

Adjust Insurance Claims Related Expenditures

The budget includes an increase of \$1,010,500 from the Risk Management Revolving Fund in FY 2017 for an estimated increase in Risk Management Losses and Premiums. This increase is the result of an independent actuarial review of the department’s claim history and exposure.

This line item represents estimated payments for liability and property settlements, medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Workers’ Compensation Losses and Premiums

The budget includes \$31,159,200 from the Risk Management Revolving Fund in FY 2017 for Workers’ Compensation Losses and Premiums. This amount is unchanged from FY 2016.

This line item accounts for the state’s liability in workplace injuries. The funding represents payments for workers’ compensation beneficiaries, hospital and medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Support Services

Government Transformation Office

The budget includes \$1,500,000 in FY 2017 for the Government Transformation Office (GTO). This amount consists of:

General Fund	1,000,000
Information Technology Fund	500,000

This amount funds the following adjustments:

One-Time GTO Funding

The budget includes \$500,000 from the Information Technology Fund in FY 2017 for additional resources at the GTO.

This line item funds the GTO, which assists state agencies in designing and implementing process improvements. The office publishes an annual report on its accomplishments.

State Surplus Property Sales Proceeds

The budget includes \$1,810,000 from the State Surplus Materials Revolving Fund in FY 2017 for State Surplus Property Sales Proceeds. This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$550,000 from the State Surplus Materials Revolving Fund in FY 2017 to align the appropriation with actual spending.

Before the expenditure of State Surplus Materials Revolving Fund monies in excess of the appropriation, General Appropriation Act footnotes have required the department to report the intended use of monies to the JLBC. In recent years, ADOA has reported that additional expenditures of approximately \$550,000 are required to reimburse agencies for the sale of surplus materials.

This line item separates surplus sales proceeds returned to agencies from the division’s operating budget. The surplus property yard returns 90% of sales proceeds to the agency from which the property originated. The yard retains 10% of the proceeds to fund its operations.

Other

Southwest Defense Contracts

The budget includes \$25,000 from the General Fund in FY 2017 for Southwest Defense Contracts. This amount is unchanged from FY 2016.

This line item is for the distribution to a nonprofit organization that advocates for the preservation and enhancement of critical defense missions and assets in the southwestern United States.

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- Additional Legislation
- Automation Projects
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayment
- Arizona Financial Information System
- Public Safety Communications
- Proposition 123

FY 2016 Supplemental

Laws 2016, Chapter 45 provides \$27,796.26 in FY 2016 supplemental funding to various agencies for Named Claimants. This amount consists of:

	Claim Amount
General Fund	
Department of Corrections	\$ 6,948.18
Department of Health Services	157.00
Department of Revenue	5,323.09
Department of Weights and Measures	1,318.12
Other Appropriated Funds	
Department of Administration	
COSF	375.13
Risk Management Revolving Fund	9,052.55
Department of Health Services	
Emergency Medical Services Operating Fund	908.04
Newborn Screening program Fund	227.15
Arizona Department of Transportation	
State Highway Fund	3,487.00
TOTAL	\$27,796.26

Vendors providing goods and services to the state can make claims against the receiving agencies if invoices are not paid in full. Up to 1 year following receipt, state agencies have the financial authority to pay such claims through administrative adjustments. However, the Legislature must grant special appropriation authority to pay claims older than 1 year.

Additional Legislation

Agency Consolidation

The Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) merges the State Boards' Office with the Arizona Department of Administration (ADOA) Central Services Bureau. It also designates the ADOA Central Services Bureau allocation in the Special Services Revolving Fund as an appropriated fund source.

GAO Administrative Adjustments

The FY 2017 Budget Procedures BRB (Laws 2016, Chapter 127), requires ADOA to report to the JLBC Staff by November 1 of each year any exemptions granted under A.R.S § 35-191A for orders for goods and/or services made in one fiscal year and received beyond August 30 of the following fiscal year.

Sale of State Property

The FY 2017 Budget Procedures BRB requires ADOA to report to the JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price. Currently, the Arizona Medical Board, Arizona Board of Osteopathic Examiners, and the Arizona State Veterinary Medical Examining Board reside at the Doubletree Road location. If the building is sold, these agencies could be relocated to the 1740 West Adams building currently used by the Department of Health Services.

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriates \$4,200,000 for the renovation of the 1740 West Adams building. The Capital Outlay Bill requires ADOA to report to the JCCR on tenant relocation including any planned agency consolidations, and commitments of new tenants, timeline, and costs. In addition, the FY 2017 General Appropriation Act appropriates \$576,800 from Other Appropriated Funds for one-time costs associated with the agency relocations. The JLBC Staff will determine the allocation of these funds once the report is finalized. *(Please see the ADOA Capital narrative for more details.)*

Automation Projects

The budget includes \$25,598,400 transferred from the General Fund and Other Funds to the Automation Projects

Fund in FY 2017 for automation and information technology projects at ADOA. This amount consists of:

AFIS Replacement

The budget includes no funding from the Automation Projects Fund in FY 2017 for the replacement of AFIS. FY 2016 was the final year of a 4-year project to replace the state’s financial and accounting system, which went live on July 3, 2015.

e-Procurement System Replacement

The budget includes \$12,000,000 from the Automation Projects Fund in FY 2017 for the replacement of the state’s e-procurement system.

ASET Initiatives

The budget includes \$13,598,400 from the Automation Projects Fund in FY 2017 to continue to fund personnel and information technology projects at the Arizona Strategic Enterprise Technology (ASET) office in ADOA.

(Please see the Department of Administration - Automation Projects Fund section for details regarding these information technology projects.)

Health Insurance Trust Fund

The Health Insurance Trust Fund (HITF) is used to administer state employee health insurance benefit plans. Funding consists of employer and employee medical and dental insurance contributions. At the end of FY 2015, HITF had a balance of \$339,800,000. Recent budgets have included a number of measures to reduce the HITF balance. Information on HITF receipts, expenses and fund balances are displayed in *Table 1*.

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8, Section 136) required a \$100,000,000 transfer from the HITF balance to the General Fund in FY 2017. The FY 2017 General Appropriation Act amends Laws 2015, Chapter 8, Section 136, by decreasing the transfer to \$78,900,000.

In addition to one-time fund transfers, an ongoing method to reduce the HITF balance is to adjust the employer/employee contribution strategy. Because of the recent trend of HITF receipts exceeding annual costs, the FY 2016 budget included \$(16,200,000) of General Fund savings related to reducing state agency health insurance contribution rates.

The revised contribution rates became effective January 1, 2016. As such, the FY 2016 budget only included partial-year savings related to HITF changes. When effective for an entire year, the FY 2016 budget assumed

	Estimated FY 2016	Estimated FY 2017
Beginning Balance	\$339.8	\$323.9
Receipts	\$836.9	\$798.3
Expenses	\$842.6	\$859.3
FFP Repayment ^{2/}	6.1	0
Transfer	<u>4.1</u>	<u>78.9</u>
Net Expenses	\$852.8	\$938.2
HITF Ending Balance	\$323.9	\$184.0

^{1/} ADOA has updated the HITF estimates since the FY 2017 Baseline was published.
^{2/} An FY 2017 amount has not yet been authorized by the Legislature for the transfer of monies made in FY 2016.

the HITF rate reduction would generate \$(32,400,000) of General Fund savings in FY 2017.

However, some adjustments to the Universities’ reductions were necessary to align the reductions with actual enrollment and fund sourcing. The FY 2017 budget restores General Fund monies to the Universities by \$4,076,000 as an FY 2016 supplemental appropriation. To make the issue budget neutral from a General Fund perspective, the FY 2017 budget transfers \$4,076,000 from HITF to the General Fund. The changes to the University reduction also affects the budgeted savings in FY 2017 when the HITF rate changes become effective for a full year. The HITF rate reduction will generate only \$(24,247,400) of General Fund savings in FY 2017.

(Please see the HITF section in the Arizona Board of Regents narrative for more information.)

Some of the HITF revenues are generated from Federal Funds. As a result, when HITF monies are transferred to the General Fund, the federal government requires that they receive a refund as well, known as a federal financial participation (FFP) repayment. Laws 2016, Chapter 117 included a FY 2016 supplemental appropriation of \$6,167,600 from the Special Employee Health Insurance Trust Fund to repay the federal government for debts incurred due to HITF transfers to the General Fund in FY 2015. While not yet authorized by the Legislature, the FY 2017 FFP repayment for the FY 2016 HITF transfers of \$4,076,000 is estimated to be \$460,600. This repayment may alternatively be financed from the Risk Management Revolving Fund.

Due to the FY 2016 and previous balance reduction measures, HITF is expected to have a fund balance of \$184.0 million at the end of FY 2017. ADOA's reserve strategy consists of maintaining a balance of approximately 20% of annual expenses, or approximately \$171.9 million. (Please see the Health Insurance section in the General Provisions section for information on current state employee health insurance rates.)

Risk Management Revolving Fund

ADOA's Risk Management Division annually levies a charge on all state agencies to provide funding to pay the state's property and liability losses and workers' compensation losses, and to purchase insurance coverage for losses not covered under our self-insured limits. The revenue generated from the charges to agencies is deposited in the Risk Management Revolving Fund. Property and liability losses, along with workers' compensation losses, comprise the majority of Risk Management Revolving Fund expenditures.

In recent years, Risk Management expenditures have been significantly lower than fund revenue. Even with transfers of Risk Management monies to other agencies and transfers to the General Fund to help balance the budget, the fund has consistently had an ending balance over \$50 million.

Table 2 depicts actual balance, revenue, and expenditure information for FY 2015 as well as the estimated amounts for FY 2016 and FY 2017. Due to the unpredictable nature of the Risk Management program, ADOA tends to estimate future expenditures above historical spending levels. Table 2 also includes adjusted expenditure estimates for FY 2016 and FY 2017, which are closer to historical spending levels. Under these adjusted estimates, the balance would be \$94.6 million in FY 2016 and \$107.0 million in FY 2017.

As a result of the large balance in the Risk Management Revolving Fund, monies from the fund have been used to support other agencies in recent years. The use of the funding has typically been in circumstances where the lack of funding would result in potential liability to the state. Risk Management funds have been used to pay for Department of Public Safety (DPS) disaster recovery planning, DPS-Capitol Police salaries, and Arizona Navigable Streams Adjudication Commission litigation costs. The latter no longer receives a Risk Management appropriation. In addition, the FY 2017 budget includes an FY 2016 supplemental appropriation of \$2,867,600 from the Risk Management Revolving fund to the Department of Child Safety.

Table 2

Risk Management Revolving Fund (\$ in thousands)

	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
Beginning Balance	71,415.7	87,605.6	79,582.4
Revenues	<u>105,189.4</u>	<u>101,145.5</u>	<u>101,145.5</u>
Total Funds Available	176,605.1	188,751.1	180,727.9
Expenditures			
ADOA	67,554.8	92,032.0	93,046.3
Federal Repayment	<u>10,462.1</u>	<u>3,614.1</u>	-
ADOA Subtotal	78,016.9	95,646.1	93,046.3
Other Agencies ^{1/}	10,045.2	13,522.6	10,655.0
Admin Adjustment	<u>937.4</u>	-	-
Total Expenditures	88,999.5	109,168.7	103,701.3
Ending Balance	87,605.6	79,582.4	77,026.6
Spending Adjustment ^{2/}	-	(15,000.0)	(15,000.0)
Adjusted Expenditures		94,168.7	88,701.3
Revised Balance	87,605.6	94,582.4	107,026.6

^{1/} Includes \$2,867,600 appropriated as an FY 2016 supplemental appropriation to the Department of Child Safety.

^{2/} Would reduce projected expenditures closer to historical spending levels which would increase the revised ending balance.

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government in FY 2015 and FY 2016. (Please see the Federal Transfer Payment Section above, and the Federal Financial Participation Repayment Section below for more information.)

Federal Financial Participation Repayment

In order to receive Federal Funds, the state enters into a contractual obligation with the federal government, which restricts some uses of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds.

Fund Transfers

As part of its budget balancing, the state transferred monies from several ADOA funds to the General Fund in the past. The federal government contributed to several of those funds. For example, the state's Risk Management Revolving Fund is funded from charges to state agencies. These agencies may use Federal Funds to pay their charge. If part of the fund balance is transferred to the General Fund, the federal government bills the state to have a proportionate share of the transfer paid back to the federal government.

Disallowed Costs

The federal government does not allow the use of Federal Funds to pay state agency charges in certain circumstances. For example, the state's oversight of Information Technology (IT) projects is funded by an assessment charged to each agency as a percentage of payroll expenses. The federal government disallows the use of Federal Funds to be spent on this type of oversight, because the costs to administer the program are charged proportionately to all agencies, and are not based on a fee-for-service model. As a result, the federal government bills the state a proportionate share if state agencies use Federal Funds to pay for these disallowed costs.

Excess Retained Earnings

Certain enterprise funds carry a balance beyond the annual needs of the fund in order to provide some stability of cash flow. The federal government, however, charges the state for their proportionate share of excess fund balances above any amount that would fund more than 1/6th of the fiscal years' expenditures, or 60 days of working capital. In the past, the state has successfully negotiated not to be charged for excess fund balances in HITF.

FY 2015

The FY 2016 General Appropriation Act included a FY 2015 supplemental appropriation of \$10,462,100 from the Risk Management Revolving Fund to repay the federal government for restricted uses. This amount consists of:

- \$4,336,000 related to FY 2014 fund transfers from 9 different funds.
- \$207,400 for disallowed costs related to statewide IT charges in FY 2014.
- \$5,918,700 for excess retained earnings in 4 different funds in FY 2014.

In addition, Laws 2015, Chapter 8 included an FY 2015 supplemental appropriation of \$8,302,800 from HITF to repay the federal government for their proportional share of HITF transfers to the General Fund in FY 2014.

FY 2016

The FY 2017 General Appropriation Act included an FY 2016 supplemental appropriation of \$3,614,100 from the Risk Management Revolving Fund to repay the federal government for restricted uses. This amount consists of:

- \$3,444,900 related to FY 2015 fund transfers from the Risk Management Fund and Automation Operations Fund.
- \$169,200 for disallowed costs related to statewide IT charges in FY 2015.

In addition, Laws 2016, Chapter 117 included an FY 2016 supplemental appropriation of \$6,167,600 from the Special Employee Health Insurance Trust Fund (HITF) to repay the federal government for their proportional share of HITF transfers to the General Fund in FY 2015. This amount does not include excess retained earnings or fund transfers from HITF in FY 2016 and beyond. *(Please see the Federal Transfer Payment line item above for information.)*

Arizona Financial Information System

The General Accounting Office (GAO) is responsible for managing the statewide accounting system, AFIS, which includes functional and technical support, software licensing and maintenance, hosted production, and disaster recovery.

The FY 2016 budget included \$1.5 million from the General Fund and \$7.6 million for a new AFIS line item funded from the new AFIS Collections Fund. Along with the 25 existing FTE Positions in the operating budget, this line item funds operating costs of AFIS, including an additional 28 new FTE Positions, including 15 FTE Positions for GAO functional support and 13 FTE Positions for ASET technical support. Additional duties included support for increased usage of the system, overseeing the contracted IT services, and further in-house development of AFIS.

The FY 2017 budget includes an increase of \$1,838,500 in the AFIS line time for increased AIFS operating costs. The FY 2017 AFIS line item totals \$9,406,300. ADOA has entered into a 10-year agreement with the system's vendor to provide ongoing maintenance and support, previously provided by agency staff. The agreement annualizes operating and upgrade costs by including 2 scheduled upgrades.

Public Safety Communications

In August 2013, Public Safety Communication Advisory Commission, under ADOA, received a \$2,900,000 federal grant. The State and Local Implementation Grant Program (SLIGP) was distributed as part of the National Public Safety Broadband Network (NPSBN) initiative, a national effort to construct a nationwide, standards based, high-speed data network by reserving a part of the electromagnetic spectrum for public safety. In FY 2015, the commission was sunset and ADOA ASET Office took responsibility to administer the grant.

A FY 2016 General Appropriation Act footnote required ADOA to submit a report by October 1, 2015 to JLBC for review of the expenditures to date and progress of

implementation for any SLIGP funds. Through September 2015, ADOA reported spending \$1,065,300 of the \$2,900,000 grant.

A FY 2017 General Appropriation Act footnote also requires ADOA to submit a report by October 1, 2016 to the JLBC for the expenditures to date and progress of implementation for any SLIGP funds. Additionally, the footnote allows JLBC to require ADOA to submit more frequent reports as necessary for further review.

Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona Department of Administration (ADOA) receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, ADOA received \$185,200 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer's annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, ADOA will receive \$361,500 in additional revenue from the Treasurer's distributions in FY 2016 and a total of \$619,800 from the Treasurer's distributions in FY 2017. Since ADOA's land funds are subject to appropriation, ADOA will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*

Arizona Department of Administration - Automation Projects Fund

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
GENERAL FUND TRANSFERS ^{1/}			
AFIS Replacement	18,400,000	2,383,000	0
e-Procurement System Replacement	0	0	3,000,000
General Fund Transfer (ADE)	10,400,000	5,400,000	7,300,000
General Fund Transfer (DOR)	1,700,000	0	0
General Fund Transfer (DCS)	5,000,000	0	4,581,600
TOTAL - ALL PROJECTS	35,500,000	7,783,000	14,881,600
FUND SOURCES			
General Fund	35,500,000	7,783,000	14,881,600
SUBTOTAL - Appropriated Funds	35,500,000	7,783,000	14,881,600
TOTAL - ALL SOURCES	35,500,000	7,783,000	14,881,600
INDIVIDUAL PROJECTS - Automation Projects Fund ^{2/}			
Department of Administration			
<i>Full Time Equivalent Positions</i>	75.0	75.0	15.0
AFIS Replacement	16,783,600	2,383,000	0 ^{3/}
e-Procurement System Replacement	0	0	12,000,000
ASET Initiatives			
SDC/ Network and Security Infrastructure	3,108,600	2,625,000	5,700,000
Security, Privacy, and Risk	2,849,000	3,125,000	3,248,400
Enterprise Architecture	230,000	500,000	1,050,000
Project Management	1,570,900	2,150,000	1,500,000
E-Government	325,000	1,075,000	1,300,000
Web-Portal Transition Costs	171,300	0	0
IT Consolidation Assessment	0	0	800,000 ^{4/}
ASET Initiatives Subtotal	8,254,800	9,475,000	13,598,400
Department of Administration Subtotal	25,038,400	11,858,000	25,598,400
Department of Corrections			
AIMS Replacement	8,000,000	0	8,000,000 ^{5/6/}
Department of Economic Security			
Information Technology Security	0	936,400	1,294,700
Department of Environmental Quality			
E-Licensing	5,446,600	5,000,000	0 ^{7/}
Department of Education			
Education Learning and Accountability System	11,661,900	7,000,000	7,300,000 ^{9/10/11}
Department of Child Safety			
CHILDS Replacement	0	0	4,581,600 ^{8/}
Department of Revenue			
Enterprise Tax System Assessment	0	0	1,000,000
Data Security and Encryption	5,024,300	0	0
Tax Analysis Improvements	566,700	0	0
Tobacco Tax System	1,000,000	0	0
Department of Revenue Subtotal	6,591,000	0	1,000,000
TOTAL - ALL PROJECTS ^{12/13/}	56,737,900	24,794,400	47,774,700^{14/}

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	56,737,900	24,794,400	47,774,700
SUBTOTAL - Other Appropriated Funds	56,737,900	24,794,400	47,774,700
SUBTOTAL - Appropriated Funds	56,737,900	24,794,400	47,774,700
TOTAL - ALL SOURCES	56,737,900	24,794,400	47,774,700

AGENCY DESCRIPTION — Laws 2012, Chapter 298 established the Automation Projects Fund (APF), administered by the Arizona Department of Administration (ADOA). Monies in this appropriated fund are designated to implement, upgrade, or maintain automation and information technology projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to JLBC for review.

- 1/ General Fund monies are transferred into the Automation Projects Fund (APF) to finance certain projects. See Table 2 for Non-General Fund transfers into the APF. These individual transfers are discussed in the narrative as part of the individual projects listed in the APF section.
- 2/ Represents expenditures from the APF. The FY 2015 Actual column includes expenditures from FY 2014 appropriations in FY 2015.
- 3/ For the funding for the replacement of the Arizona Financial Information System, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S § 41-714, from monies appropriated in FY 2015 for the Arizona Financial Information System replacement project at the Department of Administration are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 4/ On completion of the assessment, the Department of Administration shall submit to the President of the Senate, the Speaker of the House of Representatives and the Joint Legislative Budget Committee a report that summarizes the assessment. Any new information technology project with an estimated total cost of greater than \$15,000,000 may not begin until the completion of the assessment. (General Appropriation Act footnote)
- 5/ For the funding for the State Department of Corrections' replacement of the Adult Inmate Management System project, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2015 for the replacement of the Adult Inmate Management System at the State Department of Corrections are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 6/ The funding for the State Department of Corrections' replacement of the Adult Inmate Management System project is contingent on the use of a contracted independent third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the State Department of Corrections shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and the Joint Legislative Budget Committee before seeking review of the \$8,000,000 FY 2017 expenditure from the Automation Projects Fund, as required by A.R.S § 41-714. Following the initial review of FY 2017 expenditures, the State Department of Corrections shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ For the funding for the Department of Environmental Quality's e-licensing projects, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S § 41-714, from monies appropriated in FY 2015 for the e-licensing projects at the Department of Environmental Quality are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint legislative Budget Committee. (General Appropriation Act footnote)
- 8/ For the funding for the Department of Child Safety's replacement of the Children's Information Library and Data Source System project, any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S § 41-714, from monies appropriated in FY 2015 for the replacement of the Children's Information Library and Data Source System at the Department of Child Safety are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2015. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the Joint legislative Budget Committee. (General Appropriation Act footnote)
- 9/ In addition to the \$7,300,000 appropriated to the Department of Administration, any remaining balances as of June 30, 2016 in the university and community college fee subaccount in the Education Learning and Accountability Fund established by A.R.S § 15-249.02, are appropriated for implementing, upgrading and maintaining the Student Longitudinal Data System and the Education Learning and Accountability System established pursuant to A.R.S § 15-249. (General Appropriation Act footnote)
- 10/ It is the intent of the Legislature that the appropriation made by subsection E of this section be used first and foremost to complete a significant portion of the replacement of the Student Accountability Information System established by A.R.S. § 15-1041. The Department of Education shall provide quantifiable deliverables of the Legislature's intended progress to the Information Technology Authorization Committee established by A.R.S. § 41-3521, and to the Joint Legislative Budget Committee before seeking review of the \$7,300,000 FY 2017 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. (General Appropriation Act footnote)

Background

The FY 2013 Government Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 298) established the APF, administered by ADOA and consisting of monies appropriated by the Legislature. The FY 2014 Budget Procedures BRB (Laws 2013, 1st Special Session, Chapter 6) subjected the APF to legislative appropriation. The fund is exempt from lapsing. Monies in the fund are to be used to implement, upgrade or maintain automation and information technology projects for any state agency.

Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the Joint Legislative Budget Committee (JLBC) for review.

A FY 2017 General Appropriation Act (Laws 2016, Chapter 117) footnote requires ADOA to submit quarterly reports, within 30 days of the end of the calendar quarter, to the JLBC on the progress of all automation projects funded through the APF, including the projects' expenditures to date, deliverables, timeline for completion, and current status. A separate General Appropriation Act footnote specifies that funds for agency projects financed through the APF may not be used for any other agency without prior review by the JLBC.

Pursuant to A.R.S. § 41-3504, any large-scale information technology (IT) projects in the APF with a total cost greater than \$5,000,000 must receive relevant third-party analysis from an independent contracted vendor before receiving approval from the Information Technology Authorization Committee (ITAC). The third-party consultant is required to review and provide guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project.

- 11/ The funding for the Department of Education's Automation Project is contingent on the use of a contracted independent third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the Department of Education shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and the Joint Legislative Budget Committee before seeking review of the \$7,300,000 FY 2017 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2017 expenditures, the Department of Education shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 12/ In addition to the initial review of expenditures from the Automation Projects Fund by the Joint Legislative Budget Committee, pursuant to A.R.S. § 41-714, monies appropriated for projects at each state agency from the Automation Projects Fund established by A.R.S. § 41-714, may not be used for projects at any other state agency without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 13/ The Department of Administration shall submit to the Joint Legislative Budget Committee, within 30 days after the last day of each calendar quarter, a quarterly report on the implementation of projects described in this section, including the projects' expenditures to date, deliverables, timeline for completion and current status. (General Appropriation Act footnote)
- 14/ Any remaining balances on June 30, 2016 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2016 are appropriated to the Department of Administration in FY 2017 for the same purposes specified in FY 2016. The Department of Administration shall report any FY 2017 expenditure of remaining balances from FY 2016 in the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee. (General Appropriation Act footnote)

Department of Administration

AFIS Replacement

The budget includes no funding from the APF in FY 2017 for the replacement of the state's financial and accounting system, the Arizona Financial Information System (AFIS). FY 2016 was the final year of the 4-year project named the Business Re-Engineering Arizona (BREAZ). This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(2,383,000) and (60) FTE Positions in the General Fund and a corresponding decrease of \$(2,383,000) from the APF in FY 2017 to align expenditures with the completion of the project to replace AFIS. The new AFIS system went "live" on July 1, 2015.

The 4-year project was estimated to cost \$73,000,000. (Please see the FY 2015 Appropriations Report for history of BREAZ funding.) The main project components are:

Vendor Contract	\$47,700,000
ADOA and Other Staffing	16,000,000
Third Party Oversight	5,200,000
Contingency Costs	<u>4,100,000</u>
Total	\$73,000,000

ADOA awarded a \$47,700,000 contract to Consulting for Government and Industry (CGI) to construct the new AFIS system over 4 years. This amount included \$32,700,000 for the vendor, \$12,600,000 for software licensing and maintenance, \$1,300,000 for hardware, and \$1,100,000 for other costs, including disaster recovery hosting. The vendor devoted as many as 81 FTE Positions to this project, with some located on-site.

ADOA staff costs for the project were estimated to total \$16,000,000 through FY 2016. The most significant portion of state staffing costs was \$11,700,000 allocated to hiring 40-43 FTE Positions during the design, build, and test phases of the project. FTE Positions include staff devoted to developing financial reports for the various AFIS functions and business modules, in addition to technical developers and analysts who will focus on programming and data security. Of the state's project costs, \$6,002,000 of the budget was shifted to the ADOA's AFIS line item for annual operating costs. This total includes 28 FTE Positions for ongoing technical support and development. *(Please see the Arizona Financial Information System discussion in the Other Issues section of the regular ADOA budget for more information.)*

Given the complexity of large-scale IT projects, ADOA contracted with a third-party consultant to assist in the oversight of the replacement of AFIS, including providing estimates for remaining expenditures, and guidance on the scope of the new system. Initially \$3,000,000 was allocated to the consultant for the planning stages of the project. An additional \$2,200,000 was allocated to fund the consultant through FY 2016, for a total cost of \$5,200,000 for project oversight.

Due to possible unforeseen costs, the expenditure plan sets aside \$4,100,000 for contingency purposes. The FY 2017 budget requires ADOA to use \$3,103,000 of the contingency to replace the state's e-procurement system. The remaining funds are for third-party oversight and rent for the project staff. *(Please see the discussion of the e-Procurement System Replacement project below for more information.)*

e-Procurement System Replacement

The budget includes \$12,000,000 from the APF in FY 2017 for the replacement of the state's e-Procurement system. This amount funds the following adjustments:

e-Procurement Project

The budget includes an increase of \$12,000,000 from the APF in FY 2017 for the replacement of the state's e-procurement system. This appropriation will be financed by transfers from:

	<u>FY 2017</u>
General Fund	\$3,000,000
Other Funds	9,000,000

The \$9,000,000 Other Funds amount consists of one-time charges to other appropriated and non-appropriated funds for transfer to APF.

In addition, the budget requires ADOA to use \$3,103,000 from the unused AFIS contingency to replace the e-procurement system. The total cost of the project is expected to be approximately \$15,000,000.

The state's e-procurement system, ProcureAZ, was implemented in 2010. The system serves as an online, publicly available, official procurement record and allows state agencies to manage solicitations, requisitions, and purchase orders, and notify registered vendors of available solicitations.

ADOA reports that the current system lacks the ability to integrate with AFIS to record purchase order and invoice transactions. In addition, the current system lacks advance data analytic capabilities to track spend data such as contract utilization of cross-agency contracts.

ASET Initiatives

The budget includes \$13,598,400 and 15 FTE Positions from the APF in FY 2017 for ongoing IT projects by the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. The 15 FTE Positions will assist in managing all projects funded from the APF. This amount funds the following adjustments:

ASET Alignment

The budget includes an increase of \$4,123,400 from the APF in FY 2017 to align expenditures with ongoing IT projects by the ASET Office in ADOA.

The FY 2017 \$13,598,400 appropriation will be financed by a transfer of \$7,420,600 from the ADOA Automation Operations Fund, \$5,650,000 from the State Web Portal Fund, and \$527,800 from the Information Technology Fund to the APF.

The FY 2017 appropriation will fund projects continuing from FY 2016, pay for Personal Services and Employee Related Expenditures to manage and oversee IT projects statewide, as well as fund new projects for FY 2017. This \$13,598,400 consists of the following:

- \$5,700,000 to implement network infrastructure and security core at a third-party off-site data center to provide connectivity for agencies to move their data centers to a privately-operated location.
- \$3,248,400 to improve the security, privacy, and risk of the state's IT systems, including implementing firewalls and encrypting private and sensitive information.
- \$1,050,000 to improve enterprise architecture, including developing a statewide IT governance model, data governance and collaboration, and statewide IT professional development.

- \$1,500,000 for project management in the ASET office in ADOA. This includes Personal Services and Employee Related Expenditures to manage all projects funded through the APF, and to provide assistance to other state agencies for their IT projects.
- \$1,300,000 to enhance E-government, by improving the state's Enterprise Platform, assisting agencies with cloud migration, and expanding agency website capabilities.
- \$800,000 for a third-party IT consolidation assessment that assesses the implementation, transfer, coordination, and modernization of state agencies' IT systems. A budget footnote requires ADOA to submit a report on the summarizing completed assessment to the JLBC and prohibits any new IT project with a budget greater than \$15,000,000 from starting until the assessment is complete.

Department of Corrections

AIMS Replacement

The budget includes \$8,000,000 from the APF in FY 2017 for the third year of a \$24,000,000 project to replace the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC). This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$8,000,000 from the APF in FY 2017 for the third year of a \$24,000,000 project to replace AIMS. The FY 2017 appropriation would be funded from the following ADC funds:

- \$1,000,000 from the Penitentiary Land Fund.
- \$1,000,000 from the State Charitable, Penal and Reformatory Institutions Land Fund.
- \$1,000,000 from the Inmate Store Proceeds Fund.
- \$4,000,000 from the Special Services Fund.
- \$1,000,000 from the ARCOR Enterprise Revolving Fund.

The AIMS system will assist in the tracking, identification, population management, sentencing calculations, and the appeals and grievances processes for inmates in the correctional system. A total of \$16,000,000 (\$8,000,000 in FY 2014 and \$8,000,000 in FY 2015) has already been appropriated for replacement of the AIMS system. As of June 30, 2015, the department has expended \$8,000,000 of the FY 2014 appropriation. As of March 2016, the department has expended \$2,402,300 of the FY 2015 appropriation. Their plans propose spending \$8,000,000 in FY 2017. These monies would come from an

appropriation in FY 2017 and the remainder of the already appropriated funds.

A contract has been awarded to a vendor to oversee the modification of a commercial "off the shelf" system to fit the needs of ADC. Of the total project cost of \$24,000,000, \$16,349,800 is allotted to pay the vendor. The remainder of the project costs include:

- \$3,200,000 for training costs (overtime that will be needed) as staff learn how to use the program and for dedicated staff for the implementation phase.
- \$2,802,300 for cost contingencies.
- \$700,000 for equipment.
- \$450,000 for the costs associated with the system interfacing with other state agencies, law enforcement entities, and the courts.
- \$497,900 for the cost of third-party consultant review for the AIMS project.

The department estimates an ongoing maintenance cost of \$1,600,000 annually. With the projected schedule, the department anticipates the transition stage of setting up the new system occurring in March 2017.

The FY 2017 General Appropriation Act continues to appropriate any remaining FY 2015 AIMS project balances for use in FY 2017. ADOA shall report any FY 2017 expenditure of remaining balances from FY 2015 from the Automation Projects Fund in the department's quarterly report to the JLBC.

A FY 2017 General Appropriation Act footnote stipulates that AIMS funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and ADC shall provide ITAC and JLBC with a recent report from this contracted third party when seeking review of AIMS funding, as required by A.R.S. § 41-3504. ADC retains an outside consultant to provide ongoing analysis of the project; current reports by ADOA indicate the project is on schedule.

Department of Economic Security

Information Technology Security

The budget includes \$1,294,700 from the APF in FY 2017 for IT Security at the Department of Economic Security (DES). This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$358,300 from the APF in FY 2017 for IT security projects at DES. The \$1,294,700 FY 2017 APF appropriation is financed by a transfer from the DES Special Administration Fund. In FY 2016, \$936,400 was appropriated for this project to bring DES into compliance with state and federal security information technology standards. The \$936,400 APF appropriation was also financed by a transfer from the DES Special Administration Fund.

In April 2016, DES received a favorable review from the JLBC for an expenditure plan totaling \$609,700 for IT security enhancements projects. Of that total \$487,800 is from the APF and \$121,900 is from Federal Funds. DES will utilize the funds to install Network Access Control (NAC) software to prevent unauthorized computers and wireless access points from accessing DES' network. This project will bring the DES IT system into compliance with National Institute of Standards and Technology (NIST) security control standards. The department expects to complete the project by June 30, 2016.

The department has not yet requested JLBC review for the remaining \$448,600 appropriated from the APF in FY 2016.

The FY 2017 APF funds will be used for the following security components:

- Network segmentation and isolation to allow for the separation of data for each division within DES so the entire network will not be compromised by a single security breach.
- Cisco's Application Centric Infrastructure (ACI) to allow DES to manage the flow of sensitive data by application.
- Application multi-tenancy to enhance security and functionality of the newly-segmented network.
- A single updated file transfer solution to reduce risks of transmissions of internal and external data and to ensure that DES is in compliance with federal regulations.

Department of Environmental Quality

E-Licensing

The budget includes no funding from the APF in FY 2017 for E-Licensing. This amount funds the following adjustments:

Expenditure Alignment

The budget includes a decrease of \$(5,000,000) from the APF in FY 2017 for the Department of Environmental Quality (DEQ) E-Licensing project. In FY 2016, \$5,000,000 was appropriated for this project to automate business processes within DEQ. This appropriation was financed by a transfer from the Vehicle Emissions Inspection (VEI) Fund to the APF.

Between FY 2014 and FY 2016, a total of \$16,800,000 has been appropriated to automate 50 business processes (12 processes in FY 2014, 22 processes in FY 2015, and 16 processes in FY 2016) within DEQ. The 50 automated processes will allow customers to conduct permitting, billing, payment, and data submissions online.

In addition, the budget continues to appropriate any remaining FY 2016 and FY 2015 DEQ project balances for use in FY 2017 (*see the FY 2016 Appropriations Report for history of this funding*).

A FY 2016 General Appropriation Act footnote stipulates that DEQ funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and DEQ are required to provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of DEQ funding, as required by A.R.S. § 41-714.

DEQ contracted with a third-party vendor. ADOA and DEQ provided ITAC and JLBC with a recent report from this contracted third-party when it sought review of its FY 2015 funding, as required by A.R.S. § 41-714.

In the initial report, the vendor concurred with DEQ's approach and "can certainly see a credible path to success." At the same time as the third-party review, DEQ adjusted the scope of the project to address external feedback for more functionality. Instead of developing fillable forms, the portal is providing deeper functionality and assistance to users for fewer business processes.

The vendor provided recommendations for process improvements and suggestions for increasing user engagement with the new software. The vendor has been retained for continued oversight.

In the April 2015 report, the vendor reiterated its prior positive evaluation of DEQ's approach and software development methodology. The vendor noted that Phase 1 and Phase 2 deliverables were behind schedule due to unforeseen circumstances and changes to the scope of the project.

In the November 2015 report, the vendor provided a quarterly update. The report stated that “the view of the credible path to [project] success is much clearer.” The vendor gave an overall favorable evaluation of DEQ’s progress in incorporating recommendations from the previous third-party report.

In the March 2016 report, the vendor gave an overall favorable evaluation of DEQ’s progress in incorporating recommendations from the previous third-party report. The report stated that DEQ’s increased need for an enterprise data management strategy and framework is surfacing as a real risk and challenge but these challenges will be addressed by the recent identification of an Enterprise Data Architect.

In April 2016, DEQ received favorable JLBC review of its FY 2016 expenditure plan for Phase 3 of the project to automate 6 business processes.

Department of Education

Education Learning and Accountability System

The budget includes \$7,300,000 from the APF in FY 2017 for further development of the Education Learning and Accountability System (ELAS) at the Department of Education (ADE). ELAS will allow ADE to collect, compile, maintain, and report student level data for students enrolled in public schools. *(See the Department of Education - Education Learning and Accountability System section for more information.)*

This amount funds the following adjustments:

ELAS Development

The budget includes an increase of \$300,000 from the APF in FY 2017 for continued development of the ELAS project.

The FY 2016 budget included a total of \$7,000,000 in ELAS funding, including \$5,400,000 deposited into the APF from the General Fund and \$1,600,000 generated by mandatory fees of \$6 per Full-Time Student Equivalent (FTSE) from Arizona universities and community colleges. The FY 2017 budget eliminates the mandatory fees but offsets the \$(1,600,000) loss associated with the elimination of this funding component with a General Fund increase of \$1,900,000, for a total increase in project funding of \$300,000 in FY 2017.

As specified in the Legislature’s 3-year spending plan, the total of \$7,300,000 in funding in FY 2017 is a one-time appropriation.

Prior to FY 2014, ADE used its own funds to administer the project, which included a combination of state General Fund monies (\$5 million per year in FY 2012 and FY 2013), mandatory fees from Arizona universities and community colleges (approximately \$1.5 million per year in FY 2012 and FY 2013), and federal monies (approximately \$10 million in FY 2012 and FY 2013 combined).

In FY 2014, \$7,000,000 was appropriated to implement a portion of the total project. This amount funded development and expansion of a longitudinal data system, implementation of data visualization dashboards that display student achievement data, reduced redundancies for districts’ reporting requirements, and implemented various security and technical measures.

In FY 2015, \$12,000,000 was appropriated to primarily replace most of SAIS, further develop more streamlined data reporting, storage, and transfer systems, and roll out data dashboards to additional public schools.

In FY 2016, ADE intended to utilize the \$7,000,000 ELAS appropriation to continue work on SAIS replacement, add more schools to the state’s student information system (SIS) to leverage bulk purchasing power, and fund other project management functions.

Delays in vendor certification and development led the Department of Education to pursue a “dual system” in FY 2016, in which the new school payment system has run parallel to the existing SAIS platform, which has continued to make school payments in FY 2016.

The FY 2016 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15) required that districts calculate their per pupil funding allocation based upon current year Average Daily Membership (ADM) counts beginning in FY 2017, rather than prior year counts. As a result, the Department of Education has been required to divert FY 2016 ELAS development resources to reconfigure the school payment system to accommodate current year funding.

Section 129 of the FY 2017 General Appropriation Act specifies that it is the Legislature’s intent that FY 2017 funding be used first and foremost to complete a significant portion of the SAIS replacement. The section further required ADE to provide quantifiable deliverables of the Legislature’s intent to ITAC and the JLBC when seeking review of their FY 2017 expenditures, as required by A.R.S. § 41-714, which occurred in May and June 2016.

Section 129 also makes FY 2017 funding contingent upon the department contracting with a third-party consultant to evaluate and assess the project’s feasibility, estimated

expenditures, technology approach and scope throughout the life of the project. ADOA and ADE are to provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of FY 2017 funding, as required by A.R.S. § 41-714. ADE is required to provide further ongoing reports to JLBC, at a time frame determined by the JLBC.

Since FY 2014, ADE has contracted with a third-party vendor to provide additional oversight for the project, in accordance with an ongoing General Appropriation Act footnote.

The October 2015 ELAS third-party quarterly performance review noted that “ADE has made significant progress on the dual option approach despite resource constraints” and “appears to be close to proving the viability of the AzEDS data collection approach.” The report states that “the work so far has laid an excellent foundation upon which to construct additional functions and services.”

The April 2016 review notes that ADE recently completed its review of the business rules in ELAS and confirmed that they correctly reflect statute. The review attributes the remaining differences in ADM counts between SAIS and ELAS to more accurate treatment of data under ELAS (e.g. tracking student absences in minutes, rather than simply as “part” or “full day”).

The April 2016 review also states that efforts to switch to current year funding are “on schedule” and that “there is little concern for the AELAS technical components” in this regard.

This review also noted that as of March 2016, the department had transitioned 400 of the more than 700 school districts and charter schools to AzEDS (accounting for approximately 50% of students), with 65-75 more migrating to the system each week.

As of May 2016, ADE has reported that more than 80% of districts and charter schools have transitioned to AzEDS, that all vendors have completed certification, and that remaining districts and schools will be required to complete the transition to AzEDS by September 1, 2016. ADE reports that SAIS will be decommissioned and no longer receiving new student data beginning FY 2017.

The department has indicated that its FY 2017 funding will support the ongoing development and operations of the ELAS system, the completion of the transition to the current year funding, the design of new school payment reports, and the continued implementation of tools for the Opt-in SSIS program. ADE reports that development

of the new school payment reports will be initialized but not completed in FY 2017.

Department of Child Safety

CHILDS Replacement

The budget includes \$4,581,600 from APF in FY 2017 to replace the Children’s Information Library and Data Source (CHILDS) system operated by the Department of Child Safety (DCS), also known as a statewide automated child welfare information system (SACWIS). The name of the new replacement system is Guardian. This amount funds the following adjustments:

Phase 2 Funding

The budget includes an increase of \$4,581,600 from APF in FY 2017 to fund Phase 2 of the CHILDS system replacement project.

The budget also appropriates any remaining FY 2015 DCS project balances for use in FY 2017. In addition to the \$4,581,600 of FY 2017 funding, DCS also has \$4,687,000 remaining from FY 2015 for total General Fund Phase 2 resources of \$9,268,600.

CHILDS is the management information system used to document the status, demographics, location and outcomes for every child in the care of DCS. The system assists with various business processes including hotline intake, initial assessments and investigations, case management, adoptions, eligibility determinations, staff management, provider management and payment processing.

The total cost for the project was originally estimated to be between \$40,000,000 and \$80,000,000, depending on the technology approach used during replacement. DCS now believes the cost to replace the system will be \$56,500,000, which includes the cost of state staff. DCS believes that the project will qualify for a 50% federal match rate. Currently, DCS spends \$16 million annually to service the existing CHILDS system. This annual maintenance cost will likely be the same for the new system.

DCS plans to implement the project in 2 Phases. In March 2015, DCS received ASET approval and a favorable JLBC review of its plan to spend \$313,000 of the \$5,000,000 appropriation for the Phase 1 Planning Project. The \$313,000 will draw down an equal amount of Federal Funds.

During the Phase 1 Planning Project, DCS contracted with Public Consultant Group (PCG) to prepare the project's Request For Proposal (RFP). The consulting firm produced (1) a definition of user requirements (functional and non-functional) to a level of detail sufficient to complete all competitive bidding for Phase 2 of the project; (2) an alternative analysis, cost benefit analysis, feasibility study, and a final report; and (3) an implementation budget and cost allocation formula.

As part of its feasibility study, PCG analyzed 4 CHILDS replacement solutions:

1. CHILDS Modernization - Dismissed out of hand.
2. Framework based - Procure a child welfare case management product supported on an open architecture framework that can be configured to meet DCS business needs.
3. Integrated best-of breed - Best commercial off the shelf (COTS) products integrated together.
4. State system transfer - Copy another state's system.

Table 1 outlines the costs and benefits of each replacement solution, according to the PCG report.

PCG Recommendation

PCG recommends that DCS procure a child welfare case management product supported on an open architecture framework that could be configured using modular products or components as necessary. This approach combines the benefits of options 2, 3, and 4. As a result, CHILDS would be built in segments (e.g., the ability to access system remotely, safety and risk assessment tool, hosting environment, case management, financial management, data warehouse, and data environment) rather than being replaced by a whole new system. A "system integrator" would be responsible for bringing together segment subsystems and ensuring that those subsystems function together.

Under PCG's synthesized recommendation, DCS could use a case management product from a contracted vendor. If a customized case management system were selected, there would be an unknown cost to integrate that system with the other modules, as well as an unknown cost related to ongoing subscriptions and licenses.

PCG recommends some incremental work in the near term. Listed below are 5 of PCG's 13 incremental work recommendations:

- Develop or procure Safety and Risk Assessment tools or other assessments that can initially work with CHILDS and later be used in the design of the new systems.

- Initiate the review and redesign of most or all of the existing CHILDS reports to the Tableau Reporting tool and reporting database. This will facilitate transition from CHILDS to the new system by having one consolidated source of data for reporting.
- Plan for advanced data analysis.
- Implement a standalone mobile solution.
- Implement caseload management reports.

Table 1 CHILDS Replacement Alternatives			
	Option 2	Option 3	Option 4
Name	Framework-Based	Integrated Best-of Breed	State System Transfer
Definition	Procure a child welfare case management product supported on an open architecture framework that can be configured to meet DCS business needs	Procure functional and non-functional modular products or components and integrate them to meet DCS business needs	Procure system integration services to transfer a SACWIS compliant system from another state with similar business processes
Primary Benefit	Contains core DCS functions out of the box	Allows for continuous modernization (i.e., future proof)	Proven, simple to implement
Primary Limitation	No vendor has implemented this solution for child welfare in the last 7 years	Difficult to find a system integrator with the level of skill necessary to build the solution	Significant concerns about the ongoing maintainability and sustainability; custom solution, so competitive procurement and maintenance would be difficult
Incremental Benefits	Yes	Yes	No
One-Time Cost	\$57,000,000	\$75,000,000	Not provided
Annual Reoccurring Costs	\$15,000,000	\$17,000,000	Not provided
Implementation Time	3.5 years	4.5 years	Not provided

During Phase 2, DCS will begin to publish RFPs for the different modules of the new CHILDS system. DCS will also select a vendor to integrate the modules of the new system. It is anticipated that after the RFP is awarded, Phase 2 of the project will last through FY 2020.

A FY 2015 General Appropriation Act footnote stipulates that CHILDS replacement funding is contingent upon DCS

contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. As a condition of receiving funding for technology infrastructure in June 2016, the third-party consultant is to submit a report to JLBC by the last day February, May, August, and November of each year.

Department of Revenue

Enterprise Tax System Replacement Assessment

The budget includes \$1,000,000 from the APF in FY 2017 to assess the replacement of the enterprise tax system at the Department of Revenue (DOR). This amount funds the following adjustments:

Enterprise Tax System Replacement Assessment

The budget includes an increase of \$1,000,000 from the APF in FY 2017 for vendor services to assess the available options to replace DOR's existing primary tax system.

The FY 2017 \$1,000,000 appropriation will be financed by a transfer from the Liability Setoff Program Revolving Fund to the APF.

The Business Reengineering and Integrated Tax System (BRITS) is the IT tax system for collecting and processing tax data used by DOR and is made up of 2 separate programs: 1) the Taxpayer Accounting System (TAS) which processes Individual Income Tax, Transaction Privilege Tax, and Withholding Taxes, and 2) AZ Taxes, which is the web-based application that allows taxpayers to register, file and pay their taxes online.

DOR has reported that BRITS is outdated and in need of replacement due to reduced software support and an antiquated programming language that makes the system cumbersome to use and difficult to modify. The \$1,000,000 will be used to hire a vendor to lead the assessment and selection phases which will identify options to replace BRITS with a modern commercial-off-the-shelf tax system. DOR estimates these phases will take approximately 1 year to complete.

Other Issues

Additional Legislation

ADE Intellectual Property

Laws 2016, Chapter 317 establishes the Department of Education Intellectual Property Fund and allows ADE to

deposit and retain 40% of the profits generated by the sale or lease of software, computer systems, or intellectual property that it develops. The remaining 60% shall be deposited into the General Fund.

ADE has reported that other states have expressed interest in the system capabilities developed as part of the ELAS project and believes it may be able to recoup project development expenses and/or provide support for the ongoing operational costs through the sale or lease agreements with other states.

ADE may not utilize monies in the Intellectual Property Fund for marketing purposes. Monies in the fund are subject to appropriation, but no appropriation is provided in the FY 2017 budget.

Third-Party Quarterly Reports

For IT projects over \$5.0 million, A.R.S. § 41-3504 requires agencies to contract with an independent contractor for a third-party review of the proposed project. The third-party consultant is required to review and provide guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project. The FY 2017 Budget Procedures BRB (Laws 2016, Chapter 127) requires agencies to submit an independent third-party report regarding the progress each project over \$5.0 million to ITAC and JLBC on or before the 30th day following the last day of each calendar quarter.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the General Fund deposits into the APF costs are projected to decrease by \$(9,881,600) in FY 2018 below FY 2017 and remain unchanged in FY 2019. These estimates are based on:

e-Procurement System Replacement

The long-term estimates assume funding for e-Procurement System replacement will decrease by \$(3,000,000) in FY 2018 to zero. There would be no funding for the project in FY 2019.

Educational Learning and Accountability System

The long-term estimates assume the General Fund deposit for ELAS will decrease by \$(7,300,000) in FY 2018 to zero. The estimates assume there would be no General Fund funding for the project in FY 2019.

CHILDS Replacement

The long-term estimates assume funding for CHILDS Replacement would increase by \$418,400 in FY 2018 to the level of \$5,000,000. Funding would remain unchanged at this amount in FY 2019.

APF Revenues and Transfers

Since the APF's inception in FY 2013, state agencies have transferred monies into the APF to finance specific IT projects. *Table 2* summarizes APF revenues from FY 2015 through FY 2017.

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Beginning Balance	40,843.4	46,062.8	6,549.1
Revenues			
General Fund Appropriation	18,400.0	2,383.0	
General Fund Transfer (ADOA)			3,000.0
General Fund Transfer (ADE)	10,400.0	5,400.0	7,300.0
General Fund Transfer (DOR)	1,700.0		
General Fund Transfer (DCS)	5,000.0		4,581.6
e-Procurement Automation Charges ^{1/}			9,000.0
ADE Education Learning and Accountability Fund	1,600.0	1,600.0	
ADOA Automation Operations Fund	9,057.3	5,700.0	7,420.6
ADOA State Web Portal Fund		3,775.0	5,650.0
ADOA Information Technology Fund			527.8
ADC Inmate Store Proceeds Fund			1,000.0
ADC Special Services Fund			4,000.0
ADC Prison Construction and Operations Fund	5,500.0		
ADC ARCOR Enterprise Services Revolving Fund			1,000.0
ADC State Charitable Land Fund			1,000.0
ADC Penitentiary Land Fund			1,000.0
ADC Corrections Fund	2,500.0		
AHCCCS Traditional Medicaid Services	1,000.0		
DES Special Administration Fund		936.4	1,294.7
DEQ Emissions Inspection Fund	6,800.0	5,000.0	
DOR Liability Setoff Program Revolving Fund			1,000.0
Total Funds Available	102,800.7	70,857.2	54,323.8
Total Expenditure (Current FY Appropriation)	30,521.0	24,794.4	47,774.7
Total Expenditure (Previous FY Appropriation)	26,216.9	39,513.7	6,549.1
Total Expenditures	56,737.9	64,308.1	54,323.8
Ending Balance ^{2/}	46,062.8	6,549.1	0
^{1/} The FY 2017 amount consists of charges to eligible state agency funds for the replacement of the state's e-procurement system.			
^{2/} The FY 2016 ending balance includes \$4,197,800 of unspent AFIS replacement project funds.			

Arizona Department of Administration - Department of Child Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	0.0	0.0	0.0
Lump Sum Appropriation ^{1/}	15,096,100	0	0
AGENCY TOTAL	15,096,100 ^{2/}	0	0
FUND SOURCES			
General Fund	15,096,100	0	0
SUBTOTAL - Appropriated Funds	15,096,100	0	0
TOTAL - ALL SOURCES	15,096,100	0	0

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) was appropriated one-time funding to facilitate the creation of the new Department of Child Safety (DCS).

Operating Budget

The budget includes no transitional funding in FY 2017 for the creation of the Department of Child Safety.

The FY 2016 General Appropriation Act reduced the original FY 2015 appropriation from \$25,000,000 to \$19,500,000 and made the appropriation non-lapsing until June 30, 2016. The FY 2017 General Appropriation Act extended the non-lapsing authority to June 30, 2017.

These monies were appropriated to ADOA for one-time costs associated with the establishment of DCS as well as the relocation of the data center operated by the Department of Economic Security (DES).

In September 2014, the Joint Legislative Budget Committee (JLBC) favorably reviewed 6 months of funding for DCS administrative expenses totaling \$6,502,700, as shown in *Table 1*. These administrative expenses included 40 new administrative staff; 1,700 laptops for caseworkers; and technology services, such as a website, email software, and consulting services. The Committee's actions on administrative expenses included provisions stating that a favorable review did not reflect endorsement of a particular staffing level and that DCS report on the number of filled administrative positions and the year-to-date transition expenditures 30 days after the end of each calendar quarter. The FY 2016 budget did

not contain funding to continue the 40 new administrative staff. As part of the main appropriation to DCS, the FY 2017 budget provided ongoing funding for 60 new administrative staff.

After the DES data center relocation project received the relevant approvals from the Information Technology Authorization Committee (ITAC), JLBC also favorably reviewed \$500,000 for the planning phase, \$2,500,000 for the implementation phase and \$4,000,000 for the application migration phase of the DES data center relocation project totaling \$7,000,000.

In March 2015, JLBC favorably reviewed DCS' proposal to spend \$1,593,400 from the transition appropriation on moving expenses to consolidate its central office staff into 1 privately-leased building at 3003 North Central Avenue in Phoenix.

The Executive's plan during the May 2014 Special Session on Child Welfare was for DCS to spend about \$6,700,000 from the transition appropriation to remodel the 1717 West Jefferson Street building for its central office staff. But because of the extensive interior remodeling that would have been required, DCS decided to lease private space at the previously mentioned 3003 North Central Avenue building. The 1717 West Jefferson Street building has been turned over to ADOA to use as flexible space. DCS' net new cost to lease the 3003 North Central Avenue

^{1/} DCS is expected to expend the remaining \$4,403,900 of the appropriation in FY 2016 and FY 2017.

^{2/} The sum of \$19,500,000 is appropriated in FY 2015 from the State General Fund to the Department of Administration for costs associated with the establishment of the Department of Child Safety and the relocation of the data center operated by the Department of Economic Security. Before any expenditure of this amount, the Department of Child Safety shall submit an expenditure plan for review by the Joint Legislative Budget Committee. The appropriation made in subsection A of this section is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2017. (Laws 2014, Chapter 18 footnote as modified by Laws 2016, Chapter 117) Laws 2014, Chapter 18 originally appropriated \$20,000,000 from the General Fund in FY 2015. Laws 2014, 2nd Special Session, Chapter 2 increased this amount to \$25,000,000. Laws 2015, Chapter 8 reduced this amount to \$19,500,000. Laws 2016, Chapter 117 extended the non-lapsing provision until June 30, 2017.

space is \$1,100,000 annually, which is accounted for in DCS' operating budget.

In February 2016, JLBC favorably reviewed the final \$4,403,900 from the transition appropriation for technology infrastructure (both hardware and software) to migrate DCS data from the DES data center to a private vendor, otherwise known as the "cloud."

A footnote in the FY 2016 General Appropriation Act required JLBC review of expenditure plans prior to expending any of these monies.

Table 1	
Transition Appropriation by Purpose	
<u>Administrative Expenses</u>	<u>Amount</u>
40 Administrative and Technology Staff	\$ 2,557,200
Field Equipment (1,700 laptops)	2,524,200
Technology Services Licensing	1,121,300
Website and IT Consulting	<u>300,000</u>
Subtotal - Administrative Expenses	\$ 6,502,700
<u>Other Transition Expenses</u>	
DES Data Center - Planning & Implementation	\$ 3,000,000
DES Data Center - Application Migration	4,000,000
DCS Relocation	1,593,400
DCS Technology Infrastructure	<u>4,403,900</u>
Subtotal - Other	\$12,997,300
Total	\$19,500,000

Office of Administrative Hearings

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	12.0	12.0	12.0
Personal Services	564,600	564,600	564,600
Employee Related Expenditures	206,400	206,400	205,100
Other Operating Expenditures	91,500	90,700	90,800
AGENCY TOTAL	862,500	861,700	860,500^{1/}
FUND SOURCES			
General Fund	862,500	861,700	860,500
<u>Other Appropriated Funds</u>			
Healthcare Group Fund	0	0	0
SUBTOTAL - Other Appropriated Funds	0	0	0
SUBTOTAL - Appropriated Funds	862,500	861,700	860,500
Other Non-Appropriated Funds	885,700	749,500	749,500
TOTAL - ALL SOURCES	1,748,200	1,611,200	1,610,000

AGENCY DESCRIPTION — The Office of Administrative Hearings is an independent office whose services and personnel are to be used by all state agencies to conduct administrative hearings, unless exempted by law. All agencies supported by other appropriated or non-appropriated funding sources are to contract for administrative hearing services from the office. The Director shall assign Administrative Law Judges (ALJ) from the office to an agency, on either a temporary or permanent basis, to preside over contested cases in accordance with the special expertise of the ALJ in the subject matter of the agency.

Operating Budget

The budget includes \$860,500 and 12 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Healthcare Group Fund Elimination

The budget includes no funding from the Healthcare Group Fund in FY 2017 to continue the FY 2016 Supplemental for Healthcare Group Fund elimination. (Please see the FY 2016 Supplemental section in Other Issues.)

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

FY 2016 Supplementals

Laws 2016, Chapter 117 includes a FY 2016 Supplemental reduction of \$(12,300) from the Healthcare Group Fund in FY 2016 for Healthcare Group Fund elimination. The Healthcare Group program was repealed on January 1, 2014, and the Healthcare Group Fund was repealed on January 1, 2015. (Please see Healthcare Group Fund Elimination.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Commission of African-American Affairs

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	30,200	68,300	68,300
Employee Related Expenditures	5,100	27,300	27,300
Travel - In State	0	2,000	2,000
Travel - Out of State	0	2,000	2,000
Other Operating Expenditures	5,100	25,400	25,400
AGENCY TOTAL	40,400	125,000	125,000^{1/}
FUND SOURCES			
General Fund	40,400	125,000	125,000
SUBTOTAL - Appropriated Funds	40,400	125,000	125,000
TOTAL - ALL SOURCES	40,400	125,000	125,000

AGENCY DESCRIPTION — The Arizona Commission of African-American Affairs advises state and federal agencies on policies, legislation and rules that affect the African-American community, and enables the state to be responsive to the needs of the African-American community. The commission is composed of 9 public members and 8 ex-officio members.

Operating Budget

The budget includes \$125,000 and 3 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Department of Agriculture

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	162.9	162.9	226.3 ^{1/2/}
Personal Services	4,071,600	4,307,900	5,324,400
Employee Related Expenditures	1,885,500	1,947,800	2,370,100
Professional and Outside Services	60,400	42,000	299,500
Travel - In State	414,100	449,300	605,800
Travel - Out of State	7,200	17,800	32,700
Other Operating Expenditures	1,174,400	1,075,700	1,464,900
Equipment	202,700	8,500	61,300
OPERATING SUBTOTAL	7,815,900	7,849,000	10,158,700
SPECIAL LINE ITEMS			
Agricultural Consulting and Training	128,000	128,500	128,500
Agricultural Employment Relations Board	23,300	23,300	23,300
Animal Damage Control	65,000	65,000	65,000
Division of Pest Management	0	0	1,695,500
Nuclear Emergency Management Fund	191,600	198,400	198,400 ^{3/4/}
Red Imported Fire Ant Control	23,200	23,200	23,200
AGENCY TOTAL	8,247,000	8,287,400	12,292,600 ^{5/}
FUND SOURCES			
General Fund	8,247,000	8,287,400	9,162,700
<u>Other Appropriated Funds</u>			
Air Quality Fund	0	0	1,434,400
Pest Management Trust Fund	0	0	1,695,500
SUBTOTAL - Other Appropriated Funds	0	0	3,129,900
SUBTOTAL - Appropriated Funds	8,247,000	8,287,400	12,292,600
Other Non-Appropriated Funds	10,159,200	12,741,200	12,140,500
Federal Funds	4,151,200	4,381,600	4,495,100
TOTAL - ALL SOURCES	22,557,400	25,410,200	28,928,200

AGENCY DESCRIPTION — The Arizona Department of Agriculture administers and enforces agriculture-related statutes. The department regulates certain phases of food production (such as milking, butchering, and harvesting) to guard public health and to ensure product quality. The department administers programs to protect livestock and crops from pests and diseases and to protect farm workers who handle agricultural chemicals. It also tests certain non-food agricultural products to ensure product quality and content, as well as providing administrative support to several agricultural product promotion groups. Beginning in FY 2017, the responsibilities of the Department of Weights and Measures and the responsibilities of the Office of Pest Management are transferred to the Arizona Department of Agriculture. The new duties of the Weights and Measures Service Division include the inspection, testing and licensing of commercial weighing and measuring devices. The new duties of the Division of Pest Management include licensing and regulating professional pest control companies and conducting examinations of the applicators of structural pesticides.

1/ Includes 1.88 GF and 30 OF FTE Positions funded from Special Line Items in FY 2017.

2/ Includes 1.88 GF FTE Positions appropriated by Laws 2015, Chapter 132.

3/ Includes \$198,434 and 1.88 FTE Positions in both FY 2016 and FY 2017 appropriated by Laws 2015, Chapter 132 for the Nuclear Emergency Management Fund.

4/ Pursuant to A.R.S. § 26-306.02, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations; however any unexpended monies shall be used to reduce the assessment and appropriation in future years.

5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$10,158,700 and 194.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$8,724,300
Air Quality Fund	1,434,400

These amounts fund the following adjustments:

Agency Consolidation

The budget includes an increase of \$2,372,000 and 33.4 FTE Positions in FY 2017 for the Weights and Measures agency elimination. These amounts consist of:

General Fund	932,200
Air Quality Fund	1,439,800

Laws 2015, Chapter 244 establishes the Weights and Measures Services Division within the Arizona Department of Agriculture (ADA) as of July 1, 2016. *(See Other Issues for additional information on the Weights and Measures agency elimination.)*

Statewide Adjustments

The budget includes a decrease of \$(62,300) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(56,900)
Air Quality Fund	(5,400)

(Please see the Agency Detail and Allocations section.)

Agricultural Consulting and Training

The budget includes \$128,500 from the General Fund in FY 2017 for the Agricultural Consulting and Training line item. This amount is unchanged from FY 2016.

This line item funds on-site visits to establishments for consultation, interpreting, and applying alternative methods of complying with statutes, rules, regulations, and standards relating to compliance.

Agricultural Employment Relations Board

The budget includes \$23,300 from the General Fund in FY 2017 for the Agricultural Employment Relations Board line item. This amount is unchanged from FY 2016.

This line item funds accounting and budgeting support for the Agricultural Employment Relations Board. The board

receives and investigates complaints and conducts farm labor union elections.

Animal Damage Control

The budget includes \$65,000 from the General Fund in FY 2017 for the Animal Damage Control line item. This amount is unchanged from FY 2016.

This line item funds agreements with the U.S. Department of Agriculture to control, dispatch, or relocate predatory animals and noxious rodents, which are injurious to livestock, poultry, agriculture, other industries, or the public health.

Division of Pest Management

The budget includes \$1,695,500 and 30 FTE Positions from the Pest Management Trust Fund in FY 2017 for the Division of Pest Management. These amounts fund the following adjustments:

Agency Consolidation

The budget includes an increase of \$1,695,500 and 30 FTE Positions from the Pest Management Trust Fund in FY 2017 for the Division of Pest Management.

Laws 2016, Chapter 221 establishes the Division of Pest Management within ADA as of July 1, 2016. Chapter 221 establishes the Pest Management Trust Fund for the purpose of supporting the Division of Pest Management and repeals statute establishing the Office of Pest Management as a 90/10 agency. All authority, powers, duties and responsibilities previously granted to the Office of Pest Management are transferred to the Division of Pest Management within ADA.

Statewide Adjustments

The budget includes a decrease of \$(4,000) from the Pest Management Trust Fund in FY 2017 for statewide adjustments.

Nuclear Emergency Management Fund

The budget includes \$198,434 and 1.9 FTE Positions from the General Fund in FY 2017 for the Nuclear Emergency Management Fund (NEMF). These amounts are unchanged from FY 2016.

Laws 2015, Chapter 132 appropriated \$198,434 and 1.88 FTE Positions from the General Fund in FY 2016 and FY 2017. As a result, these monies do not appear in the FY 2017 General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and

Military Affairs, and ADA receive monies from this bill. (Please see the Department of Emergency and Military Affairs and the Radiation Regulatory Agency narratives for more information.)

The Legislature is required to biennially assess a fee against each group of public service and municipal corporations operating the Palo Verde Nuclear Generating Station. The fee is set at a level to offset the General Fund appropriation to the NEMF.

Monies in the NEMF are used for the development and maintenance of a state plan for off-site responses to an emergency caused by an accident at a commercial nuclear generating station. NEMF monies are also used to provide for the equipment, personnel, facilities, training, and testing necessary to comply with federally prescribed criteria.

Department representatives assist in the planning for off-site responses to an emergency at the Palo Verde Nuclear Generating Station and participate in the annual response exercises, mainly the Ingestion Pathway Zone exercises. They are responsible for controlling embargoes of food, water, and milk in the event that there is an emergency that would contaminate those items produced in the areas around the plant.

Monies appropriated to the NEMF are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that monies left unexpended or unencumbered at the end of the fiscal year shall be used to offset the next year's assessment and appropriation.

Red Imported Fire Ant Control

The budget includes \$23,200 from the General Fund in FY 2017 for the Red Imported Fire Ant Control line item. This amount is unchanged from FY 2016.

This line item funds ongoing pest exclusion efforts aimed at preventing the introduction of the red imported fire ant. The state has successfully suppressed isolated infestations of red imported fire ants and continues to be federally certified as free from this pest.

Other Issues

Additional Legislation

Fee Use Authority

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) continues to give the Director,

upon recommendation from the Agricultural Advisory Council, special fee authority in FY 2017 including legislative intent that the fees not generate more than \$218,000 to the General Fund, \$113,000 to the Pesticide Trust Fund, and \$26,000 to the Dangerous Plants, Pests, and Diseases Trust Fund.

Livestock Self-Inspection

Laws 2016, Chapter 160 allows the Division of Animal Services to authorize self-inspection of livestock by livestock owners. Livestock owners will be required to purchase a book from ADA to document self-inspections. The Director, upon recommendation from the Agricultural Advisory Council, will establish a fee for the self-inspection book. The fee will be set at an amount that will offset the elimination of the current 20¢ per head inspection fee. Chapter 160 could reduce the department's General Fund revenue by up to \$(115,000) beginning in FY 2017 if no livestock owners utilize the self-inspection option. The General Fund revenue impact would be less depending on the number of livestock owners that utilize the self-inspection option.

Division of Weights and Measures

Laws 2015, Chapter 244 establishes the Weights and Measures Services Division within ADA as of July 1, 2016. All authority, powers, duties and responsibilities previously granted to the Department of Weights and Measures are transferred to the Weights and Measure Services Division within ADA, except that:

- Responsibilities relating to taxis, limousines and livery vehicles are transferred to the Department of Transportation (ADOT).
- Responsibilities relating to the Moving Truck Violation Enforcement Program are transferred to the Department of Public Safety (DPS).

As of October 2015, the Department of Weights and Measures has completed the agency elimination process through a series of Interagency Service Agreements (ISAs) with ADA, DPS, and ADOT. The ADA Director will serve as the Interim Director for the Weights and Measures Services Division until the formal dissolution of the Department of Weights and Measures occurs on July 1, 2016. The Weights and Measures agency elimination resulted in a decrease of \$(330,600) from the General Fund in FY 2017 for agency elimination savings.

Arizona Health Care Cost Containment System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,208.3	2,214.3	2,326.3 ^{1/}
Personal Services	36,283,700	36,862,000	45,102,100
Employee Related Expenditures	16,260,800	16,448,500	19,717,400
Professional and Outside Services	4,426,600	5,856,200	5,856,200
Travel - In State	69,100	58,100	58,100
Travel - Out of State	16,900	36,700	36,700
Other Operating Expenditures	24,072,800	18,292,100	19,457,200
Equipment	912,400	131,800	871,100
OPERATING SUBTOTAL	82,042,300	77,685,400	91,098,800
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	54,874,500	54,874,500	54,874,500 ^{2/}
Proposition 204 - Acute Care Administration	7,794,800	6,832,800	6,807,000 ^{3/}
Proposition 204 - Behavioral Health Administration	0	0	5,832,000 ^{3/}
Proposition 204 - DES Eligibility	28,155,500	38,358,700	38,358,700 ^{3/}
Medical Services			
Traditional Medicaid Services	3,455,788,800	3,870,268,200	3,936,187,500 ^{4/5/}
Proposition 204 Services	2,307,122,900	2,640,060,600	2,777,688,100 ^{3/}
Adult Expansion Services	214,081,100	385,896,900	462,284,600
Children's Rehabilitative Services	219,112,500	252,046,500	275,375,700
KidsCare Services	7,075,600	6,295,200	1,955,000
ALTCs Services	1,355,349,200	1,383,177,300	1,422,354,600 ^{6/7/8/}
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	0	960,228,100 ^{9/10/}
Medicaid Behavioral Health - Proposition 204 Services	0	0 ^{11/}	612,844,800 ^{3/9/10/}
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	0	208,027,400 ^{9/10/}
Medicaid Behavioral Health - Adult Expansion Services	0	0	77,702,300 ^{9/10/}
Non-Medicaid Seriously Mentally Ill Services	0	0	78,846,900 ^{9/12/}
Supported Housing	0	0	5,324,800 ^{9/}
Crisis Services	0	0	16,391,300 ^{9/}
Hospital Payments			
Disproportionate Share Payments	13,487,100	5,087,100	5,087,100 ^{13/}
DSH Payments - Voluntary Match	30,392,000	18,784,700	19,896,000 ^{14/15/}
Rural Hospitals	22,115,700	22,650,000	22,650,000
Graduate Medical Education	156,310,600	186,539,100	162,992,600 ^{15/16/}
Safety Net Care Pool	175,134,500	137,000,000	137,000,000 ^{15/17/}
AGENCY TOTAL	8,128,837,100	9,085,557,000	11,379,807,800 ^{18/-23/}
FUND SOURCES			
General Fund	1,158,575,700	1,205,162,300	1,750,941,400
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	2,538,300	3,482,900	3,563,300
Children's Health Insurance Program Fund	6,340,300	7,674,400	3,674,900
Prescription Drug Rebate Fund - State	79,021,000	105,878,800	113,778,900
Substance Abuse Services Fund	0	0	2,250,200
TPTF - Emergency Health Services Account	19,284,300	18,162,200	18,747,200
TTHCF - Medically Needy Account	34,178,800	34,498,500	72,998,200
SUBTOTAL - Other Appropriated Funds	141,362,700	169,696,800	215,012,700
SUBTOTAL - Appropriated Funds	1,299,938,400	1,374,859,100	1,965,954,100

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
Expenditure Authority Funds			
County Funds	295,518,400	299,114,300	299,667,700
Federal Medicaid Authority	5,739,824,100	6,587,145,600	8,280,680,200
Hospital Assessment Fund	260,916,800	250,060,800	252,329,100
Nursing Facility Provider Assessment Fund	18,448,800	23,366,900	22,189,400
Political Subdivision Funds	118,828,600	108,546,300	98,528,100
Prescription Drug Rebate Fund - Federal	257,162,000	300,776,400	322,743,500
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	99,975,000	100,000,000	100,000,000
TPTF - Proposition 204 Protection Account	38,225,000	41,492,900	37,521,000
SUBTOTAL - Expenditure Authority Funds	6,828,898,700	7,710,697,900	9,413,853,700
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,128,837,100	9,085,557,000	11,379,807,800
Other Non-Appropriated Funds	39,245,500	34,408,100	96,206,900
Federal Funds	85,837,800	124,673,300	161,963,200
TOTAL - ALL SOURCES	8,253,920,400	9,244,638,400	11,637,977,900

AGENCY DESCRIPTION — The Arizona Health Care Cost Containment System (AHCCCS) operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS is the state's federally matched Medicaid program and provides acute care services, behavioral health services, and long-term care services.

- 1/ Includes 618.9 GF and 694.2 EA FTE Positions funded from Special Line Items in FY 2017.
- 2/ The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The state General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)
- 3/ The amounts included in the Proposition 204 - Acute Care Administration, Proposition 204 - Behavioral Health Administration, Proposition 204 - DES Eligibility, Proposition 204 Services and Medicaid Behavioral Health - Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 4/ The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2017 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 5/ The AHCCCS Administration shall transfer \$436,000 from the Traditional Medicaid Services line item for FY 2017 to the Department of Revenue for enforcement costs associated with the March 13, 2013 Master Settlement Agreement with tobacco companies. (General Appropriation Act footnote)
- 6/ Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for persons with developmental disabilities do not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 7/ Pursuant to A.R.S. § 11-292B the county portion of the FY 2017 nonfederal costs of providing long-term care system services is \$249,980,000. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 8/ Any supplemental payments received in excess of \$71,950,100 for nursing facilities that serve Medicaid patients in FY 2017, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. These payments are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 9/ On or before December 31, 2016, and June 30, 2017, the AHCCCS Administration shall report to the Joint Legislative Budget Committee on the progress in implementing the *Arnold v. Sarn* lawsuit settlement. The report shall include at a minimum the Administration's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa County for supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The Administration shall also report by fund source the amounts it plans to use to pay for expanded services. (General Appropriation Act footnote)
- 10/ It is the intent of the Legislature that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities is 9% of the overall capitation rate. (General Appropriation Act footnote)
- 11/ The AHCCCS Administration shall transfer not more than \$3,352,200 to the Department of Health Services in FY 2016 for Medicaid Behavioral Health capitation payments for persons who are eligible for services pursuant to A.R.S. § 36-2901.01. (General Appropriation Act footnote)
- 12/ The AHCCCS Administration shall transfer \$1,200,000 from the Non-Medicaid Seriously Mentally Ill Services line item for FY 2017 to the Department of Health Services for the costs of prescription medications for persons with a serious mental illness at the Arizona State Hospital. (General Appropriation Act footnote)
- 13/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2017 made pursuant to A.R.S. § 36-2903.010 includes \$4,202,300 for the Maricopa County Health Care District and \$884,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)

Summary

AHCCCS' FY 2017 General Fund spending increases by \$545,779,100 or a 45.3% increase from FY 2016. This amount includes:

- \$534,300,300 for the transfer of behavioral health services from the Department of Health Services (DHS) to AHCCCS.
- \$29,023,300 in formula adjustments.
- \$(17,544,500) in policy changes.

Net of the behavioral health transfer, AHCCCS' General Fund spending increases by \$11,478,800, or a 1.0% increase. Of the \$11,478,800, \$8,707,300 is for formula adjustments and other changes in acute care, and \$2,771,500 is for formula adjustments and other changes in behavioral health.

AHCCCS' FY 2017 Hospital Assessment spending increases by \$2,268,300, or a 0.9% increase. This increase is primarily due to caseload growth in the Proposition 204 population and a decrease in the federal match for the Adult Expansion population.

As part of the budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$77,193,500 in FY 2018 above FY 2017 and by \$97,513,900 in FY 2019 above FY 2018. (See *Other Issues* section for more information.)

Below is an overview of the behavioral health transfer, FY 2017 formula adjustments, and policy changes. *Table 1* summarizes these changes.

Behavioral Health Transfer

Laws 2015, Chapters 19 and 195 transfer administration of Medicaid-funded and non-Medicaid funded behavioral health services from DHS to AHCCCS effective July 1, 2016. DHS will continue to operate the Arizona State Hospital.

The budget includes an increase of \$517,304,700 from the General Fund, \$1,351,394,000 from Federal Medicaid Authority, and \$141,057,100 from other appropriated and non-appropriated funds in AHCCCS in FY 2017 for the

- 14/ Any monies received for Disproportionate Share Hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, in FY 2017 by the AHCCCS Administration in excess of \$19,896,000 are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 15/ The Expenditure Authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2017 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match and Safety Net Care Pool line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 16/ Any monies for Graduate Medical Education received in FY 2017, including any federal matching monies, by the AHCCCS Administration in excess of \$162,992,600 are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 17/ Any monies received in excess of \$137,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2017, including any federal matching monies, are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 18/ The nonappropriated portion of the Prescription Drug Rebate Fund established by A.R.S. § 36-2930 is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)
- 19/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 20/ The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 2017 on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the Administration shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 21/ On or before December 1, 2016, the AHCCCS Administration shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on estimates of retroactive capitation rate changes to calendar year 2015 rates for reimbursement of the Affordable Care Act health insurer fee. These amendments to rates are not subject to Joint Legislative Budget Committee review. (General Appropriation Act footnote)
- 22/ On or before January 6, 2017, the AHCCCS Administration shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received on or before that date since July 1, 2016. On June 30, 2017, the Administration shall report the same information for all of FY 2017. (General Appropriation Act footnote)
- 23/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Table 1**AHCCCS General Fund Budget Spending Changes**
(\$ in millions)

Behavioral Health Services Transfer	
BHS Shift	\$ 517
BHS FY 2016 Supplemental Annualization	18
BHS Administrative Savings	(1)
<i>Subtotal</i>	\$ 534
Formula Adjustments ^{1/2/}	
FY 2017 Caseload Growth	\$ 46
FY 2017 1.5% Capitation Rate Increase	19
FY 2017 Federal Match Rate Increase	(33)
Tobacco Tax Increase	(4)
<i>Subtotal ^{1/}</i>	\$ 29
Policy Changes	
ALTCS Dental Restoration	1
Reversal of FY 2016 (5)% Provider Rate Reduction	(12)
Cost Sharing Provisions	(1)
BHS Third Party Liability Recoveries	(5)
KidsCare Restoration ^{3/}	NA
<i>Subtotal ^{1/}</i>	\$ (18)
Non-BHS Transfer Changes	\$ 11
Total Spending Change ^{1/}	546

^{1/} Numbers may not add due to rounding.

^{2/} Formula adjustments include Mandatory ACA changes and Optional ACA changes. (See *Other Issues* section for additional information.)

^{3/} Laws 2016, Chapter 112 requires AHCCCS to submit a request to the federal government to resume enrollment in KidsCare in FY 2017 (See *KidsCare Restoration* section for additional information.)

transfer, and includes a corresponding decrease from each of these fund sources in DHS.

As part of the transfer, the budget removes one-time non-General Fund expenditures for higher-than anticipated behavioral health caseload growth in FY 2016 and backfills these expenditures with General Fund monies. As a result, the behavioral health resources transferred to AHCCCS is increased in FY 2017 by an additional \$18,059,800 from the General Fund. (Please see *FY 2016 Supplemental* section in *DHS narrative* for additional information.)

The budget also includes \$(1,064,200) in General Fund savings and \$(2,041,100) in Federal Medicaid Authority savings in FY 2017 for reduced administrative costs of behavioral health services. These savings are primarily the result of a net decrease of (28.2) FTE Positions across AHCCCS and DHS in FY 2017 for behavioral health administrative positions currently in DHS that are not transferring to AHCCCS. That amount includes a decrease of (140.2) FTE Positions in DHS in FY 2017 as requested by DHS, as well as an increase of 112 FTE Positions in AHCCCS in FY 2017.

Table 2 shows the total resources that the budget transfers to AHCCCS for behavioral health services, net of the administrative savings. AHCCCS has an increase of \$2,024,710,300 in total fund spending, including \$534,300,300 from the General Fund, \$1,349,352,900 from Federal Medicaid Authority, and \$141,057,100 from other funds.

Table 2

Behavioral Health Transfer	
General Fund	\$534,300,300
TTHCF - Medically Needy Account	34,767,000
Substance Abuse Services Fund	2,250,200
Federal Medicaid Authority	<u>1,349,352,900</u>
<i>Subtotal</i>	<i>\$1,920,670,400</i>
Non-Appropriated Funds	<u>104,039,900</u>
Total Funds	\$2,024,710,300

The behavioral health transfer is an outgrowth of prior integration efforts. AHCCCS and DHS currently integrate acute care services and behavioral health services for Medicaid-eligible adults with a serious mental illness (SMI). In April 2014, AHCCCS and DHS entered into an agreement to integrate acute care services and behavioral health services for Medicaid-eligible SMI adults in Maricopa County. The budget assumes that integrated services will be provided to approximately 21,500 SMI clients in Maricopa County by June 2017.

DHS expanded integrated services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa Regional Behavioral Health Authority (RBHA) contracts on October 1, 2015. The Non-Maricopa RBHAs serve clients in 2 Geographic Service Areas (GSAs) outside of Maricopa County. The North GSA includes Apache, Coconino, Gila, Mohave, Navajo, and Yavapai Counties, as well as a small portion of Graham County. The South GSA includes Cochise, Graham, Greenlee, La Paz, Pima, Pinal, Santa Cruz, and Yuma Counties. The budget assumes that the Non-Maricopa RBHAs will provide integrated services to 20,800 clients by June 2017.

This integrated program, unlike services provided to most Medicaid-eligible populations, uses an integrated capitation rate paid to one contractor (i.e., the acute care and behavioral health costs are combined into 1 rate as opposed to having 2 separate rates paid to 2 separate contractors by 2 separate agencies). The average capitation rate paid to the RBHAs in FY 2017 for integrated SMI services is approximately \$1,900 per member per month, or approximately \$550 for acute care services and \$1,350 for behavioral health services. The acute care portion of the rate is included in the acute care line items, and the behavioral health portion of the rate is included in the behavioral health line items. (Please see

SMI Funding in Other Issues for more information on the costs associated with the SMI population.)

AHCCCS has also pursued integration of behavioral health and acute care with other populations. The Children’s Rehabilitative Services (CRS) contractor provides all acute care, behavioral health, and CRS services for most children enrolled in CRS. AHCCCS acute care contractors also began providing integrated acute care and behavioral health services to AHCCCS beneficiaries that have Medicare coverage and utilize general mental health services and/or substance abuse services on October 1, 2015.

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, as well as an increase in tobacco tax collections. The budget includes \$29,023,300 in FY 2017 for these adjustments.

FY 2017 Caseload Growth

Formula adjustments include 2.5% caseload growth for most AHCCCS populations, including Traditional, Proposition 204, Adult Expansion, and ALTCS. The budget assumes the same caseload growth rates in acute care services and behavioral health services for these 4 populations. FY 2017 caseload changes are expected to result in a General Fund increase of \$46,452,700 in FY 2017. Caseloads, including expansions and the childless adult restoration, are shown in *Table 3*.

FY 2017 1.5% Capitation Rate Increase

In comparison to caseload growth rates which vary significantly by population, capitation rate adjustments are assumed to be 1.5% above FY 2016 across most programs. The budget assumes the 1.5% capitation rate increase will result in an increase of \$18,997,300 from the General Fund in FY 2017 relative to the FY 2016 budget.

Section 14 of the FY 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 122) repeals the FY 2016 Health BRB (Laws 2015, Chapter 14) provision limiting AHCCCS capitation rate increases to no more than 1.5% in FY 2017 and FY 2018. As a result, the actual capitation rate increase in FY 2017 could exceed the increase assumed by the FY 2017 budget.

FY 2017 Federal Match Rate Increase

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are

set on a state-by-state basis and are revised each year. During FY 2017, the FMAP rates will adjust as follows:

- Traditional Medicaid will increase to 69.16% (0.35% increase).
- Proposition 204 Childless Adult rate will increase to 90.28% (1.22% increase).
- KidsCare and Child Expansion rates will increase to 100% (*see Other Issues section for additional information*).
- Adult Expansion rate will decrease to 97.5% from 100%.

Population ^{2/3/}	June 2015	June 2016	June 2017	'16-'17% Change
Traditional	977,236	1,041,285	1,067,318	2.5%
Prop 204 Childless Adults	279,077	313,777	321,621	2.5
Other Proposition 204	186,660	194,934	199,808	2.5
Adult Expansion ^{4/}	61,544	90,000	92,250	2.5
KidsCare ^{5/}	1,051	736	589	(20.0)
ALTCS - Elderly & Physically Disabled ^{6/7/}	29,075	29,802	30,547	2.5
Emergency Services	<u>103,729</u>	<u>113,162</u>	<u>115,991</u>	<u>2.5</u>
Total Member Months	1,638,372	1,783,696	1,828,123	2.5%

^{1/} The figures represent June 1 estimates.
^{2/} The Children’s Rehabilitative Services program is included in the Traditional Acute Care, Other Proposition 204, KidsCare, and ALTCS populations.
^{3/} The integrated SMI population is included in the Traditional, Proposition 204, and Adult Expansion line items.
^{4/} Parents and Childless Adults 100%-133% FPL.
^{5/} KidsCare enrollment projections do not include enrollment increases that could result from Laws 2016, Chapter 112. (*Please see Policy Changes for more information.*)
^{6/} The ALTCS program funded in AHCCCS.
^{7/} In addition, approximately 29,100 people receive Medicaid services through the Department of Economic Security’s Developmental Disabilities program as of May 1, 2015.

The formula adjustments include a decrease of \$(32,694,000) in General Fund spending to reflect savings from the regular federal rate increase.

Tobacco Tax Increase

The budget includes an increase of \$3,732,700 from tobacco tax revenues and a corresponding \$(3,732,700) decrease from the General Fund in FY 2017. The increase is the result of tobacco tax revenues that are projected to exceed the appropriation in the FY 2016 budget by \$3,318,500 in FY 2016 and by \$3,732,700 in FY 2017.

FY 2016 Adjustments

The budget includes a \$565,560,900 supplemental appropriation in FY 2016, including \$26,249,300 in Other Funds and \$539,311,600 in Expenditure Authority Funds. The supplemental appropriation is associated with the

reversal of a 5% provider rate reduction permitted by the FY 2016 budget as well as higher-than-anticipated caseload growth across most AHCCCS populations. The budget assumes that AHCCCS will continue to forego the provider rate reduction in FY 2017. *(Please see Policy Changes and Other Issues sections for additional information.)*

Policy Changes

The budget includes a net savings of \$(17,544,500) from the General Fund in FY 2017 for 4 policy changes. These adjustments include the restoration of dental coverage for ALTCS adults, the reversal of a FY 2016 (5)% provider rate reduction, cost sharing provisions, and increased third party liability recoveries.

ALTCS Dental Restoration

Section 12 of the FY 2017 Health BRB restores dental coverage for ALTCS adults. The budget includes an increase of \$1,359,300 from the General Fund in FY 2017 to fund the increase in ALTCS capitation payments associated with the dental benefit. ALTCS previously provided dental coverage for adults, but this benefit was eliminated in the enacted FY 2009 budget. The restored benefit will provide the same level of coverage as the previously eliminated dental benefit, including coverage for all medically necessary diagnostic, therapeutic, and preventive dental services with spending capped for each member at \$1,000 annually.

Reversal of FY 2016 (5)% Provider Rate Reduction

In June 2015, the Executive announced that AHCCCS would not be implementing a provider rate cut authorized in the FY 2016 budget. Section 16 of the FY 2016 Health BRB (Laws 2015, Chapter 14) permitted AHCCCS to reduce provider rates by a cumulative total of up to (5.0)%. The reduction was projected to produce General Fund savings of \$(37,100,000) in FY 2016 across AHCCCS and DHS.

AHCCCS has offset the cost of foregoing the provider rate reduction with higher-than-budgeted revenues from the Prescription Drug Rebate Fund (PDRF), as well as capitation rate savings from lower-than-projected utilization by AHCCCS enrollees. Of the \$(37,100,000) in budgeted savings in FY 2016, PDRF revenues will replace \$(22,100,000) and lower-than-budgeted capitation rates will offset \$(15,000,000).

The budget assumes that the provider rate reduction will not be implemented in FY 2017, increasing state costs by \$37,100,000 relative to the FY 2016 budget, but replaces the budgeted savings with \$(29,113,300) in PDRF revenues and \$(20,286,700) in reduced capitation

spending, producing a net savings of \$(12,300,000) in FY 2017.

Cost Sharing Provisions

The budget includes General Fund savings of \$(1,403,800) in FY 2017 and \$(1,803,800) in FY 2018, as well as Non-General Fund savings of \$(7,692,400) and \$(9,631,400) in FY 2017 and FY 2018, for cost sharing provisions for adult Medicaid enrollees. These amounts reflect the 3-year budget plan for the enacted FY 2016 budget.

Section 19 of the FY 2016 Health BRB requires the state to request authority from the federal government to impose several cost-sharing provisions on Medicaid enrollees. Pending federal approval, the state would collect a premium equal to 2% of income, charge co-pays of up to \$25 for non-emergency use of an emergency department, and suspend coverage of nonemergency medical transportation (NEMT) for adult Medicaid enrollees with incomes between 100%- 133% of FPL. *(See the Other Issues section on the AHCCCS CARE plan for additional detail.)*

Third Party Liability Recovery for Behavioral Health Services

The budget includes a decrease of \$(5,200,000) from the General Fund and a decrease of \$(13,775,400) from Federal Medicaid Authority in FY 2017 for increased third party liability recoveries in behavioral health services. These amounts reflect the 3-year budget plan for the enacted FY 2016 budget.

Third party liability recoveries are funds received by AHCCCS from health insurance companies for services provided to AHCCCS enrollees with other private or public insurance coverage. The FY 2016 budget assumed that the transfer of behavioral health services to AHCCCS would increase the amount of these recoveries, as AHCCCS has historically recovered more from insurance companies than DHS.

KidsCare Restoration

The KidsCare program has had an enrollment freeze since January 1, 2010. Laws 2016, Chapter 112 would require AHCCCS to lift the enrollment freeze and request additional federal funding needed to operate the program if AHCCCS receives approval from the federal government to reopen the program on or before July 1, 2017. The bill requires AHCCCS to stop processing all KidsCare applications and notify contractors and members that the program will be terminated if the federal government eliminates funding for program as specified in 42 U.S.C. § 1397ee.

The JLBC Staff project that reopening KidsCare enrollment could result in 29,800 additional KidsCare enrollees and \$87.7 million in additional Children’s Health Insurance Program (CHIP) Fund expenditures annually. The CHIP Fund receives monies from the federal CHIP Block Grant and any associated state matching funds. The CHIP Block Grant provides Arizona with a capped annual allotment of funds to provide health insurance to children in low-income families who typically would not otherwise qualify for Medicaid. Chapter 112 does not include an adjustment for the CHIP Fund, so the AHCCCS budget may need to subsequently be amended to provide the agency with sufficient spending authority.

The KidsCare population and the mandatory Child Expansion population are both currently funded by the federal CHIP Block Grant and are eligible for 100% federal funding. However, if CHIP Fund expenditures exceed the Block Grant allotment, the Child Expansion population would instead be funded at the regular FMAP rate of 69.16% with the General Fund as the state match. In guidance issued in March 2016, the Centers for Medicare and Medicaid services stated that it “anticipates that federal matching funds would be available for all eligible expenditures associated with reopening enrollment in KidsCare for FY 2016 and FY 2017, including expenditures exceeding the CHIP allotment.” *(Please see KidsCare line item for additional information.)*

Operating Budget

The budget includes \$91,098,800 and 1,013.2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$29,617,800
Children’s Health Insurance Program (CHIP) Fund	1,719,900
Prescription Drug Rebate Fund (PDRF) - State	198,100
Federal Medicaid Authority (FMA)	59,563,000

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$15,539,600 and 112 FTE Positions in FY 2017 to shift operating costs for behavioral health services from the DHS budget to the AHCCCS budget. These amounts consist of:

General Fund	4,602,400
Federal Medicaid Authority	10,937,200

(See Behavioral Health Transfer section for additional information.)

Administrative Simplification

The budget includes a decrease of \$(2,490,600) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(831,000)
Federal Medicaid Authority	(1,659,600)

(See Behavioral Health Transfer section for additional information.)

OIG Shift

The budget includes an increase of \$704,900 in FY 2017 to shift 6 existing FTE Positions in the Office of the Inspector General (OIG) from the Traditional Services line item to the operating budget. This amount consists of:

General Fund	217,400
Federal Medicaid Authority	487,500

Statewide Adjustments

The budget includes a decrease of \$(340,500) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(127,700)
CHIP Fund	2,700
PDRF - State	100
Federal Medicaid Authority	(215,600)

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$54,874,500 and 885 FTE Positions in FY 2017 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	25,491,200
Federal Medicaid Authority	29,383,300

These amounts are unchanged from FY 2016.

Through an Intergovernmental Agreement, DES performs eligibility determination for AHCCCS programs.

Proposition 204 - Acute Care Administration

The budget includes \$6,807,000 and 128 FTE Positions in FY 2017 for Proposition 204 - Acute Care Administration costs. These amounts consist of:

General Fund	2,296,000
Federal Medicaid Authority	4,511,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(25,800) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(11,700)
Federal Medicaid Authority	(14,100)

Proposition 204 expanded AHCCCS eligibility. This line item contains funding for AHCCCS' acute care administration costs of the Proposition 204 program.

Proposition 204 - Behavioral Health Administration

The budget includes \$5,832,000 in FY 2017 for Proposition 204 - Behavioral Health Administration costs. This amount consists of:

General Fund	1,777,800
Federal Medicaid Authority	4,054,200

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$6,446,700 in FY 2017 to shift the Proposition 204 - Behavioral Health Administration line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	2,011,000
Federal Medicaid Authority	4,435,700

(See the Behavioral Health Transfer section for additional information.)

Administrative Simplification

The budget includes a decrease of \$(614,700) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(233,200)
Federal Medicaid Authority	(381,500)

(See Behavioral Health Transfer section for additional information.)

This line item provides funding for the administrative component of behavioral health services for the Proposition 204 population.

Proposition 204 - DES Eligibility

The budget includes \$38,358,700 and 300.1 FTE Positions in FY 2017 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,158,900
Budget Neutrality Compliance Fund (BNCF)	3,563,300
Federal Medicaid Authority	17,636,500

These amounts fund the following adjustments:

Statutory Adjustments

The budget includes a decrease of \$(80,400) from the General Fund and a corresponding increase of \$80,400 from the BNCF in FY 2017 to reflect an increase of county contributions in FY 2017 as required by A.R.S. § 11-292. (See Table 10 for contributions by county.)

Background – The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204 population. This line item contains funding for eligibility costs in DES for the Proposition 204 program.

Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children's Rehabilitative Services program. Chart 1 shows the income eligibility limits for each AHCCCS population in FY 2017. A description of program components can be found in the Other Issues section.

Traditional Medicaid Services

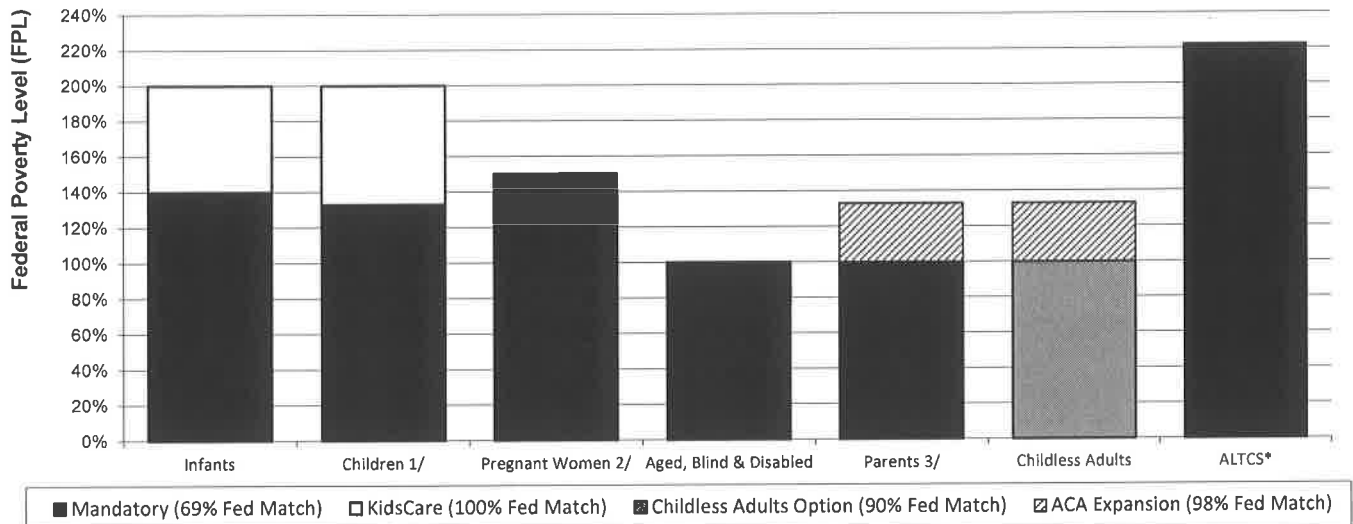
The budget includes \$3,936,187,500 in FY 2017 for Traditional Medicaid Services. This amount consists of:

General Fund	883,058,800
County Funds	49,687,700
PDRF - State	106,139,500
TTHCF - Medically Needy Account	37,432,400
Third Party Liability and Recovery Fund	194,700
PDRF - Federal	301,143,200
Federal Medicaid Authority	2,558,531,200

These amounts fund the following adjustments:

Chart 1

AHCCCS Eligibility



- 1/ Children in families with incomes between 100% FPL and 133% FPL are eligible to receive a 100% federal match if sufficient Children's Health Insurance Program (CHIP) Block Grant monies available.
- 2/ Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the "Ticket to Work" program receive coverage to 250% FPL.
- 3/ Mandatory Status of Parents is subject to interpretation.
- * Federal minimum is 75% FPL.

Formula Adjustments

The budget includes an increase of \$67,596,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	125,600
County Funds	(192,000)
TTHCF - Medically Needy Account	2,933,900
Federal Medicaid Authority	64,729,400

The adjustments include:

- 2.5% enrollment growth.
- An increase in the federal match rate from 68.81% to 69.16%.
- 1.5% capitation rate increase.
- \$(192,000) decrease in Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$2,933,900 increase from the TTHCF - Medically Needy Account due to higher-than-expected tobacco tax revenues and a corresponding General Fund decrease.

PDRF Increase

The budget includes an increase of \$7,382,400 from the state Prescription Drug Rebate Fund (PDRF) and a corresponding decrease from the General Fund in

FY 2017. The budget also includes a \$20,464,600 increase from the federal PDRF, and a corresponding decrease from Federal Medicaid Authority. These amounts consist of:

General Fund	(7,382,400)
PDRF - State	7,382,400
PDRF - Federal	20,464,600
Federal Medicaid Authority	(20,464,600)

The increase is due to higher-than-expected revenues in the PDRF. AHCCCS will use these funds to offset part of the cost associated with not implementing a (5)% provider rate cut. *(Please see Reversal of (5)% Provider Rate Reduction section for additional detail.)*

Cost Sharing Provisions

The budget includes a decrease of \$(972,700) in FY 2017 associated with copays for nonemergency use of the emergency room. This amount reflects the 3-year budget plan for the enacted FY 2016 budget. This amount consists of:

General Fund	(300,000)
Federal Medicaid Authority	(672,700)

(See Cost Sharing Provisions section for additional detail.)

OIG Shift

The budget includes a decrease of \$(704,900) in FY 2017 to shift funding for 6 existing FTE Positions in the Office of the Inspector General (OIG) to the operating budget. This amount consists of:

General Fund	(217,400)
Federal Medicaid Authority	(487,500)

Background – Traditional Medicaid Services funds the following populations (*see Chart 1*):

- Children less than 1, up to 140% FPL.
- Children aged 1-18, up to 133% FPL.
- Pregnant women, up to 150% FPL.
- Aged, blind, and disabled adults, up to 75% FPL.
- Parents, up to 22% FPL.
- Women diagnosed with breast or cervical cancer by a provider recognized by DHS' Well Women Healthcheck program up to 250% FPL.
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL ("Ticket to Work").

Proposition 204 Services

The budget includes \$2,777,688,100 in FY 2017 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	246,067,600
Tobacco Litigation Settlement Fund	100,000,000
TPTF - Proposition 204 Protection Account	37,521,000
TPTF - Emergency Health Services Account	18,747,200
Federal Medicaid Authority	2,375,352,300

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$138,233,500 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	(3,893,200)
TPTF - Proposition 204 Protection Account	(3,971,900)
TPTF - Emergency Health Services Account	585,000
Federal Medicaid Authority	145,513,600

The adjustments include:

- 2.5% enrollment growth.
- A change in the federal match rate for the non-childless adult population from 68.81% to 69.16%.
- A change in the federal match rate for childless adults from 89.06% to 90.28%.
- 1.5% capitation rate increase.

- A \$(3,971,900) decrease from the TPTF - Proposition 204 Protection Account due to removal of one-time FY 2016 supplemental funding and a corresponding \$3,971,900 Hospital Assessment Fund increase.
- \$585,000 increase from the Emergency Health Services Account due to higher-than-expected tobacco tax revenues and a corresponding \$(585,000) Hospital Assessment Fund decrease.

Cost Sharing Provisions

The budget includes a decrease of \$(606,000) in FY 2017 associated with charging copayments for non-emergency use of the emergency room. This amount reflects the 3-year budget plan for the enacted FY 2016 budget. This amount consists of:

Hospital Assessment Fund	(100,000)
Federal Medicaid Authority	(506,000)

(See Cost Sharing Provisions section for additional information.)

Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL (*see Chart 1*).

Adult Expansion Services

The budget includes \$462,284,600 in FY 2017 for Adult Expansion Services. This amount consists of:

Hospital Assessment Fund	6,261,500
Federal Medicaid Authority	456,023,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$82,653,200 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	11,616,700
Federal Medicaid Authority	71,036,500

The adjustments include:

- 2.5% enrollment growth.
- A decrease in the federal match rate from 100% to 97.5%.
- 1.5% capitation rate increase.

Cost Sharing Provisions

The budget includes a decrease of \$(5,332,200) from the Hospital Assessment Fund in FY 2017 associated with implementing a 2% premium for the Adult Expansion

population. This amount reflects the 3-year budget plan for the enacted FY 2016 budget.

NEMT Suspension

The budget includes a decrease of \$(933,300) in FY 2017 to suspend funding for non-emergency medical transportation (NEMT) for the Adult Expansion population. This amount consists of:

Hospital Assessment Fund	(23,000)
Federal Medicaid Authority	(910,300)

(See Cost Sharing Provisions section for additional information.)

Background – Beginning on January 1, 2014, the Adult Expansion Services line item funds Medicaid services for adults from 100% to 133% FPL who are not eligible for another Medicaid program. The federal government will pay 100% of the cost of this population in calendar years (CY) 2014 to 2016. The federal share will gradually decline to 90% by CY 2020.

Coverage of this population is discontinued if any of the following occur: 1) the federal matching rate for adults in this category or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly-eligible populations; or 3) the Federal ACA is repealed.

Children’s Rehabilitative Services

The budget includes \$275,375,700 in FY 2017 for Children’s Rehabilitative Services (CRS). This amount consists of:

General Fund	84,937,900
Federal Medicaid Authority	190,437,800

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$23,329,200 in FY 2017 for formula adjustments. This amount consists of:

General Fund	11,936,900
Federal Medicaid Authority	11,392,300

The adjustments include 3% enrollment growth, an increase to the federal match rate and a 1.5% capitation rate increase. This would result in approximately 26,200 members per month being served in June 2017.

Background – The CRS program offers health care to children with handicapping or potentially handicapping conditions.

KidsCare Services

The budget includes \$1,955,000 from the CHIP Fund in FY 2017 for KidsCare Services. This amount funds the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(4,340,200) in FY 2017 for formula adjustments. This amount consists of:

General Fund	(338,000)
CHIP Fund	(4,002,200)

The adjustments include a (20)% enrollment decline, an increase to the federal match rate to 100%, and a 1.5% capitation rate increase.

Background – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 200% FPL, but above the levels required for the regular AHCCCS program.

On October 1, 2015, KidsCare began receiving a 100% federal match rate. The 100% federal match will continue through September 30, 2019. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program.

The KidsCare program has had an enrollment freeze since January 1, 2010. Laws 2016, Chapter 112 would require AHCCCS to lift the enrollment freeze and request additional federal funding needed to operate the program if AHCCCS receives approval from the federal government to reopen the program on or before July 1, 2017. *(See Policy Changes section for additional information.)*

ALTCS Services

The budget includes \$1,422,354,600 in FY 2017 for ALTCS services. This amount consists of:

General Fund	167,841,100
County Funds	249,980,000
PDRF - State	7,441,300
PDRF - Federal	21,600,300
Nursing Facility Provider Assessment Fund	22,189,400
Federal Medicaid Authority	953,302,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$31,126,600 in FY 2017 for formula adjustments. This amount consists of:

General Fund	3,885,000
County Funds	(138,100)
Nursing Facility Provider Assessment	(1,177,500)
Federal Medicaid Authority	28,557,200

The adjustments include:

- 2.5% enrollment growth.
- An increase in the federal match rate from 68.81% to 69.16%.
- 1.5% capitation rate increase.

ALTCS Adult Dental Restoration

The budget includes an increase of \$8,050,700 in FY 2017 to restore coverage of dental services for adults enrolled in ALTCS. This amount consists of:

General Fund	1,359,300
County Funds	1,117,100
Federal Medicaid Authority	5,574,300

The ALTCS dental benefit will provide coverage for medically necessary diagnostic, therapeutic, and preventive dental services for adults enrolled in ALTCS, with spending per member capped at \$1,000 annually. These are the same terms of coverage for the ALTCS adult dental benefit that was previously eliminated by the FY 2009 budget. ALTCS enrollees age 21 and under are currently eligible for dental services through Medicaid’s mandatory Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) benefit.

PDRF Increase

The budget includes a net increase of \$0 in FY 2017 to reflect an increase in the State and Federal Prescription Drug Rebate Fund. The increase will be used by AHCCCS to partially offset the costs associated with not implementing the (5)% provider rate reduction enacted in the FY 2016 budget. This amount consists of:

General Fund	(284,000)
County Funds	(233,600)
PDRF - State	517,600
Federal Medicaid Authority	(1,502,500)
PDRF - Federal	1,502,500

(See (5)% Provider Rate Reduction section for additional information.)

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$26,100 per person. The federal government requires coverage of individuals up to 100% of the Supplemental Security Income limit (SSI), which is equivalent to approximately 75% of FPL, or \$8,827 per person. In addition to state funding, AHCCCS charges assessments on nursing facilities to receive matching Federal Funds that are used to make supplemental payments to facilities for covered expenditures.

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of their care. For FY 2015, AHCCCS estimates that client contributions paid \$62,301,400, or about 6.0% of the cost of capitated ALTCS expenditures.

From October 1, 2012 to September 30, 2015, Laws 2012, Chapter 213 permits AHCCCS to charge a provider assessment on health items and services provided to ALTCS enrollees by nursing facilities that are not paid for by Medicare. Laws 2015, Chapter 39 continues the assessment through September 30, 2023. The assessment equals \$10.50 per non-Medicare day of care for facilities with less than 43,500 Medicaid bed days per year and \$1.40 per day of care for facilities with more than 43,500 Medicaid bed days.

Behavioral Health Services

These line items fund 4 types of services: 1) Serious Mental Illness (SMI), 2) Children’s Behavioral Health (CBH), 3) General Mental Health and Substance Abuse (GMH/SA) and 4) Comprehensive Medical and Dental Program (CMDP).

Medicaid Behavioral Health - Traditional Services

The budget includes \$960,228,100 in FY 2017 for Medicaid Behavioral Health - Traditional Services. This amount consists of:

General Fund	259,356,900
TTHCF - Medically Needy Account	35,565,800
Federal Medicaid Authority	665,305,400

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$950,305,100 in FY 2017 to shift the Medicaid Behavioral Health - Traditional Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	253,451,400
TTHCF - Medically Needy Account	44,002,300
Federal Medicaid Authority	652,851,400

(See the Behavioral Health Transfer section for more information.)

Formula Adjustments

The budget includes an increase of \$22,892,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	670,200
TTHCF - Medically Needy Account	798,800
Federal Medicaid Authority	21,423,900

These adjustments include:

- 2.5% caseload growth.
- An increase in the federal match rate from 68.81% to 69.16%.
- A \$798,800 increase from the TTHCF - Medically Needy Account due to higher-than-anticipated tobacco tax revenues.
- 1.5% capitation rate increase.

Remove One-Time Supplemental Funding

The budget includes a net increase of \$0 in FY 2017 to remove one-time supplemental funding for higher than-anticipated caseload growth in FY 2016. This amount consists of:

General Fund	9,235,300
TTHCF - Medically Needy Account	(9,235,300)

(Please see FY 2016 Supplemental section in DHS narrative for additional information.)

Third Party Liability Recoveries

The budget includes a decrease of \$(12,969,900) in FY 2017 for increased third party liability recoveries. This amount consists of:

General Fund	(4,000,000)
Federal Medicaid Authority	(8,969,900)

These amounts reflect the 3-year budget plan for the enacted FY 2016 budget. (See the Policy Changes section for additional detail.)

Background – This line item provides behavioral health treatment to Medicaid eligible adults and children. In June 2017, there are projected to be 1,064,990 eligible individuals. Behavioral health caseload projections differ slightly from acute care caseload projections primarily because behavioral health eligibility classifications are

different from acute eligibility classifications for certain AHCCCS populations, including Developmentally Disabled individuals enrolled in ALTCS and CMDP Children. The RBHAs will receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 84,288 individuals, or approximately 7.9% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Traditional Medicaid Services line item.

Medicaid Behavioral Health - Proposition 204 Services

The budget includes \$612,844,800 in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services. This amount consists of:

General Fund	109,250,500
Federal Medicaid Authority	503,594,300

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$590,107,400 in FY 2017 to shift the Medicaid Behavioral Health - Proposition 204 Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	103,461,000
PDRF - State	5,475,100
Federal Medicaid Authority	481,171,300

(Please see the Behavioral Health Transfer section for more information.)

Formula Adjustments

The budget includes an increase of \$28,742,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	1,514,400
Federal Medicaid Authority	27,228,500

The adjustments include:

- 2.5% caseload growth.
- An increase in the federal match rate for the non-Childless Adult population from 68.81% to 69.16%.
- An increase in the federal match rate for Childless Adults from 89.05% to 90.28%.
- 1.5% capitation rate increase.

Remove One-Time Supplemental Funding

The budget includes a net increase of \$0 in FY 2017 to remove one-time supplemental funding for higher than-anticipated caseload growth in FY 2016. This amount consists of:

General Fund	5,475,100
PDRF - State	(5,475,100)

(Please see FY 2016 Supplemental section in DHS narrative for additional information.)

Third Party Liability Recoveries

The budget includes a decrease of \$(6,005,500) in FY 2017 for increased third party liability recoveries. This amount consists of:

General Fund	(1,200,000)
Federal Medicaid Authority	(4,805,500)

These amounts reflect the 3-year budget plan for the enacted FY 2016 budget. *(Please see the Policy Changes section for additional detail.)*

Background – This line item provides behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. In June 2017, there are projected to be 506,569 eligible individuals. The RBHAs will receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 61,435 individuals, or approximately 12.1% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Proposition 204 Services line item.

Medicaid Behavioral Health - Comprehensive Medical and Dental Program

The budget includes \$208,027,400 in FY 2017 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	63,770,500
Federal Medicaid Authority	144,256,900

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$189,417,200 in FY 2017 to shift the Medicaid Behavioral Health - Comprehensive Medical and Dental Program line item

from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	55,466,100
PDRF - State	3,349,400
Federal Medicaid Authority	130,601,700

(Please see the Behavioral Health Transfer section for more information.)

Formula Adjustments

The budget includes an increase of \$18,610,200 in FY 2017 for formula adjustments. This amount consists of:

General Fund	4,955,000
Federal Medicaid Authority	13,655,200

The adjustments include:

- 6% enrollment growth.
- Increase in the federal match rate from 68.81% to 69.16%.
- Increase in the federal match rate from 94.48% to 100% for the child expansion population.
- 1.5% capitation rate increase.

Remove One-Time Supplemental Funding

The budget includes a net increase of \$0 in FY 2017 to remove one-time supplemental funding for higher than-anticipated caseload growth in FY 2016. This amount consists of:

General Fund	3,349,400
PDRF - State	(3,349,400)

(Please see FY 2016 Supplemental section in DHS narrative for additional information.)

Background – This line item provides behavioral health treatment to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. The Department of Child Safety (DCS) currently administers the acute care services for this population.

The budget assumes there will be 17,678 eligible individuals in June 2017. The RBHAs will receive a monthly capitation payment from AHCCCS for every individual eligible for CMDP in FY 2017, and it is estimated that 11,355 individuals, or 64.2% of the eligible population, will utilize services.

Laws 2013, Chapter 220 require AHCCCS, DES and DHS to determine and report on the most effective method for delivering medical, dental and behavioral health services

to children who qualify for CMDP, considering the possibility of an administratively integrated system. The report recommended that DCS assume responsibility for administering physical health and behavioral health for the CMDP population beginning FY 2019. *(Please see CMDP Integration in the Department of Child Safety section for additional information regarding administration of CMDP.)*

Medicaid Behavioral Health - Adult Expansion Services

The budget includes \$77,702,300 in FY 2017 for Medicaid Behavioral Health - Adult Expansion Services. This amount consists of:

General Fund	831,900
Federal Medicaid Authority	76,870,400

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$71,396,700 in Federal Medicaid Authority in FY 2017 to shift the Medicaid Behavioral Health - Adult Expansion Services line item from the DHS budget to the AHCCCS budget. *(See the Behavioral Health Transfer section for more information.)*

Formula Adjustments

The budget includes an increase of \$7,557,600 in FY 2017 for formula adjustments. This amount consists of:

General Fund	1,935,700
Federal Medicaid Authority	5,621,900

These adjustments include:

- 2.5% enrollment growth.
- A decrease in the federal match rate from 100% to 97.5%.
- 1.5% capitation rate increase.

Cost-Sharing Provisions

The budget includes a decrease of \$(1,100,000) from the General Fund in FY 2017 for premiums equal to 2% of income. These savings reflect the 3-year budget plan for the enacted FY 2016 budget. *(See Cost Sharing Provisions section for additional information.)*

NEMT Suspension

The budget includes a decrease of \$(152,000) in FY 2017 to suspend funding for non-emergency transportation for the Adult Expansion population. This amount consists of:

General Fund	(3,800)
Federal Medicaid Authority	(148,200)

(See Cost Sharing Provisions section for additional information.)

Background – Beginning on January 1, 2014, the Adult Expansion provides Medicaid services for adults from 100%-133% FPL who are not eligible for another Medicaid program. The federal government will pay 100% of the cost of this population from 2014 to 2016. The federal share will gradually decline to 90% by 2020. The budget assumes that 91,427 individuals will be enrolled in June 2017. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for the Adult Expansion, and it is estimated that 11,088 individuals, or approximately 12.1%, of the eligible population will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Adult Expansion Services line item.

Non-Medicaid Seriously Mentally Ill Services

The budget includes \$78,846,900 from the General Fund in FY 2017 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$78,846,900 from the General Fund in FY 2017 to shift the Non-Medicaid Seriously Mentally Ill Services line item from the DHS budget to the AHCCCS budget. *(Please see the Behavioral Health Transfer section for additional information.)*

Background – This line item provides funding for Non-Medicaid SMI clients. The state had been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the SMI population.

In January 2014, an exit agreement from the litigation was signed by Arizona’s Governor, Maricopa County, and the plaintiffs in the case. The Maricopa County Superior Court approved the agreement in February 2014. The exit agreement requires the state to begin meeting requirements by June 2016 for providing assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness.

(Please see the Behavioral Health footnotes for more information on service targets established by the exit agreement, and see the FY 2015 Appropriations Report for a history of the case.)

Supported Housing

The budget includes \$5,324,800 from the General Fund in FY 2017 for Supported Housing. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$5,324,800 from the General Fund in FY 2017 to shift the Supported Housing line item from the DHS budget to the AHCCCS budget. (Please see the Behavioral Health Transfer section for additional information.)

Background – This line item funds housing services that will enable individuals to live in the community. These funds may serve Medicaid and 100% state funded recipients. Medicaid, however, does not provide a match for housing assistance. The program served an average of 1,948 clients per month in FY 2015.

Crisis Services

The budget includes \$16,391,300 in FY 2017 for Crisis Services. This amount consists of:

General Fund	14,141,100
Substance Abuse Services Fund	2,250,200

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$16,391,300 in FY 2017 to shift the Crisis Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	14,141,100
Substance Abuse Services Fund	2,250,200

(Please see the Behavioral Health Transfer section for additional information.)

Background – This line item provides funding for persons in need of emergency behavioral health assistance. These services may include 24-hour crisis telephone lines, crisis mobile teams, and facility-based crisis services. These funds serve 100% state funded recipients.

Hospital Payments

These line items represent payments made directly to hospitals separate from the traditional capitated or fee-for-service system.

Disproportionate Share Hospital Payments Overview

The DSH program provides supplemental payments of federal and state dollars to hospitals that serve a large, or disproportionate, number of low-income patients. The total amount of eligible funding is adjusted annually for changes in prices and the federal match rate. The budget includes \$163,074,200 of eligible DSH funding, of which \$119,304,700 is distributed according to the allocations described below and listed in *Table 4*. The remaining \$43,769,500 of eligible funding represents existing expenditures used as part of the state match.

Increase in Uncompensated Care Payments

The federal government annually adjusts the total amount of uncompensated care payments that Arizona hospitals are permitted to receive through DSH. The budget includes an increase of \$1,111,300 in FY 2017 for this adjustment to increase total eligible funding for DSH payments from \$161,962,900 in FY 2016 to \$163,074,200 in FY 2017. The budget assumes the full amount will be available for the voluntary payments program.

General Fund Distributions

Publicly-operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs serve as the state match for the drawdown of Federal Funds. The publicly-operated hospitals are Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH).

Section 18 of the FY 2017 Health BRB sets the eligible funding for MIHS at \$113,818,500 in FY 2017, and assumes the state will retain \$74,605,600 in Federal Funds in FY 2017 for deposit to the General Fund. The budget also continues the state's current retention of all Federal Funds drawn down for ASH, which totals \$19,716,000 in FY 2017. In total, the Federal Funds drawn down from MIHS and ASH add \$94,321,600 to the General Fund in FY 2017.

MIHS Distribution

While the state retains \$74,605,600 of the MIHS federal match as General Fund revenue, the budget includes an appropriation of \$4,202,300 of the federal draw down for distribution to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share Payments line.

Private Hospital Distribution

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The budget includes an \$884,800 total funds appropriation for this distribution in the

Disproportionate Share Payments line, including \$272,200 from the General Fund and \$612,600 in federal expenditure authority.

DSH Voluntary Match Distribution

Since FY 2010, the state has allowed local governments, tribal governments and universities to provide the state match in the form of voluntary payments to draw down federal dollars. Any eligible DSH funding remaining after the previously mentioned allocations is made available for voluntary match payments. The FY 2015 Health and Welfare BRB made this provision permanent. The budget includes a \$19,896,000 total funds appropriation for this distribution in the DSH Payments - Voluntary Match line, including \$6,120,000 of local voluntary payments and \$13,776,000 in federal expenditure authority.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2017 for Disproportionate Share Payments. This amount consists of:

General Fund	272,200
Federal Medicaid Authority	4,814,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(2,800) from the General Fund and a corresponding increase of \$2,800 from Federal Medicaid Authority in FY 2017 due to a change in the federal match rate.

Of the \$5,087,100 of total funds appropriated by the budget in the Disproportionate Share Payments line, \$884,800 represents distributions to private hospitals including \$272,200 from the General Fund and \$612,600 in federal expenditure authority. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The budget includes \$19,896,000 in FY 2017 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	6,120,000
Federal Medicaid Authority	13,776,000

These amounts fund the following adjustments:

DSH Allotment Increase

The budget includes an increase of \$1,111,300 in FY 2017 for a federal increase in the total amount of

	FY 2016	FY 2017
Eligible Funding ^{1/}		
MIHS - CPE	\$113,818,500	\$113,818,500
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match ^{2/}	<u>18,784,700</u>	<u>19,896,000</u>
Total Funding	\$161,962,900	\$163,074,200
Net Distribution - Disproportionate Share Payments		
<u>General Fund</u>		
Retain FF of CPE (via MIHS)	\$ 74,241,400	\$ 74,605,600
Retain FF of CPE (via ASH)	<u>19,624,900</u>	<u>19,716,000</u>
Subtotal - General Fund	\$ 93,866,300	\$ 94,321,600
<u>Other Entities</u>		
State MIHS	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	\$ 5,087,100	\$ 5,087,100
Total DSH Distributions	\$ 98,953,400	\$ 99,408,700
Match	<u>\$ 18,784,700</u>	<u>\$ 19,896,000</u>
Total Distributions	\$117,738,100	\$119,304,700
^{1/} Amounts include state and federal match funding.		
^{2/} The budget continues a footnote that appropriates any additional payments in excess of \$19,896,000 for DSH Voluntary Payments in FY 2017		

uncompensated care payments Arizona hospitals are permitted to receive. This amount consists of:

Political Subdivision Funds	326,500
Federal Medicaid Authority	784,800

This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. Section 18 of the FY 2017 Health BRB continues to give priority to eligible rural hospitals when allocating voluntary match DSH payments, and continues to permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if MIHS' CPE and matching Federal Funds exceed \$113,818,500 in FY 2017. In FY 2014 there were 19 hospitals that received voluntary match DSH payments.

Rural Hospitals

The budget includes \$22,650,000 in FY 2017 for Rural Hospitals (which includes Critical Access Hospitals). This amount consists of:

General Fund	6,967,100
Federal Medicaid Authority	15,682,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(72,500) from the General Fund and a corresponding increase of \$72,500 from Federal Medicaid Authority in FY 2017 due to a change in the federal match rate.

Section 25 of the FY 2017 Health BRB requires AHCCCS to report any voluntary payments paid to Critical Access Hospitals (CAHs) by political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding in FY 2017. The budget does not include a specific appropriation for voluntary payments because the federal government has yet to approve matching payments from political subdivisions for CAHs.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The CAH program provides increased reimbursement to small rural hospitals that are federally designated as CAHs. Funding is distributed according to a hospital’s share of the cost in serving Medicaid enrollees during the prior year. In FY 2015, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from CAH.

Graduate Medical Education

The budget includes \$162,992,600 in FY 2017 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	50,266,900
Federal Medicaid Authority	112,725,700

These amounts fund the following adjustments:

Decreased Funding

The budget includes a decrease of \$(23,546,500) in FY 2017 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(9,433,700)
Federal Medicaid Authority	(14,112,800)

Although the FY 2016 General Appropriation Act displays a \$157,312,000 appropriation for FY 2016, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$186,539,100 in total GME payments in FY 2016. Of the \$186,539,100, St. Joseph’s Hospital will receive a one-time GME payment of \$23,546,500 for medical education costs incurred in calendar year 2014. The

budget decrease is associated with removing this one-time payment.

Background – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. While AHCCCS no longer provides any General Fund monies to this program, A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds. In calendar year 2014, 11 hospitals received a total of \$151,356,400 for Graduate Medical Education.

AHCCCS is submitting a proposal to the federal government to change the method for distributing Graduate Medical Education funds to training hospitals. AHCCCS currently uses 2 formulas to disburse these funds, and hospitals receive funds according to whichever formula provides the lesser amount of funds. The rules changes would instead allow hospitals to receive funds according to which formula provides the greater amount of funds. AHCCCS estimates that, if approved, this rules change could increase the total funds for GME by \$81 million annually. The budget does not adjust GME for these potential increases, but a long-standing footnote appropriates additional monies with JLBC review.

Safety Net Care Pool

The budget includes \$137,000,000 in FY 2017 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	42,141,200
Federal Medicaid Authority	94,858,800

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(911,000) from Political Subdivision Funds and a corresponding increase of \$911,000 from Federal Medicaid Authority in FY 2017 due to a change in the federal match rate.

Background – The SNCP program funds unreimbursed costs incurred by hospitals in caring for uninsured and AHCCCS recipients. Local governments or public universities provide the state match, and the voluntary contributions receive an approximate 2:1 match from the federal government.

In April 2012, AHCCCS received federal approval to establish the SNCP program. While this program was originally expected to end on December 31, 2013, the FY

2014 Health and Welfare BRB allowed Phoenix Children's Hospital (PCH) to continue to participate in the SNCP program through December 31, 2017. The federal government has approved the hospital to continue participating in the program through September 30, 2016.

AHCCCS has informed JLBC that they expect to expend \$137,000,000 in total SNCP payments in FY 2016 and FY 2017, assuming that the federal government approves the continuation of the program for PCH beyond September 30, 2016.

Additional Legislation

FY 2017 Health BRB

In addition to the previously mentioned items, the FY 2017 Health BRB includes the following provisions:

Rates and Services

As session law, Section 24 continues the FY 2010 risk contingency rate reduction for all managed care organizations by 50% and continues to impose a 5.88% reduction of funding for all managed care organizations administrative funding levels.

As permanent law, Sections 9 and 10 restore coverage of podiatry services rendered by a licensed podiatrist for AHCCCS adult enrollees. Coverage for podiatry services was previously eliminated by the FY 2011 Health BRB.

As permanent law, Section 11 requires AHCCCS and AHCCCS contractors to reimburse providers participating in the federal 340B drug discount program at the lesser of the 340B discount price or the actual acquisition cost for drug claims submitted on behalf of AHCCCS enrollees. Hospitals and certain outpatient facilities would be exempt. AHCCCS is also required to report by November 1, 2016 on the feasibility of expending this requirement to additional entities. As session law, Section 33 exempts AHCCCS from statutory rulemaking requirements for one year to implement 340B pricing changes.

As session law, Section 14 repeals the FY 2016 Health BRB provision limiting AHCCCS capitation rate increases to no more than 1.5% in FY 2017 and FY 2018.

Counties

As session law, Section 23 continues to exclude Proposition 204 administration costs from county expenditure limitations.

As session law, Section 19 continues to require AHCCCS to transfer any excess monies back to the counties on December 31, 2017 if the counties' portion of the state

match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

As permanent law, Sections 1 and 11 transfer the Intergovernmental Agreements for County Behavioral Health Services Fund from DHS to AHCCCS.

Erroneous Payments

As session law, Section 26 continues to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Subject to legislative appropriation, credits may be used to pay for the AHCCCS program in the year they are received.

Available Funding

As session law, Section 34 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

As permanent law, Section 3 permits the use of TTHCF - Medically Needy Account monies to pay for behavioral health services for the Traditional population.

As permanent law, Section 11 establishes the Delivery System Reform Incentive Payment (DSRIP) Fund within AHCCCS. DSRIP is a federal program to make incentive payments to providers to improve the delivery of health care. AHCCCS is required to submit an expenditure plan to JLBC for its review before any monies are deposited in the fund. *(Please see Other Issues section for additional information.)*

Reports

As session law, Section 30 continues to require AHCCCS to submit a report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSP) by December 1, 2016 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

As session law, Section 31 continues to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 1, 2017 on hospital cost and charges.

As session law, Section 13 requires AHCCCS to submit a report to JLBC and OSPB on efforts to increase third-party liability payments for behavioral health services by December 31, 2016.

As session law, Section 32 requires AHCCCS to report to JLBC on or before January 2, 2017 on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health

Authorities. The report will include the following information:

- The total number of inpatient psychiatric beds available and the occupancy rate for those beds.
- Expenditures on inpatient psychiatric treatment.
- The total number of individuals in Arizona sent out of state for inpatient psychiatric care.
- The prevalence of “psychiatric boarding,” or the holding of psychiatric patients in emergency rooms for at least 24 hours before transferring them to a psychiatric facility.

As session law, Section 29 requires AHCCCS to submit a report for review by JLBC on or before December 1, 2016 that includes an analysis of the state fiscal implications of recently federal policy guidance that expanded the scope of Medicaid services furnished to Native Americans that may qualify for a 100% federal match rate.

(Please see Other Issues section for additional information.)

Substance Abuse Services Administration

As permanent law, Section 4 requires AHCCCS to establish services for alcohol and drug abuse pursuant to A.R.S. § 36-2001.

As permanent law, Section 5 repeals the Interagency Coordinating Council established in A.R.S. § 36-2002. The Council assisted in implementation of drug abuse control policies in this state, but expired in July 1973.

As permanent law, Section 6 grants AHCCCS all powers and duties associated with administering substance abuse services, including the authority to accept grants, matching funds, or direct payments from public or private agencies for substance abuse programs pursuant to A.R.S. § 36-2003.

As permanent law, Section 7 designates AHCCCS as the single state agency responsible for developing and implementing the state plan to address alcohol and drug abuse pursuant to A.R.S. § 36-2004.

As permanent law, Section 8 provides AHCCCS with the authority to administer the Substance Abuse Services Fund pursuant to A.R.S. § 36-2005.

Behavioral Health Services for Foster Children

Laws 2016, Chapter 71 is an emergency measure that allows the adoptive parents or other out-of-home providers for foster children that are Medicaid-eligible to directly contact a Regional Behavioral Health Authority (RBHA) for a screening and evaluation of a child if the

child’s caretaker identifies an urgent need to receive behavioral health services. The bill requires the RBHAs to dispatch an assessment team within 72 hours of the child entering an out-of-home placement, and within 2 hours if the child is identified as having urgent behavioral health needs.

Within 7 days of the initial screening, the RBHA is now required to complete an evaluation of the child’s needs, and if the evaluation determines that additional services are necessary, the RBHA must provide an initial behavioral health appointment within 21 days of the initial screening. If the RBHA fails to provide an appointment within 21 days, the foster child’s caretaker will be permitted to access services from any AHCCCS-registered provider, even if that provider does not have a contract with the RBHA.

The bill also allows caretakers of foster children to contact the RBHAs directly to coordinate crisis services for a child if the crisis services provider is not responsive. If the foster child’s caretaker requests from the RBHA behavioral health residential treatment for the child as a result of the child displaying threatening behavior, the RBHA is required to respond to the request within 72 hours. If the child is hospitalized because the RBHA fails to find a safe and appropriate placement, the RBHA is required to reimburse the hospital for any inpatient services rendered.

AHCCCS is required to track and report annually on the number of times each of the bill’s provisions are used, and on or before July 1, 2017, AHCCCS must complete a network adequacy study for behavioral health service providers that render services to CMDP children.

AHCCCS Coverage for Ex-Inmates

The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) requires the Arizona Department of Corrections (ADC) to enter into an agreement to suspend coverage for state prison inmates sentenced to 12 months or less of incarceration if such inmates were enrolled in AHCCCS at the time of incarceration, so that coverage is reinstated immediately upon release. The bill also requires ADC to submit a pre-release application for AHCCCS coverage for all prisoners not covered under an enrollment suspense agreement.

The bill also allows ADC to share a prisoner’s health care information with AHCCCS and the RBHAs to facilitate access to medically necessary behavioral health and physical health services after release. ADC is permitted to establish care teams managed by the RBHAs and AHCCCS to ensure that prisoners have access to services needed

to safely transition into the community, such as housing and supported employment.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2016 Adjustments
- Federal Funding for Native Americans
- Delivery System Reform Incentive Payments
- Medicare Part B Premiums
- AHCCCS CARE Proposal
- Inpatient Psychiatric Treatment
- SMI Funding
- Risk Corridor
- Mandatory Affordable Care Act Changes
- Optional Affordable Care Act Changes
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, statutory caseload and policy changes are projected to increase AHCCCS’s General Fund spending by \$77.2 million in FY 2018 above FY 2017 and \$97.5 million in FY 2019 above FY 2018.

These estimates are based on:

- Enrollment growth of 2.7% in FY 2018 and 2.6% in FY 2019.
- Capitation rate growth of 1.5% in FY 2018 and 3% in FY 2019.
- An increase in the federal match rate (from 69.16% in FY 2016 to 69.39% in FY 2018 and 69.5% FY 2019).
- Savings of \$(1.8) million in FY 2018 and FY 2019 from federal approval of cost-sharing provisions.

FY 2016 Adjustments

The budget includes a FY 2016 supplemental increase of \$565,560,900. *Table 5* below shows the supplemental appropriation included in the budget by fund source. Of the \$565,560,900, \$26,249,300 is from appropriated funds and \$539,311,600 is from Expenditure Authority Funds, including \$34,502,000 from the Hospital Assessment Fund.

General Fund	\$0
Appropriated Funds	
PDRF-State	\$22,100,000
TPTF Emergency Health Services	830,800
TTHCF Medically Needy	<u>3,318,500</u>
<i>Subtotal</i>	<i>\$26,249,300</i>
Expenditure Authority Funds	
Hospital Assessment	\$34,502,000
TPTF Proposition 204 Protection ^{1/}	5,096,900
Federal Medicaid Authority	421,394,400
PDRF-Federal	<u>78,318,300</u>
<i>Subtotal</i>	<i><u>\$539,311,600</u></i>
Total Funds	\$565,560,900

^{1/} AHCCCS may transfer up to \$3,352,200 from the TPTF Proposition 204 Protection Account to DHS for higher-than-anticipated behavioral health caseload growth in the Proposition 204 population.

A portion of the supplemental appropriation is a result of the Executive’s decision to forego a (5)% provider rate reduction authorized by the FY 2016 Health BRB. The budget includes an increase of \$100,418,300 from the Prescription Drug Rebate Fund (PDRF) to offset the foregone savings, including \$22,100,000 from the state portion of PDRF and \$78,318,300 from the federal portion of PDRF. (See *Reversal of (5)% Provider Rate Reduction section for additional detail.*)

The budget includes an additional \$465,142,600 in supplemental funds as a result of higher-than-anticipated caseload growth across most AHCCCS populations. *Table 6* below shows the differences in caseload projections between the FY 2016 enacted budget and the FY 2017 budget. The FY 2017 budget is projecting additional enrollment of 175,654 in June 2016 relative to the FY 2016 budget assumption.

	FY 2016	FY 2017	Net
	<u>Budget</u>	<u>Budget</u>	<u>Change</u>
Traditional	980,630	1,041,285	60,655
Prop 204 Childless Adults	286,198	313,777	27,579
Other Prop 204	169,942	194,934	24,992
Adult Expansion	41,435	90,000	48,565
KidsCare	1,446	736	(710)
ALTCS E&PD	29,967	29,802	(165)
Emergency Services	<u>98,424</u>	<u>113,162</u>	<u>14,738</u>
Total	1,608,042	1,783,696	175,654

Federal Funding for Native Americans

The federal government provides a higher match rate for certain Medicaid services provided to Native Americans. States may receive 100% federal funding for Medicaid services provided to Native Americans if such services are

provided by an Indian Health Services (IHS) facility, whereas services rendered by non-IHS providers qualify for the regular 2-to-1 federal match rate.

In February 2016, the Centers for Medicare and Medicaid Services (CMS) issued new guidance that permits states to also receive a 100% federal match rate for services rendered to Native Americans by any participating Medicaid provider, as long as such services are provided under a written care coordination agreement with an IHS provider. The goal of the guidance is to improve Native American population health by expanding access to care and coordination of care for Native Americans enrolled in Medicaid.

AHCCCS likely will realize savings from the higher match rate, as Native Americans enrollees typically represent approximately 9%-10% of the AHCCCS population. The magnitude of the savings is uncertain because federal law prohibits AHCCCS from requiring providers to develop care coordination agreements that are required to qualify for the 100% match rate. The FY 2017 Health BRB requires AHCCCS to report on the fiscal implications of the guidance on or before December 1, 2016.

Delivery System Reform Incentive Payments

AHCCCS is seeking approval from the federal government for a proposal to create a Delivery System Reform Incentive Payment (DSRIP) program. DSRIP programs allow state Medicaid agencies to use existing state and federal funds to implement provider-led projects that improve Medicaid population health. Projects are associated with performance benchmarks, and provider reimbursement is tied to the benchmarks. There are currently 8 other states that implement DSRIP programs.

The FY 2017 Health BRB creates a non-appropriated DSRIP Fund that will receive any monies to implement the program if it is approved by the federal government. AHCCCS is required to submit an expenditure plan for review by the Joint Legislative Budget Committee before any monies are deposited into the DSRIP Fund.

Medicare Part B Premiums

In 2015, the federal Social Security Administration projected that Medicare Part B premiums would increase from \$104.90 per month to \$159.30 for certain Medicare beneficiaries in calendar year 2016, a 52% increase. Because AHCCCS pays for the Medicare premiums of low-income Medicare beneficiaries, higher Medicare premiums increase AHCCCS' costs.

In anticipation of the premium increase, AHCCCS froze enrollment in the Qualified Individuals (QI) program on October 9, 2015. The QI program is 100% funded by a federal block grant, and pays for the Medicare premiums for individuals with incomes 120%-135% FPL. AHCCCS projected that without the freeze, expenditures on the QI program would exceed the federal block grant allotment by \$13.1 million in calendar year 2016.

In November 2015, Congress adopted legislation to reduce the magnitude of the Part B premium increase, after which AHCCCS reopened enrollment in the QI program. The federal legislation lowers the premium increase in 2016 to \$121.80 instead of \$159.30, and requires Medicare beneficiaries to pay a monthly \$3 premium surcharge over the next 5 years. The \$121.80 premium includes the \$3 surcharge, and amounts to a 16.1% increase compared to calendar year 2015. Relative to the FY 2016 budget, the premiums increase AHCCCS' General Fund spending by \$3.1 million in FY 2016, and \$7.2 million in FY 2017. The FY 2017 budget incorporates the \$7.2 million increase.

AHCCCS CARE Proposal

In August 2015, the Executive announced its plan to renew the Section 1115 Waiver that covers Arizona's Medicaid program. The plan, called AHCCCS CARE, builds on the requirements for cost-sharing established in Laws 2015, Chapter 14. The plan includes the following provisions for able-bodied adults:

- A 2% premium.
- Selected copays that may reach 3% of household income.
- Health targets such as smoking cessation.
- Suspension of funding for non-emergency medical transportation.
- A requirement to work, actively seek work, or participate in a job training program.
- A lifetime limit of 5 years for Medicaid enrollment.

Some provisions of AHCCCS CARE are likely to reduce the savings from cost-sharing in the 3-year budget plan associated with the enacted FY 2016 budget. For example, the FY 2016 budget included savings from the 2% premiums, but the Executive has specified that these premiums will not be used to offset AHCCCS costs. Instead, premiums will be deposited into an AHCCCS CARE account. Enrollees can only use funds in their AHCCCS CARE account to pay for services not covered by AHCCCS, such as dental, vision, or chiropractic services.

The FY 2016 budget included \$(1.4) million in General Fund savings in FY 2017 and \$(1.8) million in FY 2018 for

savings associated with premiums as well as copays for inappropriate emergency room utilization. The AHCCCS CARE plan would reduce General Fund savings associated with premiums and copays to \$(100,000).

Any changes to the AHCCCS Section 1115 Waiver must be approved by the federal government. The FY 2017 budget presumes the originally budgeted level of savings, and includes an additional \$(3,800) in General Fund savings from the suspension of non-emergency medical transportation for the adult expansion population. (See *Cost Sharing Provisions section for additional detail.*)

Inpatient Psychiatric Treatment

The FY 2017 Health BRB requires AHCCCS to submit a report to JLBC that examines the potential shortage in inpatient psychiatric beds for children as well as adults. This report was an outgrowth of concerns raised by stakeholders about the availability of inpatient psychiatric beds in Arizona, especially for children and adolescents with significant behavioral health needs.

Laws 2016, Chapter 71 includes provisions to improve access to inpatient psychiatric treatment for foster children. The bill requires the RBHAs to respond to requests for behavioral health residential treatment made by caregivers of Medicaid-eligible foster children displaying threatening behavior within 72 hours of the request being made. The bill also requires a network adequacy study of behavioral health providers contracted with CMDP. (Please see the *Additional Legislation section for more information.*)

SMI Funding

Table 7 shows the total Medicaid funding in FY 2017 for behavioral health services for the integrated SMI population is \$686.8 million for 42,358 recipients. State and federal funding for behavioral health services for this population is located in the Traditional, Proposition 204, and Adult Expansion line items of the behavioral health services portion of the AHCCCS budget.

	<u>State Match</u>	<u>Federal Match</u>	<u>Total Funds</u>	<u>Enrollees</u>
Integrated SMI Maricopa	\$118,141,300	\$320,532,100	\$438,673,400	21,531
Integrated SMI Greater AZ	<u>64,604,600</u>	<u>183,487,700</u>	<u>248,092,300</u>	<u>20,827</u>
Total 1/	\$182,745,900	\$504,019,800	\$686,765,700	42,358

1/ These estimates reflect Medicaid capitation spending for the SMI population. They do not include any services used that were funded by non-Medicaid state funds, federal grant funds, or county funds.

In FY 2017, an estimated \$28.9 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, \$5.7 million is state matching funds, and \$23.2 million is federal matching funds.

Risk Corridor

RBHAs are community-based organizations that DHS has contracted with to administer behavioral health services. AHCCCS will continue contracting with the RBHAs following the transfer of behavioral health services. The RBHAs contract with a network of medical providers to deliver these services. DHS currently limits the service profit or loss of a RBHA to a percentage of the annual service revenue. If a RBHA exceeds the profit limit, then DHS can request the return of those excess profits. Conversely, if a RBHA experiences excess losses, then DHS will reimburse the RBHA. The profit/loss margin is called a "risk corridor." The budget assumes that AHCCCS will continue to use risk corridors for the RBHAs.

Currently, the risk corridor for all RBHAs is 4% - their profits or losses, as a percentage of annual services revenues, are limited to 4%. The risk corridor was increased from 3% to 4% for the Maricopa County RBHA when it began delivering integrated care to the SMI population. Similarly, the risk corridor was increased from 3% to 4% for the 2 Greater Arizona RBHAs when they began delivering integrated care on October 1, 2015. In addition to the risk corridor, RBHA contracts also allow 9% of health capitation rates be used for administrative costs and risk contingency.

Mandatory Affordable Care Act Changes

The 2010 Federal health care legislation, known as the Affordable Care Act (ACA), had a number of impacts on the AHCCCS and DHS Medicaid budgets that began on January 1, 2014. Mandatory changes resulting from the ACA are described below. The sum of these adjustments decreases the AHCCCS budget by \$(8,118,100) in FY 2017. These costs are included in the formula adjustments.

Child Expansion

Beginning on January 1, 2014, ACA required the expansion of coverage to children under age 19 to 133% of the Federal Poverty Level (FPL) (\$32,300 for a family of 4). These child enrollees, known as the child expansion population, are included in the Traditional population. As of May 1, 2016, there were approximately 77,500 child expansion enrollees.

Prior to the ACA, child expansion enrollees were eligible for coverage through KidsCare. In addition, ACA allowed

children with incomes 133% to 200% FPL to become eligible for a subsidy to purchase health insurance through the new federal health insurance exchange. Infants continue to be covered up to 140% FPL.

Beginning on October 1, 2015, federal legislation increased the state's KidsCare and child expansion match rate to 100%. The budget includes a decrease of \$(5,102,100) in FY 2017 from the General Fund for this increase in the federal match rate.

Provider Rate Increase Phase-Out

ACA requires that Medicaid reimburse primary care providers (PCPs) 100% of the Medicare rates in 2013 and 2014. The federal government pays 100% of the cost above what they reimbursed PCPs on July 1, 2009. Since AHCCCS has lowered reimbursement rates for PCPs since then, the state receives the regular 2:1 match rate for the difference between the rate in effect on December 31, 2014 and the July 1, 2009 rate. This particular enhanced rate primarily affected the mandatory expansion populations.

The PCP rate increase was originally supposed to only apply to FY 2014 and FY 2015, but due to delays in processing by the federal government, AHCCCS expects to spend \$2,373,900 in FY 2016 from the General Fund for the rate increase. The budget includes a decrease of \$(2,373,900) from the General Fund in FY 2017 for the elimination of the PCP rate increase.

Health Insurer Fee

ACA placed an \$8 billion annual fee on the health insurance industry nationwide in 2014. The fee eventually grows to \$14.3 billion in 2018 and is indexed to inflation thereafter. The fee is allocated to qualifying health insurers based on their respective market share of premium revenue in the previous year. The budget includes a decrease of \$(642,100) (from \$24,773,000 to \$24,130,900) from the General Fund in FY 2017 for the allocation of these costs. The decrease is primarily due to a lower number of insurers being subject to the fee than was originally projected in the FY 2016 budget.

Optional Affordable Care Act Changes

The FY 2014 Health and Welfare BRB (Laws 2013, 1st Special Session, Chapter 10) made a number of changes to Medicaid coverage, including the restoration of coverage for the childless adult population, the expansion of Medicaid coverage for adults to 133% FPL, and the implementation of a hospital assessment. These items are described in more detail in the following sections, along with an update on each program's enrollment since the restoration of Proposition 204 childless adults and the

adult expansion beginning on January 1, 2014. *Table 8* summarizes the costs of these changes in FY 2016 and FY 2017. In total, the FY 2017 budget includes \$3.05 billion in Total Fund expenditures for ACA enrollees, including \$110 million from the General Fund and \$253 million from the Hospital Assessment Fund.

Childless Adult Restoration, 0-100% FPL

The childless adult population had an enrollment freeze starting in July 2011. As a condition of expanding Medicaid, coverage for the childless adult population was restored in January 2014. The childless adult population receives a higher match rate than the standard 2:1 match. The increased match started at 83.62% in FY 2014, and will gradually converge to the adult expansion rate of 90% in calendar year 2020. In FY 2017 the match rate will be 90.28%. The hospital assessment covers the state portion for this population's acute costs, and the General Fund covers this population's behavioral health costs.

The original FY 2016 budget assumed that 285,700 childless adults who were not previously eligible would enroll in the program by June 2015, with a total of 286,200 enrolled by June 2016. As of May 1, 2015, there were approximately 307,500 childless adult enrollees in the Proposition 204 program. The budget assumes a June 2017 enrollment of 321,600.

Adult Expansion, 100%-133% FPL

ACA allowed states to expand Medicaid coverage for adults up to 133% FPL on and after January 1, 2014 and receive a higher match rate. The federal government will pay 100% of the cost of the Adult Expansion (parents and childless adults whose incomes are from 100% to 133% FPL) in calendar years 2014 to 2016. The federal share will gradually decline to 90% by 2020. In FY 2017 the match rate will be 97.5%. The hospital assessment covers the state portion for this population's acute costs, and the General Fund covers this population's behavioral health costs. (*See Hospital Assessment section for additional information.*)

While the FY 2014 Health and Welfare BRB expands eligibility for the adult expansion population, the expansion is discontinued if any of the following occur: 1) the federal matching rate for adults from 100%-133% FPL or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly-eligible populations (*see Hospital Assessment section*); or 3) the Federal ACA is repealed.

The original FY 2016 budget assumed that 41,400 Adult Expansion enrollees who were not previously eligible would enroll in the program by June 2016. As of May 1,

Table 8

**Costs of Optional Medicaid Expansion
and the Proposition 204 Parents**
(\$ in millions)

		FY 2016 Revised			FY 2017 Budget		
		GF	HA ^{1/}	FF	GF	HA ^{1/}	FF
Adult Expansion 100-133% FPL ^{2/}	Acute	\$ 0	\$ 0	\$ 386	\$ 0	\$ 6	\$ 456
	BHS	<u>0</u>	<u>0</u>	<u>71</u>	<u>1</u>	<u>0</u>	<u>77</u>
	Total	\$ 0	\$ 0	\$ 457	\$ 1	\$ 6	\$ 533
Proposition 204 – Childless Adults 0-100% FPL ^{2/}	Acute	\$ 0	\$ 187	\$1,690	\$ 0	\$ 179	\$1,824
	BHS	<u>35</u>	<u>0</u>	<u>318</u>	<u>37</u>	<u>0</u>	<u>341</u>
	Total	\$ 35	\$ 187	\$2,008	\$ 37	\$ 179	\$2,165
Proposition 204 – Parents 22-100% FPL ^{3/4/}	Acute	\$ 0	\$ 63	\$ 181	\$ 0	\$ 68	\$ 194
	BHS	<u>66</u>	<u>0</u>	<u>153</u>	<u>72</u>	<u>0</u>	<u>162</u>
	Total	\$ 66	\$ 63	\$ 334	\$ 72	\$ 68	\$ 356
Total Expenditures ^{5/}	Total	\$ 101	\$ 250	\$2,799	\$ 110	\$ 253	\$3,054

“GF” = General Fund ; “HA” = Hospital Assessment ; “FF” = Federal Funds

- ^{1/} Includes AHCCCS expenditures from the Hospital Assessment Fund for the Proposition 204 and Adult Expansion line items. The Hospital Assessment Fund does not pay for behavioral health costs of these line items.
- ^{2/} The federal government pays 100% of the cost of the adult expansion from 2014 to 2016 and 90.68% of the childless adults up to 100% FPL in 2016. These percentages converge to 90% by 2020.
- ^{3/} In addition to parents from 22-100% FPL, this population includes some children from 22-100% FPL and aged, blind, and disabled individuals from 75-100% FPL.
- ^{4/} In addition to the General Fund, AHCCCS state costs for the Proposition 204 line item are funded with tobacco tax and tobacco litigation settlement money. Figures in this table do not display this funding and any associated federal matching funds.
- ^{5/} Amounts may not add due to rounding.

Table 9

**Total Medicaid Population Increase
Since January 1, 2014 ^{1/}**

	June <u>2015</u>	June <u>2016</u>	June <u>2017</u>
Childless Adult Restoration	211,300	246,000	253,900
Adult Expansion 100%-133% FPL	61,500	90,000	92,300
Child Expansion 100%-133% FPL	36,000	80,100	82,100
Other Enrollees	<u>97,500</u>	<u>135,500</u>	<u>167,900</u>
Total	406,300	551,600	596,200

^{1/} June 2015 figures are actual amounts while June 2016 and June 2017 are projections.

2016, there were approximately 86,100 Adult Expansion enrollees. The budget assumes June 2017 enrollment of 92,300.

The FY 2016 budget projected that the total ACA population would reach 376,000 by June 2016. The FY 2017 budget assumes that the population will reach 596,100 in June 2017. *Table 9* displays population growth since the ACA start date of January 1, 2014.

Hospital Assessment

The FY 2014 Health and Welfare BRB required AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion and the entire Proposition 204 population on and after January 1, 2014. The assessment is based on hospital discharges as reported on each hospital’s Medicare Cost Report. The amounts differ based on types of providers. The FY 2017 budget increases Hospital Assessment collection to \$252,329,100, a \$2,268,300 increase above FY 2016.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget’s costs, as summarized in *Table 10*. FY 2017 payments listed in the table are specified in sections 15, 20, and 21 of the FY 2017 Health BRB.

The counties’ single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.

2. The counties' portion is allocated among the counties based on their FY 2015 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2017, this provision provides 3 counties with a total of \$6,543,100 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2017, this provision provides 3 counties with a total of \$14,666,900 in relief.
5. If any county could still pay more under the above provisions than under the previous statutory percentages, that county's contribution is limited by a further alternative formula specified in statute. In FY 2017 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$38.74 in FY 2017). In FY 2017 this provision provides 6 counties with a total of \$9,807,600 in relief.

In FY 2017, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,017,600 in relief to 9 counties.

Program Components

Traditional Medicaid, Proposition 204, Adult Expansion, KidsCare, CRS, ALTCS, and CMDP services include the following costs:

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2017, the average capitation rate for acute care is expected to be approximately \$345 per member per month (or \$4,138 annually). Of that amount, an average of \$81 is from state match and \$264 from Federal Medicaid Authority. For behavioral health, the average capitation rate is expected to be \$93 per member per month (or \$1,119 annually), with an average of \$23 for state match and \$70 for the federal match.

Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all of a member's costs until an annual deductible has been met.

Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 3 programs: 1) federally-mandated services for Native Americans living on reservations; 2) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and 3) federally-mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage

Table 10

County Contributions

County	FY 2016				FY 2017			
	BNCF	Acute	DUC	ALTCS	BNCF	Acute	DUC	ALTCS
Apache	\$114,800	\$268,800	\$87,300	\$618,900	\$117,400	\$268,800	\$87,300	\$625,200
Cochise	214,100	2,214,800	162,700	5,165,500	219,100	2,214,800	162,700	4,995,000
Coconino	211,200	742,900	160,500	1,858,500	216,100	742,900	160,500	1,877,300
Gila	86,700	1,413,200	65,900	2,117,900	88,800	1,413,200	65,900	2,112,600
Graham	61,700	536,200	46,800	1,336,700	63,100	536,200	46,800	1,303,500
Greenlee	15,800	190,700	12,000	79,700	16,200	190,700	12,000	33,500
La Paz	32,800	212,100	24,900	696,300	33,600	212,100	24,900	595,600
Maricopa	0	19,203,200	0	153,303,200	0	19,011,200	0	155,173,500
Mohave	246,600	1,237,700	187,400	8,033,700	252,300	1,237,700	187,400	7,948,800
Navajo	161,600	310,800	122,800	2,562,200	165,300	310,800	122,800	2,588,200
Pima	1,468,800	14,951,800	1,115,900	39,303,600	1,502,600	14,951,800	1,115,900	39,243,800
Pinal	287,400	2,715,600	218,300	15,539,700	294,000	2,715,600	218,300	14,899,800
Santa Cruz	67,900	482,800	51,600	1,942,200	69,500	482,800	51,600	1,930,900
Yavapai	271,500	1,427,800	206,200	8,416,600	277,700	1,427,800	206,200	8,391,300
Yuma	242,000	1,325,100	183,900	8,259,900	247,600	1,325,100	183,900	8,261,000
Subtotal	\$3,482,900	\$47,233,500	\$2,646,200	\$249,234,600	\$3,563,300	\$47,041,500	\$2,646,200	\$249,980,000
Total				\$302,597,200				\$303,231,000

reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on 75.0% of the estimated drug costs.

Tobacco Master Settlement Agreement

The budget requires AHCCCS to continue to transfer up to \$1,636,000 from the Traditional Medicaid Services line item in FY 2017 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

- Up to \$1,200,000 to the Attorney General for costs associated with tobacco settlement litigation.
- \$436,000 to the Department of Revenue to fund 6 positions that will perform luxury tax enforcement and audit duties.

This adjustment does not include the \$819,500 appropriation (\$84,900 General Fund and \$734,600 Consumer Protection-Consumer Fraud Revolving Fund) to the Attorney General for costs associated with tobacco settlement litigation. *(See the Attorney General - Department of Law section for more information.)*

Background – In 1998, the major tobacco companies and 46 states reached a settlement in which the signatory tobacco companies would make an annual payment to compensate the states for Medicaid costs associated with tobacco use. Currently, Arizona receives an annual payment of states promised to diligently enforce the provisions and collection of tobacco tax laws within their respective states. In CY 2013, an arbitration panel approved an amended settlement between participating manufacturers and 19 states, including Arizona, to resolve issues relating to the tobacco tax enforcement.

CY 2015 is the first year tobacco tax collections came under diligent enforcement scrutiny under the provisions of the amended settlement. The monies provided in the budget will allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system. The latter will automate the current manual data entry process, allow delinquent returns and account information to be tracked, and log data that DOR does not

currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data. *(See the Department of Revenue section in this report for more information.)*

Tobacco Tax Allocations

Table 11 is a summary of the tobacco tax allocations.

Table 11

Summary of Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund

	FY 2015	FY 2016	FY 2017
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 4,963,800	\$ 9,570,700	\$ 335,400
Transfer In - Tobacco Tax and Health Care Fund	48,002,100	45,446,500	48,389,500
Transfer In - Tobacco Products Tax Fund	<u>26,171,900</u>	<u>24,519,000</u>	<u>25,308,700</u>
Total Funds Available	\$ 79,137,800	\$ 79,536,200	\$ 74,033,600
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	\$ 34,178,800	\$ 34,498,500	\$ 72,998,200
Total AHCCCS Allocations	\$ 34,178,800	\$ 34,498,500	\$ 72,998,200
<i>DHS</i>			
Behavioral Health GF Offset ^{1/}	\$ 34,767,000	\$ 44,002,300	\$ 0
Folic Acid	396,300	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	<u>225,000</u>	<u>300,000</u>	<u>300,000</u>
Total DHS Allocations	<u>35,388,300</u>	<u>44,702,300</u>	<u>700,000</u>
Balance Forward	\$ 9,570,700	\$ 335,400	\$ 335,400
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,986,600	\$ 3,352,200	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>41,577,200</u>	<u>38,140,700</u>	<u>37,521,000</u>
Total Funds Available	\$ 44,563,800	\$ 41,492,900	\$ 37,521,000
<u>Allocations</u>			
AHCCCS State Match Appropriation	38,225,000	41,492,900	37,521,000
Administrative Adjustments	<u>2,986,600</u>	<u>0</u>	<u>0</u>
Balance Forward	\$ 3,352,200	\$ 0	\$ 0
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 56,900	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>19,284,300</u>	<u>18,162,200</u>	<u>18,747,200</u>
Total Funds Available	\$ 19,341,200	\$ 18,162,200	\$ 18,747,200
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 19,284,300	\$ 18,162,200	18,747,200
Administrative Adjustments	<u>56,900</u>	<u>0</u>	<u>0</u>
Balance Forward ^{2/}	\$ 0	\$ 0	\$ 0
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 10,237,400	\$ 7,607,300	\$ 5,351,000
Transfer In - Tobacco Tax and Health Care Fund	15,775,100	16,159,300	16,159,300
Transfer In - Tobacco Products Tax Fund	<u>1,938,700</u>	<u>1,928,300</u>	<u>1,928,300</u>
Total Funds Available	\$ 27,951,200	\$ 25,694,900	\$ 23,438,600
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 17,878,200	\$ 17,878,200	\$ 17,878,200
Leading Causes of Death - Prevention and Detection	<u>2,465,700</u>	<u>2,465,700</u>	<u>2,465,700</u>
Balance Forward	\$ 7,607,300	\$ 5,351,000	\$ 3,094,700
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 4,098,800	\$ 9,035,700	\$ 11,065,500
Transfer In - Tobacco Tax and Health Care Fund	3,428,600	3,443,200	3,443,200
Transfer In - Tobacco Products Tax Fund	<u>4,846,700</u>	<u>4,861,400</u>	<u>4,861,400</u>
Total Funds Available	\$ 12,374,100	\$ 17,340,300	\$ 19,370,100
<u>Allocations</u>			
Biomedical Research Support ^{3/}	\$ 997,500	\$ 2,000,000	\$ 2,000,000
Alzheimer's Disease Research ^{4/}	1,000,000	1,000,000	2,000,000
Biomedical Research Commission	<u>1,340,900</u>	<u>3,274,800</u>	<u>3,274,800</u>
Balance Forward	\$ 9,035,700	\$ 11,065,500	\$ 12,095,300

^{1/} Laws 2016, Chapter 117 appropriates \$9,235,300 from the Medically Needy Account to DHS in FY 2016 to provide one-time funding for higher-than-anticipated behavioral health caseload growth in FY 2016.

^{2/} Any unencumbered funds in Emergency Health Services Account are transferred to Proposition 204 Protection Account at the end of each year.

^{3/} Laws 2014, Chapter 18 appropriates \$2,000,000 from the Health Research Account to DHS annually from FY 2015 to FY 2019 to distribute to a nonprofit medical research institute headquartered in Arizona. DHS distributes this to the Translational Genomics Research Institute (TGen).

^{4/} Laws 2016, Chapter 117 appropriates \$1,000,000 from the Health Research Account in FY 2017 for a one-time funding increase for Alzheimer's disease research.

State Board of Appraisal

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	0.0	0.0
Personal Services	336,700	0	0
Employee Related Expenditures	144,000	0	0
Professional and Outside Services	64,400	0	0
Travel - In State	500	0	0
Travel - Out of State	2,800	0	0
Other Operating Expenditures	68,500	0	0
AGENCY TOTAL	616,900	0	0

FUND SOURCES

Other Appropriated Funds

Board of Appraisal Fund	616,900	0	0
SUBTOTAL - Other Appropriated Funds	616,900	0	0
SUBTOTAL - Appropriated Funds	616,900	0	0
TOTAL - ALL SOURCES	616,900	0	0

AGENCY DESCRIPTION — Beginning in FY 2016, the State Board of Appraisal will be merged into the Department of Financial Institutions. The department will license, certify, and regulate real estate appraisers. It will also register property tax agents and perform any other duties of the State Board of Appraisal.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) merged the State Board of Appraisal into the Department of Financial Institutions, effective July 3, 2015. While the FY 2016 General Appropriation Act appropriated a separate budget for the State Board of Appraisal, Chapter 19 states that all appropriated monies of the State Board of Appraisal are transferred to the Department of Financial Institutions.

Arizona Commission on the Arts

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
SPECIAL LINE ITEMS			
Arts Trust Fund Deposit	1,000,000	0	1,500,000
AGENCY TOTAL	1,000,000	0	1,500,000
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Budget Stabilization Fund	1,000,000	0	1,500,000
SUBTOTAL - Other Appropriated Funds	1,000,000	0	1,500,000
SUBTOTAL - Appropriated Funds	1,000,000	0	1,500,000
Other Non-Appropriated Funds	1,792,600	1,516,500	1,516,500 ^{1/}
Federal Funds	752,600	802,100	802,100
TOTAL - ALL SOURCES	3,545,200	2,318,600	3,818,600

AGENCY DESCRIPTION — The agency promotes arts in the state by offering matching grants to communities and arts organizations, developing programs in-house to showcase artists in all disciplines, and serving as a resource for local artists.

Arts Trust Fund Deposit

The budget includes \$1,500,000 from the Budget Stabilization Fund in FY 2017 for a one-time deposit into the non-appropriated Arts Trust Fund. The budget appropriates this amount from interest income earned on the Budget Stabilization Fund.

Monies in the Arts Trust Fund are used to award grants to organizations with the purpose of advancing and fostering the arts in Arizona. A portion of the funds are statutorily used to provide grants to organizations representing handicapped persons or racial or ethnic minorities and organizations representing rural areas.

^{1/} Monies appropriated from the Budget Stabilization Fund for deposit into the Arts Trust Fund pursuant to Laws 2016, Chapter 117 are not displayed to avoid double counting of appropriations.

Board of Athletic Training

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	53,200	63,100	63,100
Employee Related Expenditures	28,500	37,400	37,400
Travel - In State	1,700	1,300	1,300
Other Operating Expenditures	16,300	17,100	17,300
AGENCY TOTAL	99,700	118,900	119,100^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Athletic Training Fund	99,700	118,900	119,100
SUBTOTAL - Other Appropriated Funds	99,700	118,900	119,100
SUBTOTAL - Appropriated Funds	99,700	118,900	119,100
TOTAL - ALL SOURCES	99,700	118,900	119,100

AGENCY DESCRIPTION — The board examines and licenses athletic trainers, investigates complaints and holds hearings to enforce standards of practice.

Operating Budget

The budget includes \$119,100 and 1.5 FTE Positions from the Athletic Training Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 from the Athletic Training Fund in FY 2017 for statewide adjustments.
(Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Attorney General - Department of Law

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	570.9	583.5 ^{1/}	574.7 ^{2/}
Personal Services	30,004,600	30,967,700	30,971,300
Employee Related Expenditures	11,340,000	11,885,700	11,654,400
Professional and Outside Services	765,200	542,400	542,400
Travel - In State	95,300	103,400	103,400
Travel - Out of State	58,800	54,500	54,500
Other Operating Expenditures	6,916,600	6,625,700	7,155,000
Equipment	618,900	22,500	22,500
OPERATING SUBTOTAL	49,799,400	50,201,900	50,503,500
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	726,200	799,400	795,700
Child Safety and Family Services	1,000,000	0	0
Internet Crimes Against Children Enforcement	0	1,800,000	1,250,000 ^{3/4/}
Federalism Unit	0	1,000,000	995,600
Military Airport Planning	86,100	90,000	85,000 ^{5/}
National Mortgage Settlement Distribution	17,418,700	0	0
Risk Management ISA	8,685,200	9,426,900	9,406,700
Southern Arizona Law Enforcement	0	1,200,000	1,193,000
State Grand Jury	178,200	180,600	180,100
Tobacco Enforcement	0	819,500	816,000
Victims' Rights	3,752,600	3,759,400	3,758,900
AGENCY TOTAL	81,646,400	69,277,700	68,984,500 ^{6/}
FUND SOURCES			
General Fund	23,242,500	23,623,700	24,664,800
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	148,200	244,800	244,300
Attorney General Legal Services Cost Allocation Fund	1,949,900	2,086,800	2,080,400
Collection Enforcement Revolving Fund	6,455,400	6,869,700	6,845,200
Consumer Protection - Consumer Fraud Revolving Fund	5,195,100	5,094,000	5,575,700
Court-Ordered Trust Fund	17,418,700	0	0
Interagency Service Agreements Fund	14,072,600	15,573,000 ^{1/}	15,508,500 ^{2/}
Internet Crimes Against Children Enforcement Fund	0	1,800,000	900,000
Risk Management Revolving Fund	8,685,200	9,426,900	9,406,700
State Aid to Indigent Defense Fund	726,200	799,400	0
Victims' Rights Fund	3,752,600	3,759,400	3,758,900
SUBTOTAL - Other Appropriated Funds	58,403,900	45,654,000	44,319,700
SUBTOTAL - Appropriated Funds	81,646,400	69,277,700	68,984,500
Other Non-Appropriated Funds	28,472,400	46,042,400	46,222,900
Federal Funds	4,748,700	5,485,900	5,506,800
TOTAL - ALL SOURCES	114,867,500	120,806,000	120,714,200
AGENCY DESCRIPTION — The Attorney General is an elected constitutional officer. The office provides legal counsel to state agencies, represents the state in juvenile dependency matters, enforces civil rights, environmental, consumer protection and anti-trust laws, and investigates and prosecutes criminal cases, handles criminal appeals, and assists county attorneys.			

Operating Budget

The budget includes \$50,503,500 and 440.5 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$21,976,600
Antitrust Enforcement Revolving Fund	244,300
Attorney General Legal Services Cost Allocation Fund	2,080,400
Collection Enforcement Revolving Fund (CERF)	6,845,200
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	3,848,500
Interagency Service Agreements (ISA) Fund	15,508,500

These amounts fund the following adjustments:

Shift FTE Positions

The budget includes a decrease of (6.6) FTE Positions in FY 2017 to move FTE authority to the Tobacco Enforcement line item. These amounts include a (0.6) FTE Position from the General Fund and (6) FTE Positions from the CPCF Revolving Fund. A corresponding increase of 6.6 FTE Positions can be found in the Tobacco Enforcement line item.

Shift Operating Funds

The budget includes an increase of \$5,000 from the General Fund in FY 2017. The budget moves those monies from the Military Airport Planning line item to the operating budget in order to make the line item equal to the statutory appropriation of \$85,000 pursuant to A.R.S. § 26-263. A corresponding decrease of \$(5,000) can be found in the Military Airport Planning line item.

One-Time Resources

The budget includes a one-time increase of \$500,000 from the CPCF Revolving Fund in FY 2017 for costs incurred by

the Attorney General for the implementation of various bills passed during the legislative session.

One-Time FTE Positions

The budget includes a decrease of (8.8) FTE Positions from the ISA Fund for a reduction of one-time FTE Positions. These FTEs were appropriated to the AG as a result of their October 2015 request to utilize the ISA Fund reserve appropriation. The budget continues the FY 2016 ISA Fund reserve appropriation of 11 FTE Positions in FY 2017.

Statewide Adjustments

The budget includes a decrease of \$(203,400) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(96,600)
Antitrust Enforcement Revolving Fund	(500)
Attorney General Legal Services Cost Allocation Fund	(6,400)
CERF	(24,500)
CPCF Revolving Fund	(10,900)
ISA Fund	(64,500)

(Please see the Agency Detail and Allocations section. In addition, please see the Other Issues section for more information on the ISA Fund.)

Capital Postconviction Prosecution

The budget includes \$795,700 and 6 FTE Positions from the General Fund in FY 2017 for Capital Postconviction Prosecution. These amounts fund the following adjustments:

Funding Shift

The budget includes an increase of \$799,400 from the General Fund and a commensurate \$(799,400) decrease from the State Aid to Indigent Defense Fund in FY 2017 for a shift of resources. Since FY 2015, the State Aid to Indigent Defense Fund has been used to support both Capital Postconviction Prosecution and the Department of

- ^{1/} In October 2015, the Attorney General notified the JLBC that it expected to use its full FY 2016 ISA Fund appropriation as well as 8.8 FTE Positions of the total 11 FTE Positions and the entire \$800,000 of the ISA Fund reserve appropriation. As a result, the FY 2016 estimate has increased by 8.8 FTE Positions and \$800,000 over the *FY 2016 Appropriation Report* amount.
- ^{2/} Includes 22.2 GF and 112 OF FTE Positions funded from Special Line Items in FY 2017.
- ^{3/} On or before June 1, 2016, the department shall submit an expenditure plan for the FY 2017 Internet Crimes Against Children Enforcement line item for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{4/} The \$900,000 appropriation from the Internet Crimes Against Children Enforcement Fund and the \$350,000 appropriation from the state General Fund for the Internet Crimes Against Children Enforcement line item are continuing appropriations and are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, through June 30, 2018. (General Appropriation Act footnote)
- ^{5/} A.R.S. § 26-263 annually appropriates \$85,000 from the General Fund for Military Airport Planning. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- ^{7/} In addition to the \$15,508,500 appropriated from the Interagency Service Agreements Fund in FY 2017, an additional \$800,000 and 11 FTE Positions are appropriated from the Interagency Service Agreements Fund in FY 2017 for new or expanded interagency service agreements. The Attorney General shall report to the Joint Legislative Budget Committee whenever an interagency service agreement is established that will require expenditures from the additional amount. The report shall include the name of the agency or entity with which the agreement is made, the dollar amount of the contract by fiscal year and the number of associated FTE Positions. (General Appropriation Act footnote, as adjusted for statewide allocations)

Public Safety's (DPS) operational costs associated with the Arizona Counter Terrorism Information Center (ACTIC). However, the fund does not receive adequate revenues to support both appropriations. This shift eliminates the issue.

Statewide Adjustments

The budget includes a decrease of \$(3,700) from the General Fund in FY 2017 for statewide adjustments.

This line item funds costs associated with prosecuting capital cases after the initial conviction.

Internet Crimes Against Children Enforcement

The budget includes \$1,250,000 in FY 2017 for the Internet Crimes Against Children (ICAC) Enforcement line item. This amount consists of:

General Fund	350,000
ICAC Enforcement Fund	900,000

This amount funds the following adjustments:

Attorney General Realignment

The budget includes an increase of \$350,000 from the General Fund in FY 2017 to shift funding from the Department of Child Safety's (DCS) ICAC line item to the Attorney General's ICAC Enforcement line item, consolidating all ICAC resources into a single line item. A corresponding decrease of \$(350,000) can be found in the ICAC line item in DCS.

ICAC Enforcement Supplemental Adjustment

The budget includes a decrease of \$(900,000) from the ICAC Enforcement Fund in FY 2017 to bring the appropriation down to the legislatively-intended level. Laws 2016, Chapter 1 provided a FY 2016 supplemental appropriation of \$1,800,000 from the ICAC Enforcement Fund to address a technical issue that prevented the fund from receiving its annual \$900,000 appropriation in both FY 2015 and FY 2016. This adjustment brings the appropriation level down to the intended \$900,000 level.

Laws 2015, Chapter 245 established the ICAC Enforcement Fund that is subject to legislative appropriation and administered by the Attorney General. The intent behind Chapter 245 was to provide \$900,000 in FY 2015 and every year thereafter from the proceeds of lottery games sold from a vending machine in age-restricted areas. Chapter 245 became effective immediately because there was an emergency clause included in the enacted legislation. As a result, deposits to the ICAC Enforcement Fund began in FY 2015. Due to a technical issue, however, none of these monies were

appropriated in FY 2015 or FY 2016. The ICAC Enforcement Fund is expected to have a balance of \$1,800,000 in FY 2016. Laws 2016, Chapter 1 appropriated \$1,800,000 from the ICAC Enforcement Fund to the Attorney General as a FY 2016 supplemental to address this issue.

Chapter 245 also allocates \$100,000 to the Victims' Rights Enforcement Fund from the same proceeds. This fund is continuously appropriated and administered by the Department of Public Safety.

If the lottery games do not produce sufficient funds for the \$900,000 and \$100,000 allocations, as was the case in FY 2015, then unclaimed lottery prize monies will be used to backfill the difference.

Chapter 245 requires the Attorney General to enter into 1 or more intergovernmental agreements to continue operation of the Arizona Internet Crimes Against Children Task Force (AZICAC), led by the Phoenix Police Department. AZICAC is a joint federal/local law enforcement task force that investigates child pornography.

The budget includes 2 new General Appropriation Act footnotes:

- The first requires the Attorney General to submit for JLBC review an expenditure plan for monies in this line item by June 1, 2016. The intent of this provision is to ensure that recipients of ICAC monies will be ready to spend their allotments at the beginning of FY 2017. DCS was subject to a similar footnote in FY 2016.
- The second makes the appropriation in this line item non-lapsing until the end of FY 2018. The intent of this provision is to provide flexibility for recipients of ICAC monies to spend their allotments.

Federalism Unit

The budget includes \$995,600 and 7 FTE Positions from the CPCF Revolving Fund in FY 2017 for the Federalism Unit. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,400) from the CPCF Revolving Fund in FY 2017 for statewide adjustments.

This line item provides funding for the Attorney General to defend the state in cases related to federal issues. Some of these legal expenses had previously been borne by the Governor's Office.

Military Airport Planning

The budget includes \$85,000 and 1 FTE Position from the General Fund in FY 2017 for Military Airport Planning. These amounts fund the following adjustments:

Shift Operating Funds

The budget includes a decrease of \$(5,000) from the General Fund in FY 2017. The budget moves those monies from the Military Airport Planning line item to the operating budget in order to make the line item equal to the statutory appropriation of \$85,000 pursuant to A.R.S. § 26-263. A corresponding increase of \$5,000 can be found in the operating budget.

A.R.S. § 26-263 appropriates \$85,000 annually from the General Fund to the Attorney General's Office. Therefore, funding for this line item does not appear in the General Appropriation Act. The legislation sought to preserve the state's military bases by appropriating monies to several state agencies and charging them with certain responsibilities. Monies in this line item pay for the department's duties under the original 2004 legislation, including review and determination of compliance with land use plans.

National Mortgage Settlement Distribution

The budget includes no funding in FY 2017 for National Mortgage Settlement Distribution. This amount is unchanged from FY 2016.

This line item provides assistance to homeowners affected by fraudulent mortgage servicing and foreclosure practices and for other purposes consistent with the National Mortgage Settlement.

Laws 2013, Chapter 118 appropriated approximately \$47.0 million of the National Mortgage Settlement Proceeds to the Attorney General in FY 2013 as a non-lapsing appropriation. To avoid double counting, the FY 2016 and FY 2017 amounts are not displayed in the agency table above. *(Please see National Mortgage Settlement Fund Distribution in the Other Issues section for more information.)*

Risk Management ISA

The budget includes \$9,406,700 and 93 FTE Positions from the Risk Management Revolving Fund in FY 2017 for the Risk Management ISA. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(20,200) from the Risk Management Revolving Fund in FY 2017 for statewide adjustments.

This line item provides funding for the Attorney General's contract with the Risk Management Division of the Arizona Department of Administration. Attorneys from the Attorney General's Office defend the state in most risk management cases regarding agency liability.

Southern Arizona Law Enforcement

The budget includes \$1,193,000 and 13 FTE Positions from the General Fund in FY 2017 for Southern Arizona Law Enforcement. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(7,000) from the General Fund in FY 2017 for statewide adjustments.

This line item provides funding for the Criminal Division's investigations and prosecutions of fraud, corruption, criminal enterprise, drug trafficking, and money laundering cases in Southern Arizona.

Prior to the creation of this line item in the FY 2016 budget, Southern Arizona Law Enforcement was funded in the Attorney General's operating budget. Southern Arizona Law Enforcement received General Fund support through FY 2009; federal monies paid for the program between FY 2010 and FY 2012. The FY 2013 budget provided \$1,200,000 from the General Fund to backfill expired federal monies. The original FY 2014 budget did not fund Southern Arizona Law Enforcement; however, the FY 2015 budget included a \$600,000 FY 2014 supplemental appropriation and a \$1,200,000 appropriation from the CPCF Revolving Fund for FY 2015.

State Grand Jury

The budget includes \$180,100 and 1.6 FTE Positions from the General Fund in FY 2017 for the State Grand Jury. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(500) from the General Fund in FY 2017 for statewide adjustments.

This line item funds expenses incurred by the Attorney General to investigate and try matters that are under the jurisdiction of the State Grand Jury.

Tobacco Enforcement

The budget includes \$816,000 and 6.6 FTE Positions in FY 2017 for Tobacco Enforcement. These amounts consist of:

General Fund	84,400
CPCF Revolving Fund	731,600

These amounts fund the following adjustments:

Shift FTE Positions

The budget includes an increase of 6.6 FTE Positions in FY 2017 to move FTE authority to the Tobacco Enforcement line item. These amounts include a 0.6 FTE Position from the General Fund and 6 FTE Positions from the CPCF Revolving Fund. A corresponding decrease of (6.6) FTE Positions can be found in the operating budget.

Statewide Adjustments

The budget includes a decrease of \$(3,500) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(500)
CPCF Revolving Fund	(3,000)

This line item funds the Attorney General's enforcement of the Master Settlement Agreement (MSA). The MSA is a settlement reached by major tobacco companies and 46 states in 1998 that requires these companies to compensate states annually for Medicaid costs associated with tobacco use. In exchange for annual payments from the tobacco companies, states agree to diligently enforce tobacco tax laws.

In addition to the monies provided in this line item, the budget requires AHCCCS to transfer \$1,200,000 to the Attorney General for MSA enforcement. As a result, the budget includes a total of \$2,019,500 for the Attorney General to enforce the MSA in FY 2017.

Victims' Rights

The budget includes \$3,758,900 and 6 FTE Positions from the Victims' Rights Fund in FY 2017 for Victims' Rights. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(500) from the Victim's Rights Fund in FY 2017 for statewide adjustments.

This line item provides monies to state and local agencies that are required to notify victims during various steps in the criminal justice process. The program includes 7.68%

of Criminal Justice Enhancement Fund monies and an assessment on parents of juvenile offenders.

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- Additional Legislation
- Attorney General Legal Services Cost Allocation Fund
- Interagency Service Agreements Fund
- Consumer Restitution and Remediation Revolving Fund
- National Mortgage Settlement Fund Distribution
- Standard & Poor's Settlement Fund Distribution

FY 2016 Supplemental

The budget includes a supplemental appropriation of \$1,800,000 from the ICAC Enforcement Fund in FY 2016 to provide the legislatively intended appropriations from the fund in FY 2015 and FY 2016. *(Please see the ICAC Enforcement line item for more information.)*

Additional Legislation

Local Government Laws

Laws 2016, Chapter 35 requires the Attorney General to investigate any ordinance, regulation, order or other official action adopted by a local governmental body that a member of the Legislature alleges violates state law or the Arizona Constitution. As a result of their investigation, the Attorney General is required to submit a written report of the investigation's findings within 30 days to the Governor, Speaker of the House, Senate President, the member(s) that made the request, and the Secretary of State. If the Attorney General finds that the local government has violated a state law or the Arizona Constitution, the local government is then given 30 days to resolve the violation. If the violation is not resolved, the state-shared monies, otherwise designated for the local government, are to be withheld and/or redistributed.

Attorney General Legal Services Cost Allocation Fund

A.R.S. § 41-191.09 requires agencies to pay annually a flat fee to the Attorney General for general legal counsel. The FY 2016 General Appropriation Act set the level of charges at \$1.8 million and specified the charge per agency as required by A.R.S. § 41-191.09. The FY 2017 General Appropriation Act continues language maintaining these charges as required by A.R.S. 41-191.09. See *Table 1* for a

Table 1**FY 2017 Attorney General Legal Services Charges**

<u>Agency</u>	<u>Legal Services Charge</u>
Arizona Department of Administration	\$ 127,700
Office of Administrative Hearings	3,000
Arizona Department of Agriculture	4,200
Commission on the Arts	3,100
Automobile Theft Authority	1,400
Citizens Clean Elections Commission	2,700
State Department of Corrections	2,000
Arizona Criminal Justice Commission	8,700
Arizona Schools for the Deaf and the Blind	100,200
Commission for the Deaf and the Hard of Hearing	4,100
Early Childhood Development and Health Board	47,100
Department of Education	132,000
Department of Emergency and Military Affairs	30,000
Department of Environmental Quality	135,600
Exposition and State Fair Board	20,900
Department of Financial Institutions	1,900
Arizona Department of Forestry and Fire Management	13,400
Department of Gaming	37,300
Arizona Geological Survey ^{1/}	6,800
Department of Health Services	170,000
Arizona Historical Society	700
Department of Housing	19,300
Department of Insurance	10,500
Department of Juvenile Corrections	9,400
State Land Department	2,100
Department of Liquor, Licenses and Control	11,400
Arizona State Lottery Commission	24,800
Arizona State Parks Board	45,800
State Personnel Board	600
Arizona Pioneers' Home	12,100
Commission on Postsecondary Education	1,800
Department of Public Safety	677,400
Radiation Regulation Authority	3,800
Arizona State Retirement System	69,100
Department of Revenue	4,900
Secretary of State	1,800
State Treasurer	9,200
Department of Veterans' Services	52,700
Total Legal Services Charges	\$1,809,500

^{1/} The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) moved the Geological Survey to the University of Arizona in FY 2017.

list of agencies and their corresponding Attorney General Legal Services charge.

The FY 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) eliminated the requirement that the JLBC review the funding sources utilized by departments to pay the Legal Services charge. Statute

continues to require the department to annually report to the JLBC on the funding sources utilized to pay the charge.

(Please see the FY 2015 Appropriations Report for a more detailed history on legal services charges.)

Interagency Service Agreements Fund
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The Attorney General uses the Interagency Service Agreements (ISA) Fund to receive monies from state agencies for legal services. In FY 2015, the Attorney General spent \$14.1 million, or 95%, of the \$14.8 million appropriation for the ISA Fund.

The FY 2016 budget included \$14.8 million and 125.4 FTE Positions from the ISA Fund with the option to use an additional reserve appropriation of \$800,000 and 11 FTE Positions. In October 2015, the Attorney General notified the JLBC that it expected to use its full FY 2016 ISA Fund appropriation as well as 8.8 FTE Positions of the total 11 FTE Positions and the entire \$800,000 of the reserve appropriation.

The budget increased the FY 2017 ISA Fund appropriation to \$15.5 million and 8.8 FTE Positions with a new reserve of \$800,000 and 11 FTE Positions. The latter dollar amount becomes available upon a report to JLBC.

The Attorney General reports its reserve usage is driven by ISA expansions with the Department of Child Safety, the Game and Fish Department, and the Arizona Health Care Cost Containment System. The Attorney General anticipates legal services needs that require a total ISA Fund appropriation of \$16,373,000 and 10 supplemental FTE Positions in FY 2017. When including the FY 2017 reserve appropriation of \$800,000 and 11 FTE Positions, the budget includes adequate funding and FTE authority for the ISA Fund to meet these requests.

Consumer Restitution and Remediation Revolving Fund
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The Attorney General deposits proceeds from consumer protection-related legal settlements into the following funds: 1) the CPCF Revolving Fund; 2) the Consumer Restitution and Remediation Revolving Fund, or 3) the Antitrust Enforcement (AE) Revolving Fund.

The CPCF derives its revenue from any investigative or court costs, attorney fees or civil penalties recovered by the Attorney General as a result of enforcement of either state or federal statutes pertaining to consumer fraud. The AE Revolving Fund consists of monies recovered by the state as a result of antitrust, restraint of trade, or price-fixing activity enforcement.

In 2013, the Legislature created a new Consumer Restitution and Remediation Revolving Fund (Laws 2013, Chapter 143) that the Attorney General would use for monies collected from lawsuits that are reserved for remediation or restitution. Chapter 143 requires JLBC review of any plans to spend monies from this fund on remediation. In addition, A.R.S. § 41-192 directs any monies resulting from compromises or settlements by or against the state, excluding restitution, reimbursement, or CCPF monies, into the General Fund.

The Attorney General is required by several statutes (A.R.S. § 41-192, A.R.S. § 44-1531.01, and A.R.S. § 44-1531.02) to submit quarterly reports to JLBC on the allocation of legal settlement proceeds. These reporting requirements provide legislative oversight on how settlement monies are collected and distributed.

(Please see the FY 2017 Baseline and the FY 2016 Appropriations Report for a more detailed history on consumer protection funds.)

The Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund is to be used for monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws. This subaccount is not subject to legislative appropriation.

The Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of specific, identifiable persons. Monies in this subaccount up to \$3.5 million are continuously appropriated. Any money collected over that amount is subject to legislative appropriation. The Attorney General must submit an expenditure plan to the JLBC for its review before expending any monies in this subaccount.

National Mortgage Settlement Fund Distribution

In 2012, Arizona, along with 49 other states and attorneys general, reached a state-federal settlement with the nation's 5 largest residential mortgage loan servicers. The National Mortgage Settlement is a result of state and federal investigations that the 5 loan servicers did not act legally in signing foreclosure documents, thus acting fraudulently in servicing and foreclosure business practices. The total settlement was \$25 billion, of which Arizona's share was an estimated \$1.3 billion.

The settlement requires Arizona to use the funds received from the settlement "for purposes intended to avoid preventable foreclosures, to ameliorate the effects of the foreclosure crisis, to enhance law enforcement efforts to prevent and prosecute financial fraud or unfair or deceptive acts or practices, and to compensate the state for costs resulting from the alleged unlawful conduct of the Defendants."

Of the \$1.3 billion, the Attorney General received approximately \$97.0 million in a direct payment from the National Mortgage Settlement. The FY 2013 General Appropriation Act required the Attorney General to direct \$50.0 million of these monies to the General Fund. After a legal challenge, the Arizona Supreme Court upheld the transfer, and those monies were deposited in FY 2014. *(Please see the FY 2015 Appropriations Report for more information on the transfer.)*

Laws 2013, Chapter 118 appropriated the remainder, approximately \$48.9 million (including earned interest), of the settlement to the Attorney General for distribution pursuant to applicable court orders. In FY 2013 and FY 2014, the Attorney General expended \$0.6 million and \$7.6 million, respectively, to provide assistance to homeowners affected by fraudulent mortgage servicing and foreclosure practices and for other purposes consistent with the settlement. The Attorney General spent \$17.4 million of the non-lapsing appropriation for similar purposes in FY 2015. The FY 2016 General Appropriation Act required the Attorney General to transfer \$15.0 million of the legal settlement to the General Fund by the end of FY 2015. The Attorney General anticipates fully expending the remaining \$8.2 million by the end of September 2016.

The Attorney General's original spending plan allocated \$48.9 million. Below is the Attorney General's revised spending plan of \$33.9 million to reflect the \$15.0 million transfer. The plan includes \$33.9 million from the legal settlement, plus \$10.0 million from a separate settlement with Bank of America not subject to this appropriation.

- \$10.4 million for the Arizona Mortgage Relief Fund, a flexible mortgage loan program designed to provide loans to allow borrowers to remain in their homes;
- \$10.0 million for consumer restitution for eligible consumers who previously filed complaints with the Attorney General's Office against certain foreclosure rescue companies or against Bank of America in connection with their mortgage servicing practices;
- \$7.9 million for enforcement and monitoring;
- \$4.0 million for housing counseling;
- \$2.9 million for legal services;
- \$2.6 million for veterans' housing opportunities;

- \$1.9 million for outreach, marketing, and education;
- \$1.3 million for homeowner advocacy programs at Arizona State University and the University of Arizona;
- \$1.3 million for supportive services;
- \$1.2 million for relocation assistance; and
- \$400,000 for job training.

Arizona's remaining share of the National Mortgage Settlement has already been used to provide approximately \$1.9 billion in consumer relief to Arizona borrowers, including principal reduction, a refinancing program, and payments to foreclosed borrowers. The monitor of the National Mortgage Settlement verified in a March 2014 report that banks satisfied their consumer relief obligations under the settlement.

In addition, approximately 65,000 Arizonans, who were foreclosed on by 1 of the 5 servicers, received payments totaling \$96.5 million.

Standard & Poor's Settlement Fund Distribution

In 2013, Arizona, along with 18 other states, the District of Columbia, and the federal government, sued Standard and Poor's Financial Services, LLC (S&P) for misrepresenting to investors its financial ratings of structured finance securities, such as subprime mortgage-backed bonds. After 2 years of litigation, Arizona received a \$21.5 million settlement. The FY 2016 General Appropriation Act required the Attorney General to direct \$16.0 million of the legal settlement to the General Fund by the end of FY 2016. Of the approximately \$5.5 million remaining, the Attorney General developed the following spending plan:

- \$3.0 million for programs for the homeless;
- \$2.0 million for attorneys' fees; and
- \$500,000 for consumer fraud education.

The \$3.5 million in allocations to homeless programs and consumer fraud education were deposited into the Consumer Restitution and Remediation Revolving Fund – Consumer Remediation Subaccount and are statutorily required to receive JLBC review prior to expenditure. At the April 2016 meeting of the JLBC, these allocations received a favorable review.

Automobile Theft Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	222,300	291,000	291,000
Employee Related Expenditures	90,100	128,800	126,300
Professional and Outside Services	25,200	20,500	20,500
Travel - In State	600	9,000	9,000
Travel - Out of State	3,400	12,000	12,000
Other Operating Expenditures	120,900	148,500	149,000
Equipment	18,700	30,000	30,000
OPERATING SUBTOTAL	481,200	639,800	637,800
SPECIAL LINE ITEMS			
Automobile Theft Authority Grants	4,579,800	4,607,700	4,607,700 ^{1/2/}
Reimbursable Programs	5,000	50,000	50,000 ^{3/}
AGENCY TOTAL	5,066,000	5,297,500	5,295,500 ^{4/}

FUND SOURCES

Other Appropriated Funds

Automobile Theft Authority Fund	5,066,000	5,297,500	5,295,500
SUBTOTAL - Other Appropriated Funds	5,066,000	5,297,500	5,295,500
SUBTOTAL - Appropriated Funds	5,066,000	5,297,500	5,295,500
Other Non-Appropriated Funds	0	66,500	66,500
TOTAL - ALL SOURCES	5,066,000	5,364,000	5,362,000

AGENCY DESCRIPTION — The Automobile Theft Authority (ATA) is responsible for analyzing the methods of combating the problem of vehicle theft and promoting successful methods of reducing the number of vehicle thefts in Arizona. The ATA is primarily funded from motor vehicle insurance premium fees.

Operating Budget

The budget includes \$637,800 and 6 FTE Positions from the ATA Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,000) from the ATA Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Automobile Theft Authority Grants

The budget includes \$4,607,700 from the ATA Fund in FY 2017 for ATA Grants. This amount is unchanged from FY 2016.

This line item funds grants awarded to law enforcement agencies for an auto theft task force, attorneys dedicated to auto theft prosecution, and other law enforcement activities that reduce auto theft. In FY 2017, ATA expects to award approximately \$3,650,000 to the Department of Public Safety (DPS) for the Arizona Vehicle Theft Task Force, which helps to investigate and pursue automobile-related crimes. An additional \$826,100 is expected to be

- 1/ The Automobile Theft Authority shall pay 75% of the Personal Services and Employee-Related Expenses for city, town and county sworn officers who participate in the Arizona Vehicle Theft Task Force. (General Appropriation Act footnote)
- 2/ Automobile Theft Authority grants shall be awarded with consideration given to areas with greater automobile theft problems and shall be used to combat economic automobile theft operations. (General Appropriation Act footnote)
- 3/ The Automobile Theft Authority shall submit a report to the Joint Legislative Budget Committee before expending any monies for the Reimbursable Programs line item. The agency shall show sufficient monies collected to cover the expenses indicated in the report. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

awarded to county attorneys to prosecute automobile theft-related crimes. Remaining monies would be used for equipment and to provide training. *(Please see the Other Issues section for more information.)*

Reimbursable Programs

The budget includes \$50,000 from the ATA Fund in FY 2017 for Reimbursable Programs. This amount is unchanged from FY 2016.

This line item funds programs such as training seminars, Arizona Vehicle Theft Task Force expenses and “bait car” projects. This line item is funded from donations and grants from the private sector. Since the inception of this program, only \$25,000 for the reimbursement of salary and operational costs of the Arizona Vehicle Theft Task Force has been expended from this line item.

Other Issues

Automobile Theft Authority Fund

The FY 2017 budget includes a one-time appropriation of \$3,000,000 from the ATA Fund for one-time costs of the newly-created Border Strike Task Force (BSTF) within the Department of Public Safety (DPS). This appropriation is intended to be funded from available monies in the ATA Fund balance and will not impact ATA spending.

In FY 2015, the ATA Fund had an ending balance of \$2,645,000 due to accumulated revenues from several years of structural balances. As of April 12, 2016, FY 2016 year-to-date revenues to the fund were \$6,168,000. When compared to the FY 2016 appropriation of \$5,297,500, the fund would have a structural balance of at least \$870,500 for the year. When the FY 2016 structural balance is combined with the FY 2015 ending balance, the ATA Fund will have an available FY 2016 ending balance of at least \$3,515,500 to cover the \$3,000,000 FY 2017 appropriation to DPS. *(Please see the Department of Public Safety BSTF One-Time line item narrative for more information.)*

Automobile Theft Authority Grants

The ATA is appropriated \$4,607,700 from the ATA Fund annually for grants to state and local law enforcement entities. The largest annual recipient of ATA grant monies is the Arizona Vehicle Theft Task Force, which is a multi-

agency group overseen by DPS that works specifically on combating auto-theft related crimes. ATA also issues Vertical Prosecution Grants to county attorneys that are solely dedicated to auto-theft cases, Law Enforcement Grants to local law enforcement agencies for equipment and supplies, Professional Training Grants to pay travel and registration costs associated with going to conferences, and Public Awareness Grants for public education and vehicle identification number etching. *Table 1* displays the allocations of grants for FY 2016 and estimated FY 2017 distributions by recipient and category.

ATA Grant Recipients		
Recipient	FY 2016	FY 2017 est.
Arizona Vehicle Theft Task Force (DPS)	\$ 3,650,000	\$ 3,650,000 ^{1/}
Vertical Prosecution Grants		
Maricopa County Attorney	\$ 283,600	\$ 238,800
Pima County Attorney	108,100	211,700
Pinal County Attorney	201,600	127,200
La Paz County Attorney	119,800	94,700
Mohave County Attorney	90,700	89,100
Santa Cruz County Attorney	27,900	64,600
Subtotal	\$ 831,700	\$ 826,100 ^{1/}
Law Enforcement Grants		
Chandler Police Department	\$ 24,300	\$ -
Florence Police Department	3,000	-
Gilbert Police Department	11,400	-
Maricopa County Sheriff	4,200	-
Pinal County Sheriff	5,000	-
Subtotal	\$ 47,900	\$ 111,600 ^{1/}
Professional Training Grants	\$ 0	\$ 10,000 ^{1/}
Public Awareness Grants		
Apache Junction Police Department	\$ 1,200	\$ 0
Arizona Department of Insurance	5,000	-
Paradise Valley Police Department	1,200	0
Parker Police Department	1,000	-
Peoria Police Department	2,800	0
Subtotal	\$ 11,200	\$ 9,000 ^{1/}
Discretionary Grants	\$ -	\$ 1,000 ^{1/}
TOTAL	\$4,540,800	\$4,607,700

^{1/} Represents total allocations as estimated by the Automobile Theft Authority. Specific awards are yet to be determined.

Board of Barbers

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	179,500	195,800	195,800
Employee Related Expenditures	71,700	71,300	71,300
Professional and Outside Services	3,800	5,000	39,900
Travel - In State	15,400	22,000	22,000
Travel - Out of State	1,800	4,000	4,000
Other Operating Expenditures	34,000	37,300	37,700
AGENCY TOTAL	306,200	335,400	370,700 ^{1/2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Barbers Fund	306,200	335,400	370,700
SUBTOTAL - Other Appropriated Funds	306,200	335,400	370,700
SUBTOTAL - Appropriated Funds	306,200	335,400	370,700
TOTAL - ALL SOURCES	306,200	335,400	370,700

AGENCY DESCRIPTION — The board licenses barbers, inspects barbering establishments, and investigates violations of sanitation requirements and barbering procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The budget includes \$370,700 and 4 FTE Positions from the Board of Barbers Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Online Licensing Software

The budget includes an increase of \$34,900 from the Board of Barbers Fund in FY 2017 for implementation and annual maintenance of online licensing software. *(Please see General Appropriation Act footnote.)*

Statewide Adjustments

The budget includes an increase of \$400 from the Board of Barbers Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

- ^{1/} The appropriation includes \$34,900 for online licensing software. Before the expenditure of these monies, the Board of Barbers shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)
- ^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Board of Behavioral Health Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	823,800	897,500	897,500
Employee Related Expenditures	307,200	330,800	327,800
Professional and Outside Services	221,600	302,100	302,100
Travel - In State	5,700	6,000	6,000
Travel - Out of State	5,400	6,000	6,000
Other Operating Expenditures	195,700	208,100	209,700
Equipment	3,100	10,000	10,000
AGENCY TOTAL	1,562,500	1,760,500	1,759,100^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Behavioral Health Examiners Fund	1,562,500	1,760,500	1,759,100
SUBTOTAL - Other Appropriated Funds	1,562,500	1,760,500	1,759,100
SUBTOTAL - Appropriated Funds	1,562,500	1,760,500	1,759,100
TOTAL - ALL SOURCES	1,562,500	1,760,500	1,759,100

AGENCY DESCRIPTION — The board certifies and regulates behavioral health professionals in the fields of social work, counseling, marriage and family therapy, and substance abuse counseling. The board also licenses and regulates professionals engaged in the practice of psychotherapy.

Operating Budget

The budget includes \$1,759,100 and 17 FTE Positions from the Board of Behavioral Health Examiners Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,400) from the Board of Behavioral Health Examiners Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board for Charter Schools

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	14.0	14.0
Personal Services	479,300	681,200	681,200
Employee Related Expenditures	192,000	272,500	263,400
Professional and Outside Services	30,600	18,000	18,000
Travel - In State	2,300	3,100	3,100
Travel - Out of State	3,300	6,000	6,000
Other Operating Expenditures	175,100	208,600	208,800
Equipment	13,800	11,500	4,700
AGENCY TOTAL	896,400	1,200,900	1,185,200^{1/}
FUND SOURCES			
General Fund	896,400	1,200,900	1,185,200
SUBTOTAL - Appropriated Funds	896,400	1,200,900	1,185,200
Other Non-Appropriated Funds	99,400	48,500	48,500
TOTAL - ALL SOURCES	995,800	1,249,400	1,233,700

AGENCY DESCRIPTION — The board reviews and approves charter school applications, including renewal applications, and monitors the schools that it sponsors for compliance with provisions of their individual charters. It consists of the Superintendent of Public Instruction, 6 members of the general public, 2 members of the business community, a charter school teacher, a charter school operator, and 3 members of the Legislature who serve as advisory members. Currently the board oversees 428 charter schools.

Operating Budget

The budget includes \$1,185,200 and 14 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(6,800) from the General Fund in FY 2017 for the elimination of one-time equipment.

Statewide Adjustments

The budget includes a decrease of \$(8,900) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Child Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,045.1	3,057.1	3,193.1 ^{1/}
Personal Services	102,946,200	117,088,500	59,452,600
Employee Related Expenditures	44,976,800	50,218,900	33,875,500
Professional and Outside Services	10,176,900	9,849,800	9,840,000
Travel - In State	2,907,900	2,997,000	2,994,100
Travel - Out of State	5,400	5,100	5,000
Other Operating Expenditures	32,108,000	27,684,000	8,297,400
Equipment	9,513,100	1,334,000	1,332,700
OPERATING SUBTOTAL	202,634,300	209,177,300 ^{2/}	115,797,300 ^{3/-15/}
SPECIAL LINE ITEMS			
Additional Operating Resources			
Caseworkers	0	0	100,617,700
Backlog Privatization	0	2,700,000 ^{16/}	2,700,000 ^{17/}
New Case Aides	0	0	3,060,600 ^{17/}
Attorney General Legal Services	19,653,300	19,615,500	25,416,800 ^{18/}
General Counsel	80,300	156,100	155,500
Inspections Bureau	702,300	2,486,500	2,470,100
Internet Crimes Against Children	325,000	350,000	0
Office of Child Welfare Investigations	4,324,500	10,706,700	10,611,100 ^{19/}
Overtime Pay	13,515,000	8,400,000	8,370,000 ^{17/}
Records Retention Staff	569,900	595,600	592,900
Retention Pay	618,000	1,707,000	1,707,000
Training Resources	1,782,300	5,150,000	5,150,000
Out-of-Home Placements			
Adoption Services	187,195,200	206,301,000	225,698,100
Emergency and Residential Placement	92,457,500	78,106,300	98,900,100 ^{20/}
Foster Care Placement	56,165,900	60,981,300	65,595,500 ^{20/}
Grandparent Stipends	841,200	1,000,000	1,000,000 ^{21/}
Independent Living Maintenance	4,109,800	3,469,300	4,660,000
Permanent Guardianship Subsidy	11,882,600	12,215,300	12,516,900
Support Services			
DCS Child Care Subsidy	44,761,800	39,753,600	45,159,400
In-Home Preventive Support Services	17,912,500	35,214,400	0
Intensive Family Services	8,500,000	8,500,000	0
In-Home Mitigation	0	0	28,988,100 ^{22/}
Preventive Services	0	0	15,148,300 ^{22/}
Out-of-Home Support Services	178,206,800	143,629,900	198,272,500 ^{20/}
FY 2016 Supplemental			
Eliminate Payment Deferral	0	11,000,000	0
Lump Sum Appropriation	0	71,006,700 ^{23/}	0
Litigation Expenses	0	2,867,600 ^{24/}	0
AGENCY TOTAL	846,238,200	935,090,100	972,587,900 ^{25/}
FUND SOURCES			
General Fund	360,980,300	402,412,800	379,179,400
<u>Other Appropriated Funds</u>			
Child Abuse Prevention Fund	1,300,000	1,459,300	1,459,300
Children and Family Services Training Program Fund	61,000	207,900	207,100
Federal CCDF Block Grant	27,000,000	27,000,000	27,000,000

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
Federal TANF Block Grant	132,000,400	149,324,000	149,472,700
Risk Management Revolving Fund	0	2,867,600	0
SUBTOTAL - Other Appropriated Funds	160,361,400	180,858,800	178,139,100
SUBTOTAL - Appropriated Funds	521,341,700	583,271,600	557,318,500
Expenditure Authority Funds			
Child Safety Expenditure Authority	324,896,500	351,818,500	415,269,400 ^{1/}
SUBTOTAL - Expenditure Authority Funds	324,896,500	351,818,500	415,269,400
SUBTOTAL - Appropriated/Expenditure Authority Funds	846,238,200	935,090,100	972,587,900
Other Non-Appropriated Funds	1,200	1,100	0
TOTAL - ALL SOURCES	846,239,400	935,091,200	972,587,900

AGENCY DESCRIPTION — The department investigates reports of child abuse and neglect, promotes the safety of a child in a stable family or other out-of-home placement in response to allegations of abuse or neglect, works with law enforcement regarding reports that include criminal conduct allegations, and coordinates services to achieve and maintain permanency on behalf of children in the child welfare system. The state's child welfare function was previously located in the Department of Economic Security (DES) in the Division of Children, Youth and Families. In 2014, the Legislature established the Department of Child Safety (DCS) as a new stand-alone child welfare agency.

1/ Includes 1,781.1 GF, 8.4 OF, and 91.7 EA FTE Positions funded from Special Line Items in FY 2017.

2/ The Department of Child Safety may use up to \$35,000,000 from the Budget Stabilization Fund established by A.R.S. § 35-144 for the purpose of providing funding for reimbursement grants. Notwithstanding any other law, this appropriation shall be fully reimbursed on or before September 1, 2016 and be reimbursed in full as part of the closing process for FY 2016. The appropriation may not be used for additional programmatic expenditures.

The Department of Child Safety, the Department of Economic Security and the Department of Administration shall provide a report to the Joint Legislative Budget Committee Staff and the Governor's Office of Strategic Planning and Budgeting on or before November 30, 2016 outlining the process by which the agencies will improve the federal reimbursement claiming process with the intent to eliminate the need for an appropriation in FY 2017 that is similar to those in subsections A and B of this section. (General Appropriation Act footnote)

3/ On or before September 30, 2016, the Department of Child Safety shall report to the Joint Legislative Budget Committee on its progress in implementing the Auditor General's recommendations for risk assessment procedures. (General Appropriation Act footnote)

4/ On or before June 1, 2016, the Department of Child Safety shall submit a report of the number of filled central administrative staff positions as of April 1, 2016 for review by the Joint Legislative Budget Committee. The report shall delineate the filled central administrative staff positions by division and position type. (General Appropriation Act footnote)

5/ This appropriation includes 60 new FTE Positions for central administrative staff. Of these 60 FTE Positions, it is the intent of the Legislature that the department hire at least 16 FTE Positions for the Office of Contracts, 10 FTE Positions for finance and accounting and 10 FTE Positions for the Office of Procurement. On or before September 30, 2016, the department shall submit a report of the proposed hiring plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

6/ For the purposes of this section, "backlog case": (1) Means any nonactive case for which documentation has not been entered in the child welfare automated system for at least 60 days and for which services have not been authorized for at least 60 days and any case that has had an investigation, has been referred to another unit and has had no contact for at least 60 days. (2) Includes any case for which the investigation has been open without any documentation or contact for at least 60 days, any case involving in-home services for which there has been no contact or services authorized for at least 60 days and any case involving foster care in which there has been no contact or any documentation entered in the child welfare automated system for at least 60 days. (General Appropriation Act footnote)

7/ For the purposes of this section, "open report" means a report that is under investigation or awaiting closure by a supervisor. (General Appropriation Act footnote)

8/ On or before September 30, 2016, and on or before the last day of every calendar quarter through June 30, 2018, the Department of Child Safety shall present a report for review by the Joint Legislative Budget Committee on the progress made in increasing the number of filled FTE Positions, meeting the caseload standard and reducing the number of backlog cases and out-of-home children. The report shall include the number of backlog cases, the number of open reports, the number of out-of-home children and the caseworker workload on March 31, 2016 in comparison to the latest quarter. The report shall provide the number of backlog cases by disposition, including the number of backlog cases in the investigation phase, the number of backlog cases associated with out-of-home placements and the number of backlog cases associated with in-home cases.

To determine the caseworker workload, the department shall report the number of case-carrying caseworkers at each field office and the number of investigations, in-home cases, and out-of-home children assigned to each field office.

The quarterly report shall provide the same information on the total number of filled FTE Positions as is required by the monthly hiring report.

For backlog cases, the department's quarterly benchmarks are as follows: 10,000 cases as of September 30, 2016, 7,000 cases as of December 31, 2016, 4,000 cases as of March 31, 2017 and fewer than 1,000 cases as of June 30, 2017 and thereafter.

For open reports, the department's benchmark is to have fewer than 13,000 open reports as of June 30, 2017 and thereafter.

For out-of-home children, the department's benchmark is to reduce the number of children in out-of-home care by an average of an additional 2.0% every quarter with respect to the out-of-home care population as of December 31, 2016. It is the intent of the Legislature that the out-of-home care population be below 17,500 and that the cumulative reduction as compared to the population as of December 31, 2016 be 11.4% on or before June 30, 2018.

If the Department of Child Safety has not submitted the quarterly report within 30 days after the last day of the calendar quarter, the Director of the Joint Legislative Budget Committee shall inform the General Accounting Office of the Department of Administration, which shall withhold 2.0% of the department's operating lump sum quarterly budget allocation until the quarterly report is submitted. (General Appropriation Act footnote)

- 9/ Beginning on the 7th day of the month following the effective date of this act and on the 7th day of each month thereafter through June 30, 2017, the Department of Child Safety shall issue to the Governor, the Chairpersons of the House of Representatives Appropriations and Children and Family Affairs Committees and the Senate Appropriations and Health and Human Services Committees and the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting a report on new hires and separations. The report shall include the total number of FTE Positions funded and the total number of FTE Positions filled on January 31, 2016 and on the last day of each month thereafter. The department shall also delineate new hires and separations by case-carrying caseworkers, hotline staff, caseworkers-in-training, assistant program managers, unit supervisors, case aides, Office of Child Welfare Investigations staff and administrative staff by function. (General Appropriation Act footnote)
- 10/ The amount appropriated for any line item may not be transferred to another line item or the operating budget unless the transfer is reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 11/ Child Safety Expenditure Authority includes all department funding sources excluding the state General Fund, the federal Child Care and Development Fund Block Grant, the federal Temporary Assistance for Needy Families Block Grant, the Child Abuse Prevention Fund and the Children and Family Services Training Program Fund. (General Appropriation Act footnote)
- 12/ On or before July 1, 2016, the Department of Child Safety shall provide a summary of the Moss-Adams audit for review by the Joint Legislative Budget Committee. The summary shall detail any deficiencies related to the department's financial processes. (General Appropriation Act footnote)
- 13/ The Department of Child Safety shall provide training to any new child safety FTE Positions before assigning to any of these employees any client caseload duties. (General Appropriation Act footnote)
- 14/ It is the intent of the Legislature that the Department of Child Safety use its funding to achieve a 100% investigation rate. (General Appropriation Act footnote)
- 15/ The Department of Child Safety shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals on or before the 30th of the following month. The report shall include a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 16/ This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2017. The Department of Child Safety shall request review by the Joint Legislative Budget Committee before spending these monies. (General Appropriation Act footnote)
- 17/ The Overtime Pay appropriation includes a total of \$2,610,700 from the state General Fund, \$3,859,500 from the federal Temporary Assistance for Needy Families Block Grant and \$1,929,800 from Child Safety Expenditure Authority. The Backlog Privatization appropriation includes a total of \$2,700,000 from the state General Fund. The New Case Aides appropriation includes \$2,500,000 from the state General Fund and \$577,700 from Child Safety Expenditure Authority to hire additional case aides. Of these amounts, a total of \$652,700 from the state General Fund, \$964,900 from the federal Temporary Assistance for Needy Families Block Grant and \$482,500 from the Child Safety Expenditure Authority in the Overtime Pay appropriation are available to the department on July 1, 2016. Before expending any remaining monies in the Overtime Pay appropriation or any monies in the Backlog Privatization and New Case Aides appropriations, the department shall submit for review by the Joint Legislative Budget Committee a report on private contractor awards to address the backlog. After the report is reviewed by the Joint Legislative Budget Committee, the remaining \$1,958,000 from the state General Fund, \$2,894,600 from the federal Temporary Assistance for Needy Families Block Grant and \$1,447,300 from the Child Safety Expenditure Authority in the Overtime Pay appropriation, along with \$2,700,000 from the state General Fund in the Backlog Privatization appropriation and \$2,500,000 from the state General Fund and \$577,700 from Child Safety Expenditure Authority in the New Case Aides appropriation, are available to the department. (General Appropriation Act footnote)
- 18/ All expenditures made by the Department of Child Safety for Attorney General legal services shall be funded only from the Attorney General Legal Services line item. Monies in Department of Child Safety line items intended for this purpose shall be transferred to the Attorney General Legal Services line item before expenditure. (General Appropriation Act footnote)
- 19/ The appropriation for the Office of Child Welfare Investigations is solely for the costs of employees directly hired by the Office of Child Welfare Investigations. At least 30 days before any transfer into or out of the Office of Child Welfare Investigations line item, the department shall report the proposed transfer to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 20/ Of the amounts appropriated for Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement, the Department of Child Safety may transfer up to 10% of the total amount of Federal Temporary Assistance for Needy Families Block Grant monies appropriated to the Department of Economic Security and the Department of Child Safety to the Social Services Block Grant for use in the following line items in the Department of Child Safety: Out-of-Home Support Services, Emergency and Residential Placement and Foster Care Placement. Before transferring federal Temporary Assistance for Needy Families Block Grant monies to the Social Services Block Grant, the Department of Child Safety shall report the proposed amount of the transfer to the Director of the Joint Legislative Budget Committee. This report may be in the form of an expenditure plan that is submitted at the beginning of the fiscal year and updated, if necessary, throughout the fiscal year. (General Appropriation Act footnote)
- 21/ The amount appropriated for Grandparent Stipends shall be used for a monthly stipend for a grandparent or any level of great-grandparent if a dependent child is placed in that person's care pursuant to department guidelines. (General Appropriation Act footnote)
- 22/ It is the intent of the Legislature that the amount appropriated for the Preventive Services and In-Home Mitigation line items be used for families whose children are at risk of out-of-home placement due to abuse, neglect or dependency and the amount appropriated for the Out-of-Home Support Services line item be used for children in out-of-home placements. (General Appropriation Act footnote)
- 23/ Of this amount, \$1,906,900 shall be used to address the structural shortfall in the Attorney General Legal Services line item. (General Appropriation Act footnote)
- 24/ This appropriation is exempt from the provisions of section A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2018. (General Appropriation Act footnote)
- 25/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

DCS' FY 2017 General Fund spending increases by \$22,731,200 from the original FY 2016 budget.

When DCS' FY 2016 General Fund supplemental of \$45,964,600 is added, the department's revised FY 2017 General Fund spending decreases by \$(23,233,400). After the removal of \$(11,000,000) associated with one-time funding to eliminate the deferral, DCS' FY 2017 General Fund spending decreases by \$(12,233,400), or (3.1)% from FY 2016. The \$(12,233,400) includes:

- \$(350,000) to consolidate Internet Crimes Against Children (ICAC) funding in the Attorney General budget.
- \$(684,400) for statewide adjustments.
- \$(11,199,000) to remove one-time FY 2016 supplemental funding.

Major Funding Changes

As part of the FY 2017 budget, a FY 2016 supplemental of \$87,574,300 in Total Funds was appropriated to the department, including \$45,964,600 in General Fund and \$41,609,700 of Other Fund monies. Because many of the resources in the supplemental were only needed one time, \$70,159,300 in Total Funds (\$22,731,200 General Fund and \$47,428,100 Other Funds) was continued in FY 2017. Besides ongoing funding of \$70,159,300, \$54,912,800 from Other Funds was added in FY 2017 to account for existing spending in the Comprehensive Medical and Dental program (CMDP), consistent with *footnote 11*.

Transfers Between Line Items

Due to the scale and number of transfers between line items in FY 2015 and FY 2016, the General Appropriation Act requires Joint Legislative Budget Committee (JLBC) review of any transfers between line items in FY 2017 (*footnote 10*).

Legislative Oversight

To ensure the achievement of legislative reforms, the DCS budget includes the following:

- Benchmarks for caseworker workload, the number of out-of-home children and backlog cases (*footnote 8*).
 - Backlog elimination by June 30, 2017 (*footnote 8*).
 - An (11.4)% reduction in the number of out-of-home children by June 30, 2018 (*footnote 8*).
- The freezing of 2.0% of DCS' operating budget if the benchmark report is not submitted on time (*footnote 8*).

- Triggered funding for overtime, new case aides and backlog privatization contingent on contracting with private vendors to assist with the backlog (*footnote 17*).
- The continuation of a monthly report on new hires and separations (*footnote 9*).
- Auditor General audits of administrative staffing, staff retention and utilization and the substance abuse treatment program as required by the FY 2017 Human Services Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 123).
- JLBC review of the department's administrative staffing level (*footnotes 4 and 5*).
- Continued authority for the Ombudsman to refer any DCS complaint directly to a Superior Court judge, included in the FY 2017 Human Services BRB.
- Language requiring DCS to review foster home licensing rules, included in the FY 2017 Human Services BRB.
- A summary of an audit of DCS' internal financial processes provided to JLBC (*footnote 12*).
- A separate Caseworkers line item.
- Separate line items for low-risk and high-risk in-home cases. (*See the In-Home Mitigation and Preventive Services line items.*)

Other Funding

The Arizona Department of Administration (ADOA) was originally appropriated \$19,500,000 for one-time costs associated with the establishment of DCS. The FY 2017 General Appropriation Act made the remaining \$4,403,900 available through the end of FY 2017. (*Please see ADOA - DCS section for further details.*)

ADOA was also appropriated \$5,000,000 from the General Fund in FY 2015 through the Automation Projects Fund for the Children's Information Library and Data Source (CHILDS) replacement project. Based on slow progress, the project received no FY 2016 appropriation. The FY 2017 budget includes an additional \$4,581,600 in FY 2017. (*Please see ADOA - Automation Projects Fund section for details regarding this information technology project.*)

Backlog

On June 2, 2014, DCS reported 13,024 backlog cases. "Backlog case" essentially means any nonactive case for which documentation has not been entered in the child welfare automated system for at least 60 days. A total of \$23,074,300 was appropriated from the General Fund in FY 2015 to address the backlog. The \$23,074,300 from the General Fund was matched with \$5,904,300 in Federal Funds for a total backlog appropriation of \$28,978,600. At the time of the May 2014 Special Session, the Executive estimated that the cost of the backlog population would decline to \$0 in FY 2017. However, due to the existence

of 10,751 unresolved backlog cases in March 2016, the Legislature appropriated \$5.4 million from the General Fund for backlog privatization. (See footnotes 16 and 17.)

Relative to the 13,024 June 2 backlog cases, DCS had initially either activated the cases or closed them. In terms of current activity, the 10,751 backlog cases on March 2016 consisted of 1,026 relapsed June 2, 2014 backlog cases and 9,725 post-June 2, 2014 backlog cases. By June 2016, total backlog cases had fallen to 8,810.

Operating Budget

The budget includes \$115,797,300 and 1,311.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$57,797,800
Federal TANF Block Grant	16,928,000
Child Safety Expenditure Authority	41,071,500

These amounts fund the following adjustments:

Central Administrative Staff

The budget includes an increase of \$8,125,800 and 60 FTE Positions in FY 2017 for new central administrative staff. These amounts consist of:

General Fund	6,685,700
Child Safety Expenditure Authority	1,440,100

(See footnotes 4 and 5 for reporting requirements related to this funding.)

Caseworkers Line Item

The budget includes a decrease of \$(101,200,000) and (1,406) FTE Positions in FY 2017 to transfer caseworker funding to its own line item. These amounts consist of:

General Fund	(36,525,300)
Children and Family Services Training Program Fund	(207,900)
Federal TANF Block Grant	(30,000,000)
Child Safety Expenditure Authority	(34,466,800)

(Please see the Caseworkers line item for more information.)

Statewide Adjustments

The budget includes a decrease of \$(305,800) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(171,300)
Child Safety Expenditure Authority	(134,500)

(Please see the Agency Detail and Allocations section.)

Additional Operating Resources

Caseworkers

The budget includes \$100,617,700 and 1,406 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

General Fund	36,199,500
Children and Family Services Training Program Fund	207,100
Federal TANF Block Grant	30,000,000
Child Safety Expenditure Authority	34,211,100

These amounts fund the following adjustments:

Caseworkers Line Item

The budget includes an increase of \$101,200,000 and 1,406 FTE Positions in FY 2017 to transfer funding for caseworkers from the operating budget to its own line item. These amounts consist of:

General Fund	36,525,300
Children and Family Services Training Program Fund	207,900
Federal TANF Block Grant	30,000,000
Child Safety Expenditure Authority	34,466,800

Statewide Adjustments

The budget includes a decrease of \$(582,300) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(325,800)
Children and Family Services Training Program Fund	(800)
Child Safety Expenditure Authority	(255,700)

Monies in this line item fund caseworker positions I, II, III and IV, including salary, benefits, other operating expenses and in-state travel.

(Please see the Other Issues section for more information on caseworker hiring and workload.)

Backlog Privatization

The budget includes \$2,700,000 from the General Fund in FY 2017 for Backlog Privatization. This amount funds the following adjustments:

Continued Privatization

The budget continues funding for backlog privatization. The budget includes a FY 2016 supplemental of \$2,700,000 from the General Fund. This same funding is continued in FY 2017.

Monies in this line item provide funding for private contractors to assist DCS in addressing the backlog of non-active cases. *Footnote 16* requires JLBC review of DCS' expenditure plan for FY 2016, and *footnote 17* requires JLBC review of proposed private contractor awards.

At its June 2016 meeting, JLBC favorably reviewed the contract award as of June 9 and the FY 2016 funding for backlog privatization. The favorable review released to the department 25% of the New Case Aides funding in FY 2017, or \$769,400 Total Funds, as well as the first \$2,700,000 for private contractors, which is exempt from lapsing through FY 2017. However, JLBC deferred review of the remainder of the FY 2017 funding – the second \$2,700,000 for backlog privatization and 75% of Overtime and New Case Aides appropriations – until DCS submits additional private contractor awards for review.

New Case Aides

The budget includes \$3,060,600 and 34 FTE Positions in FY 2017 for New Case Aides. These amounts consist of:

General Fund	2,490,400
Child Safety Expenditure Authority	570,200

These amounts fund the following adjustments:

New Case Aides Line Item

The budget includes an increase of \$3,077,700 and 34 FTE Positions in FY 2017 for the New Case Aides line item. These amounts consist of:

General Fund	2,500,000
Child Safety Expenditure Authority	577,700

Statewide Adjustments

The budget includes a decrease of \$(17,100) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(9,600)
Child Safety Expenditure Authority	(7,500)

Monies in this line item fund 34 new case aides. In addition, 256 case aides were being funded from the operating budget in May 2016.

A FY 2017 General Appropriation Act footnote states that this funding is only available to the department after JLBC

review of private contractor awards. (*See footnote 17 and Backlog Privatization section above.*)

Attorney General Legal Services

The budget includes \$25,416,800 and 276.2 FTE Positions in FY 2017 for Attorney General Legal Services. These amounts consist of:

General Fund	18,600,600
Federal TANF Block Grant	99,400
Child Safety Expenditure Authority	6,716,800

These amounts fund the following adjustments:

Structural Shortfall Elimination

The budget includes an increase of \$1,360,100 in FY 2017 for structural shortfall elimination. This amount consists of:

General Fund	1,906,900
Child Safety Expenditure Authority	(546,800)

This amount eliminates an Attorney General shortfall previously covered with other, one-time funding.

New Attorney General Staff

The budget includes an increase of \$4,613,100 and 42 FTE Positions in FY 2017 for new Attorney General staff. These amounts consist of:

General Fund	3,093,100
Child Safety Expenditure Authority	1,520,000

This funding will be used to hire additional attorneys and support staff to reduce attorney workload in the Protective Services Section (PSS). Coupled with \$3,000,000 from the General Fund for a surge in dependency cases at the Superior Court, the new funding for Attorney General staff is intended to speed up the processing of dependency cases. (*Please see the Superior Court narrative for more information.*)

Statewide Adjustments

The budget includes a decrease of \$(171,900) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(96,300)
Child Safety Expenditure Authority	(75,600)

Monies in this line item fund the attorneys and support staff in the Attorney General's PSS. Attorney General staff represents DCS in dependency, guardianship, severance and adoption proceedings throughout the state.

General Counsel

The budget includes \$155,500 and 1 FTE Position from the General Fund in FY 2017 for General Counsel. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(600) from the General Fund in FY 2017 for statewide adjustments.

Unlike the Attorney General Legal Services line item which funds representation of DCS in administrative or judicial proceedings, monies in this line item fund the DCS General Counsel, who provides legal advice to the Director.

Inspections Bureau

The budget includes \$2,470,100 and 31 FTE Positions in FY 2017 for the Inspections Bureau. These amounts consist of:

General Fund	1,327,000
Federal TANF Block Grant	549,700
Child Safety Expenditure Authority	593,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(16,400) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(8,900)
Child Safety Expenditure Authority	(7,500)

These monies fund the Office of Quality Improvement, formerly known as the Inspections Bureau, which monitors DCS policies and procedures to ensure they are being followed by all staff in accordance with federal and state law. The Office of Quality Improvement also reviews vendor invoices to ensure accuracy and compliance with DCS contracts.

Internet Crimes Against Children

The budget includes no funding in FY 2017 for ICAC. This amount funds the following adjustments:

Funding Transfer

The budget includes a decrease of \$(350,000) from the General Fund in FY 2017 to consolidate all ICAC funding in the Attorney General's budget.

This line item was initially funded in FY 2015. The Arizona Internet Crimes against Children Task Force (AZICAC), led by the Phoenix Police Department's Internet Crimes Against Children Unit, received the funds. AZICAC is a joint federal/local law enforcement task force that investigates child pornography. AZICAC plans to use the FY 2016 appropriation for a forensic high tech regional safety support vehicle, equipment, training and lab work.

(Please see the Attorney General and the Arizona State Lottery Commission narratives for more information.)

Office of Child Welfare Investigations

The budget includes \$10,611,100 and 127 FTE Positions in FY 2017 for the Office of Child Welfare Investigations (OCWI). These amounts consist of:

General Fund	9,509,100
Child Safety Expenditure Authority	1,102,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(95,600) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(53,600)
Child Safety Expenditure Authority	(42,000)

Monies in this line item fund OCWI, which investigates criminal conduct allegations of child abuse in conjunction with local law enforcement. As of May 2016, the department had hired 84 of the 127 appropriated FTE Positions.

Overtime Pay

The budget includes \$8,370,000 in FY 2017 for Overtime Pay. This amount consists of:

General Fund	2,593,900
Federal TANF Block Grant	3,859,500
Child Safety Expenditure Authority	1,916,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(30,000) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(16,800)
Child Safety Expenditure Authority	(13,200)

Monies in this line item fund overtime pay for DCS.

A FY 2017 General Appropriation Act footnote states that 75% of this funding is only available to the department after JLBC review of private contractor awards. (See footnote 17 and the Backlog Privatization section above.)

Records Retention Staff

The budget includes \$592,900 and 5 FTE Positions in FY 2017 for Records Retention Staff. These amounts consist of:

General Fund	496,900
Child Safety Expenditure Authority	96,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,700) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(1,500)
Child Safety Expenditure Authority	(1,200)

Monies in this line item fund staff that process information requests about children in the state child welfare system.

Retention Pay

The budget includes \$1,707,000 from the General Fund in FY 2017 for Retention Pay. This amount is unchanged from FY 2016.

This funding provides retention pay of \$1,000 for 18 months of employment and \$3,000 for 36 months of employment. Retention pay is a one-time lump sum payment upon meeting the longevity requirements.

Training Resources

The budget includes \$5,150,000 in FY 2017 for Training Resources. This amount consists of:

General Fund	150,000
Child Safety Expenditure Authority	5,000,000

These amounts are unchanged from FY 2016.

DCS has agreements with Arizona State University (ASU) and Northern Arizona University (NAU) to educate potential caseworkers. As part of that agreement, the federal government provides Title IV-E funding for the universities' social work programs while the universities provide the state match. The federal match rate is 75%.

The majority of the funding in this line is for social work programs at ASU and NAU while the remainder is for student scholarships.

Students receive scholarships that cover their tuition, books, and university fees. Scholarship degrees include a Bachelors of Social Work (BSW) or a Masters of Social Work (MSW). The post-graduation DCS work requirement for scholarship students is equal to the length of the academic scholarship. For example, a scholarship student in the 2-year MSW program would be required to work at DCS for 2 years; a senior year-only BSW scholarship student would be obligated to work for 1 year at DCS, although BSW students can receive scholarships starting in their junior year.

The 2-year MSW scholarship value is about \$36,000 (\$11,000 stipend and \$25,000 tuition/fees). Students who withdraw from the scholarship, do not fulfill their contractual obligation, or do not meet the employment requirement of DCS at the time of hiring are technically required to repay DCS the scholarship amount. Of the 19 forfeited social work scholarships since 2012, however, 16 had not been repaid, nor was DCS actively pursuing their repayment.

The Legislature appropriated \$150,000 from the General Fund in FY 2015 to streamline and shorten the classroom training of caseworkers.

DCS also operates a training academy. The training academy is funded out of the operating budget.

Out-of-Home Placements

Adoption Services

The budget includes \$225,698,100 in FY 2017 for Adoption Services. This amount consists of:

General Fund	75,965,800
Federal TANF Block Grant	20,445,700
Child Safety Expenditure Authority	129,286,600

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$19,397,100 in FY 2017 for 2,155 new placements, or 9.4% growth. This amount consists of:

General Fund	6,000,000
Child Safety Expenditure Authority	13,397,100

Caseload – In FY 2015, a monthly average of 20,972 clients received adoption subsidies; the average monthly subsidy for FY 2015 was \$750. The appropriation funds 25,077 total placements in FY 2017.

Background – The program subsidizes the adoption of children who otherwise would entail high financial risks to prospective parents because of physical, mental, or emotional disorders or who would be otherwise difficult to place in adoption because of age, sibling relationship, or racial or ethnic background. The funding provides for maintenance subsidies, special services subsidies, expenditures related to the legal process of adopting a child, and adoption home recruitment costs.

Emergency and Residential Placement

The budget includes \$98,900,100 in FY 2017 for Emergency and Residential Placement. This amount consists of:

General Fund	41,028,000
Federal TANF Block Grant	16,423,000
Child Safety Expenditure Authority	41,449,100

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$18,893,800 in FY 2017 for 524 new placements, or 24% growth. This amount consists of:

General Fund	8,000,000
Child Safety Expenditure Authority	10,893,800

Realignment of Resources

The budget includes an increase of \$1,900,000 from the General Fund in FY 2017 to transfer funding from the Foster Care Placement line item.

Caseload – In FY 2015, a monthly average of 521 children received emergency placement services while 2,100 children received residential (non-foster care) placement services. At an average monthly cost of \$2,624 per emergency placement and \$3,120 per residential placement, funding in this line is sufficient for an average monthly caseload of 624 emergency placements and 2,116 residential placements in FY 2017.

Background – The Emergency and Residential Placement line provides funding for 1) short-term placement until a more permanent placement can be arranged and 2) behavioral or other therapeutic residential treatment.

Foster Care Placement

The budget includes \$65,595,500 in FY 2017 for Foster Care Placement. This amount consists of:

General Fund	30,187,500
Federal TANF Block Grant	6,973,100
Child Safety Expenditure Authority	28,434,900

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$6,514,200 in FY 2017 for 799 new placements, or 10.7% growth. This amount consists of:

General Fund	2,000,000
Child Safety Expenditure Authority	4,514,200

Realignment of Resources

The budget includes a decrease of \$(1,900,000) from the General Fund in FY 2017 to transfer funding to the Emergency and Residential Placement line item.

Caseload – In FY 2015, a monthly average of 6,771 clients received licensed foster care services; the average monthly cost for FY 2015 was \$678. Because the Legislature increased the monthly subsidy for clients older than 12 to \$816 starting in FY 2016, the new average subsidy was expected to be higher in FY 2016, but the average monthly subsidy through the first 8 months of FY 2016 is \$679. At an average monthly cost of \$679 per foster placement, funding in this line is sufficient for an average monthly caseload of 8,050 foster care placements in FY 2017.

Background – The Foster Care Placement line item provides funding for the placement of children in the child welfare system into foster homes. This line item only includes the cost of the maintenance payments, not additional support services.

Grandparent Stipends

The budget includes \$1,000,000 from the General Fund in FY 2017 for Grandparent Stipends. This amount is unchanged from FY 2016.

Caseload – In FY 2015, an average of 964 clients received a \$75 monthly stipend. At \$75 monthly, the appropriation funds 1,111 clients in FY 2017.

Background – The program provides a monthly stipend per child to an unlicensed foster grandparent or great-grandparent who has an income that does not exceed

200% of the Federal Poverty Level, does not receive TANF Cash Benefits, and does not receive a permanent guardianship subsidy.

Independent Living Maintenance

The budget includes \$4,660,000 in FY 2017 for Independent Living Maintenance. This amount consists of:

General Fund	2,969,300
Child Safety Expenditure Authority	1,690,700

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$1,190,700 in FY 2017 for 160 new placements, or 34.3% growth. This amount consists of:

General Fund	250,000
Child Safety Expenditure Authority	940,700

Caseload – In FY 2015, a monthly average of 509 clients received independent living maintenance services; the average monthly subsidy for FY 2015 was \$617. The appropriation funds 629 total placements in FY 2017.

Background – These youth are living on their own and are either enrolled in a postsecondary program or employed. Besides the stipends funded in this line item, the Independent Living program also provides training and support services to children who will likely reach the age of 18 while in out-of-home care. The Out-of-Home Support Services line item funds these support services. The services provided include life skills training, educational support and assistance, an education training voucher, employment assistance, counseling, allowances and financial incentives for reaching certain milestones, voluntary foster care, after care services, health care, post-secondary education and training, and other services. In FY 2015, the program spent \$5,224,200 on non-stipend independent living services.

Permanent Guardianship Subsidy

The budget includes \$12,516,900 in FY 2017 for the Permanent Guardianship Subsidy. This amount consists of:

General Fund	10,573,900
Federal TANF Block Grant	1,943,000

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$301,600 in FY 2017 for 66 new placements, or 2.5% growth. This amount consists of:

General Fund	101,600
Child Safety Expenditure Authority	200,000

Caseload – In FY 2015, a monthly average of 2,575 clients received permanent guardianship subsidies; the average monthly subsidy for FY 2015 was \$380. The appropriation funds 2,744 total placements in FY 2017.

Background – The Guardianship Subsidy program supports permanent placements for children who cannot return home and for whom adoption is not an option. The guardianship subsidy is intended to be only a partial reimbursement for expenses involved in the care of the child. The funding only provides for maintenance subsidies, which are provided to assist with the expenses involved in addressing the special needs of the child.

Support Services

DCS Child Care Subsidy

The budget includes \$45,159,400 in FY 2017 for the DCS Child Care Subsidy. This amount consists of:

General Fund	7,000,000
Federal CCDF Block Grant	27,000,000
Child Safety Expenditure Authority	11,159,400

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$5,405,800 in FY 2017 for 1,120 new placements, or 13.6% growth. This amount consists of:

General Fund	2,000,000
Child Safety Expenditure Authority	3,405,800

Caseload – In FY 2015, a monthly average of 9,256 children received DCS child care; the average monthly subsidy for FY 2015 was \$402. Based on this monthly rate, the funding in this line item is sufficient for an average monthly caseload of 9,361 children in FY 2017.

Background – Monies in this line item fund child care for children in the DCS system. DES continues to administer the state’s child care program, so this funding is passed through to DES. Children who qualify for the DCS child care subsidy are not subject to a time limit, copay, or waiting list. DCS child care is provided for children in

licensed foster care, unlicensed foster care and their own homes who are receiving preventive services. *(Please see the Child Care Subsidy line item in the DES narrative for other state child care funding.)*

In-Home Preventive Support Services

The budget includes no funding in FY 2017 for In-Home Preventive Support Services. This amount funds the following adjustments:

Preventive Services Realignment

The budget includes a decrease of \$(35,214,400) and (1) FTE Positions in FY 2017 to place resources for child maltreatment prevention into 2 new line items: In-Home Mitigation and Preventive Services. This \$(35,214,400) consists of:

General Fund	(15,794,000)
Child Abuse Prevention Fund	(1,459,300)
Federal TANF Block Grant	(5,911,200)
Child Safety Expenditure Authority	(12,049,900)

Table 1

**In-Home and Out-of-Home Support Services^{1/}
FY 2015 Actual Expenditures by Subcategory**

Services	Amount
Parent Aide	\$ 48,177,700
CMDP	34,271,900
Foster Home Recruitment	28,561,200
Transportation	24,472,200
Health Families	11,148,300
Allowances ^{3/}	10,735,400
Substance Abuse Treatment	8,890,300
Intensive Family Services	8,491,600
In-Home ^{2/}	8,270,400
Behavioral Health Services	7,832,700
Lab Services	6,636,900
Independent Living	5,223,800
Housing Subsidy	467,000
Child Care	427,800
Family Support Services	373,600
Other	<u>5,036,100</u>
Total^{4/}	\$209,016,900

1/ Includes the Intensive Family Services line item.
 2/ In-home services can include crisis intervention counseling, marital and family therapy, respite care, home management and nutrition, and linkages with community resources.
 3/ Includes a clothing allowance, personal allowance, and special allowance. Some examples of special allowances are emergency clothing, special needs, books/education, graduation, and diapers.
 4/ Data as of November 2015.

Table 1 shows DCS' actual FY 2015 expenditures for the In-Home Preventive Support Services line item, the Intensive Family Services line item, and the Out-of-Home

Support Services line item by subcategory. The current CHILDS system has limitations that prevent a clear distinction between expenditures for children receiving In-Home Preventive Support Services and children receiving Out-of-Home Support Services. DCS estimates, however, that the average annual cost per child for in-home support services was \$7,280 in FY 2015. In February 2016, there were 1,652 in-home cases, or 3,469 children receiving in-home services. The JLBC Staff is working with DCS to determine the number of individual children served year to date.

Intensive Family Services

The budget includes no funding in FY 2017 for Intensive Family Services. This amount funds the following adjustments:

Preventive Services Realignment

The budget includes a decrease of \$(8,500,000) from the General Fund in FY 2017 to place resources for child maltreatment prevention into 2 new line items: In-Home Mitigation and Preventive Services. *(For more information, please see these new line items below.)*

In-Home Mitigation

The budget includes \$28,988,100 and 1 FTE Positions in FY 2017 for In-Home Mitigation. These amounts consist of:

General Fund	15,794,000
Child Abuse Prevention Fund	1,459,300
Federal TANF Block Grant	5,911,200
Child Safety Expenditure Authority	5,823,600

These amounts fund the following adjustments:

New Funding

The budget includes an increase of \$1,350,700 in FY 2017 to expand the General Fund resources available for In-Home Mitigation and eliminate excess Expenditure Authority. These amounts consist of:

General Fund	5,000,000
Child Safety Expenditure Authority	(3,649,300)

Preventive Services Realignment

The budget includes an increase of \$27,637,400 and 1 FTE Position in FY 2017 to transfer resources from the In-Home Preventive Support Services and Intensive Family Services line item to the In-Home Mitigation line item. These amounts consist of:

General Fund	10,794,000
Child Abuse Prevention Fund	1,459,300

Federal TANF Block Grant	5,911,200
Child Safety Expenditure Authority	9,472,900

Monies in this line item fund interventions for children experiencing maltreatment. The interventions include substance abuse treatment, case management, family support services, reunification services, interpreter services, lab services, parent aide services, counseling, transportation, moderate and intensive in-home services, the housing subsidy, and emergency funding.

Preventive Services

The budget includes \$15,148,300 in FY 2017 for Preventive Services. This amount consists of:

General Fund	4,000,000
Child Safety Expenditure Authority	11,148,300

These amounts fund the following adjustments:

Preventive Services Realignment

The budget includes an increase of \$15,148,300 in FY 2017 to transfer resources from the In-Home Preventive Support Services and Intensive Family Services line item to the Preventive Services line item. This amount consists of:

General Fund	4,000,000
Child Safety Expenditure Authority	11,148,300

Monies in this line item fund programs targeted at families in need to alleviate identified problems and prevent escalation. The targeted interventions include the Healthy Families and Building Resilient Families programs.

Out-of-Home Support Services

The budget includes \$198,272,500 in FY 2017 for Out-of-Home Support Services. This amount consists of:

General Fund	56,933,200
Federal TANF Block Grant	46,340,100
Child Safety Expenditure Authority	94,999,200

These amounts fund the following adjustments:

Caseload Growth

The budget includes an increase of \$12,500,000 from the General Fund in FY 2017 for caseload growth.

Existing CMDP Resources

The budget includes an increase of \$41,213,900 from Child Safety Expenditure Authority in FY 2017 to account for existing CMDP resources in DCS' budget.

Realignment of Resources

The budget includes an increase of \$928,700 from the General Fund in FY 2017 to realign funding among line items.

Caseload – For February 2016, the department reported 19,044 out-of-home children were receiving support services.

Background – The Out-of-Home Support Services line item provides support services for out-of-home clients, in the categories displayed in *Table 1*. This line item does not include the cost of residential placement.

This line item and the In-Home Preventive Support Services line item fund Arizona Families F.I.R.S.T. Individuals must meet 1 of the following 2 requirements to qualify for the program:

- Any parent, guardian or custodian of a child who is named in a child maltreatment report as a victim of abuse or neglect and whose substance abuse is a significant barrier to maintaining, preserving or reunifying the family.
- A person whose substance abuse is a significant barrier to obtaining or maintaining employment if the person is receiving TANF Cash Benefits.

The budget for Arizona Families F.I.R.S.T. is outlined in *Table 2*. This funding is part of the Substance Abuse Treatment category in *Table 1*. In FY 2015, 7,656 child safety clients were referred to the Arizona Families F.I.R.S.T. program for substance abuse treatment services, and it is anticipated that 7,651 and 8,016 child safety clients will be referred to the program in FY 2016 and FY 2017, respectively.

	Arizona Families F.I.R.S.T.			
	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
<i>Appropriated</i>				
General Fund	\$ 29,100	\$ -	\$ -	\$ -
TANF	9,163,400	8,922,500	8,916,900	9,342,200
<i>Non-Appropriated</i>				
Joint Substance Abuse Trtmt Fund	610,800	-	-	-
Total	\$9,803,300	\$8,922,500	\$8,916,900	\$9,342,200

The Out-of-Home Support Services line item also provides full coverage of the medical and dental expenses of foster

children. The General Fund monies in this CMDP provide medical services to children who are not eligible for coverage through the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS also provides behavioral health services for foster children.

FY 2016 Supplemental

Eliminate Payment Deferral

The budget includes no funding in FY 2017 to eliminate the payment deferral. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(11,000,000) from the General Fund in FY 2017 to remove one-time funding related to the deferral elimination. *(Please see Payment Deferral in the Other Issues section.)*

Lump Sum Appropriation

The budget includes no funding in FY 2017 for the Lump Sum Appropriation. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(71,006,700) in FY 2017 to remove one-time funding related to the lump sum appropriation. This amount consists of:

General Fund	(32,264,600)
Federal TANF Block Grant	(17,323,600)
Child Safety Expenditure Authority	(21,418,500)

(Please see FY 2016 Supplemental in the Other Issues section.)

Litigation Expenses

The budget includes no funding in FY 2017 for Litigation Expenses. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(2,867,600) from the Risk Management Revolving Fund in FY 2017 to remove one-time funding related to litigation expenses.

Monies in this item fund expenses related to 2 class action lawsuits. The primary lawsuit alleges sub-standard foster care, and the secondary lawsuit is related to the Indian Child Welfare Act. Funding in this line item is non-lapsing until June 2018 and will be used for Attorney General staff, DCS staff file production, expert witnesses and case review. *(See footnote 24.)*

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2016 Supplemental
- Additional Legislation
- Auditor General Recommendation
- Title IV-E Waiver
- Caseworker Hiring
- Caseworker Workload
- Payment Deferral
- TANF Block Grant
- DCS Reporting Requirements
- Child Safety Funding

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, DCS General Fund costs are projected to remain flat in FY 2018 and FY 2019 compared to FY 2017.

FY 2016 Supplemental

The budget includes a supplemental appropriation of \$87,574,300 in FY 2016. This amount consists of:

Backlog Privatization

The budget includes an increase of \$2,700,000 from the General Fund in FY 2016 for backlog privatization. *(Please see footnote 16.)*

Deferral Elimination

The budget includes an one-time increase of \$11,000,000 from the General Fund in FY 2016 to eliminate the DCS deferral. *(Please see Payment Deferral discussion below.)*

Lump Sum Supplemental

The budget includes an increase of \$73,874,300 in FY 2017 for the lump sum supplemental. This amount consists of:

General Fund	32,264,600
Federal TANF Block Grant	17,323,600
Child Safety Expenditure Authority	21,418,500
Risk Management Revolving Fund	2,867,600

(Please see footnotes 16, 23 and 24.)

The FY 2017 Human Services BRB allows DCS to use a Healthy Families fund balance of \$3,800,000 for In-Home Preventive Services in FY 2016; the \$3,800,000 is part of the \$21,418,500 appropriation from Child Safety

Expenditure Authority. The FY 2017 Human Services BRB also eliminates a footnote in the original FY 2016 budget that proportionally reduced General Fund dollars to DES and DCS for every TANF Block Grant dollar received in excess of their appropriations.

Bridge Loan

As part of the FY 2017 budget, DCS received a FY 2016 supplemental loan of \$35,000,000 from the Budget Stabilization Fund to fund program expenses while awaiting federal reimbursement. DCS is required to fully reimburse the \$35,000,000 by September 1, 2016 as part of the closing process for FY 2016, so it has no impact on the General Fund bottom line. DCS must submit a report by November 30, 2016 outlining the process by which the agency will improve the federal reimbursement claiming process to eliminate the need for a future bridge loan. (Please see footnote 2.)

Additional Legislation

Joint Report on Child Welfare

The Human Services BRB continues to require ECDHB to report by February 1, 2017 with DCS on their collaborative efforts to address child welfare issues of common concern.

Foster Care Licensing Rules

The Human Services BRB requires DCS to review foster home licensing rules and solicit input about the proposed rules from foster families. DCS is to report its findings to Speaker of the House of Representatives and the President of the Senate by December 31, 2016.

Ombudsman Continuation

The Human Services BRB delays the repeal of an Ombudsman-Citizens Aide Office (OCAO) provision from June 2016 to June 2018. The provision continues to allow OCAO, upon investigation, to refer any complaint concerning DCS directly to a Superior Court Judge.

Foster Youth Education Success Program

Laws 2016, Chapter 248 allows charter schools to give enrollment preference to foster children. (Please see the *Other Issues section of the Governor's Office for more information.*)

Elimination of Benefit Cap for Foster Children

Laws 2016, Chapter 133 eliminates the TANF Cash Benefit cap on children in the custody of DCS, a tribal court or tribal child welfare agency. The cap is also eliminated for children placed with a non-parent relative as the result of child maltreatment, a court order, deceased parents or abandonment. The legislation is estimated to cost at least \$456,100 from the federal TANF Block Grant annually.

Report Screening

Laws 2016, Chapter 300 excludes from investigation cases where the identity or location of the child victim is unknown or the suspected non-criminal conduct maltreatment occurred more than 3 years before the communication to the hotline.

Auditor General Recommendation

The FY 2016 Human Services BRB (Laws 2015, Chapter 18) instructed the Auditor General to submit a report evaluating the use of differential response, which uses a full investigation for a high-risk report, but a non-investigative response to low-risk reports.

According to the report, states that utilize a differential response approach follow up on child maltreatment reports in one of two ways: (a) a traditional investigation for high-risk cases involving criminal conduct or (b) an alternative response for moderate/low-risk cases, such as neglect. An alternative response focuses on an assessment of a family's needs and then connects them to appropriate services. The alternative response may be conducted by a private vendor. Based on the prevalence of risk and safety factors, a case can switch from an alternative response to a traditional response.

Findings

Although Arizona had a differential response program called Family Builders from 1998 to 2004, DCS does not currently employ a differential response approach. All reports of child maltreatment undergo a traditional DCS investigation. A number of states are considering a differential response approach, and 21 states already have a differential response program in place. Nevada contracts out the initial safety assessment of families assigned to the alternative response track.

The Auditor General found that differential response programs may lead to better outcomes for families but are likely more expensive in the short term than traditional response. Families participating in the differential response track were found to be more engaged and satisfied with the child welfare system. In addition, families may be more likely to accept services if offered through the alternative track of the differential response approach. Based on the Auditor General's research, other jurisdictions do not believe that differential response programs compromise child safety. Because differential response provides more services than traditional response, differential response is likely more expensive in the short term, although there may be potential cost savings over the long term.

	Caseworker Workload							
	<u>Dec. 2008</u>	<u>Dec. 2009</u>	<u>Dec. 2010</u>	<u>Dec. 2011</u>	<u>Dec. 2012</u>	<u>Dec. 2013</u>	<u>Dec. 2014</u>	<u>Dec. 2015</u>
Investigations	15	15	15	15	15	16	16	25
In-Home Cases	28	27	30	32	33	47	42	43
Out-of-Home Children	24	23	25	27	36	25	29	30
Percent Above Workload Standard	9%	9%	15%	22%	48%	28%	37%	54%
Total Case-Carrying Caseworkers	818	761	764	781	750	983	1,019	953
Caseworkers Required by Standard	890	829	879	955	1,107	1,263	1,397	1,466

Recommendations

The report recommends that DCS should (1) continue working with the Legislature on legislation that allows for differential response; (2) finalize and implement criteria and policies and procedures for making response assignment decisions and response track switching; (3) develop well-defined practices to guide workers and implement training for appropriate staff; (4) determine services to be provided; (5) decide whether to implement differential response in phases; (6) allow stakeholder comment during implementation; and (7) develop a plan to evaluate differential response. To date, the Legislature has taken no action on these recommendations.

The FY 2016 Human Services BRB also requires the Auditor General to evaluate DCS permanency practices by September 30, 2016. The FY 2017 Human Services BRB instructs the Auditor General to evaluate the department's administrative staffing level by February 2017, staff retention and utilization by September 2017 and the substance abuse treatment program, Arizona Families F.I.R.S.T., by March 2018.

Title IV-E Waiver

In September 2014, the U.S. Department of Health and Human Services (HHS) granted DCS' request for a federal Title IV-E waiver focused on reducing the length of stay for children in congregate care. Congregate care includes emergency shelters, group homes and residential treatment centers. "IV-E" refers to the section of federal law authorizing federal government payment of foster care and related expenses. As shown in *Table 10*, Title IV-E funding has been the state's primary source of federal funding for children placed outside the home in the child welfare system. Title IV-E funding is traditionally uncapped, so there is no limit on the amount of IV-E monies the state can draw down for qualifying expenses. In exchange for accepting a capped allocation of IV-E funding, HHS will allow DCS to use IV-E monies for a broader set of services, including in-home services. DCS plans to start operating under the waiver in July 2016.

Caseworker Hiring

The Legislature has funded 1,406 caseworkers (direct line staff). *Table 3* displays DCS progress in hiring these staff.

	Change in Staff Since January 2016		
<u>Direct Line Staff Type</u>	<u>Jan. 2016</u>	<u>May 2016</u>	<u>Change Thru Jan. 2014</u>
Case-Carrying Caseworkers	935	970	35
Caseworkers in Training	286	281	(5)
Hotline Staff	74	76	2
Total	1,295	1,327	32

Since January 2016, the number of direct line child safety staff (caseworkers, caseworkers in training, and hotline staff) has increased by 32 to 1,327. The number of staff directly working cases has grown by 35 FTE Positions to 970. About 21% of direct line staff, or 281 positions, are in training.

DCS' highest hiring level occurred in April 2015 with 1,357 direct line staff.

Caseworker Workload

As of December 2015, workload per caseworker remains higher than the revised caseload goals established during the May 2014 Special Session, with investigations at 25 (goal: 13), in-home at 43 (goal: 33), and out-of-home at 30 (goal: 20). There is likely a technical issue in DCS' report with the investigations caseworker workload estimate.

Table 4 provides a historical view of workload by caseworker responsibility since 2008; it also displays how much workload exceeds the caseload standard in the "percent above workload standard" line. In December 2015, the latest data available, caseworker workload was 54% above the standard.

Payment Deferral

Beginning in FY 2009, the budget bill allowed DES to pay bills incurred from the end of FY 2009 out of the FY 2010

appropriation. Because the deferral allowed DES to pay bills out of the following year's appropriation, a one-time General Fund savings was realized in FY 2009. This payment deferral, or "rollover," has continued since FY 2009. When DCS was split off from DES, DCS was allocated a portion of the payment deferral.

The budget eliminates the \$11.0 million payment deferral. *Table 5* displays the department's allocation of the deferral in FY 2016, paid off with the supplemental appropriation.

<u>Line Items</u>	<u>FY 2016</u>
Emergency and Residential	\$ 1,800,000
Foster Care	1,900,000
Out-of-Home Support Services	<u>7,300,000</u>
Total General Fund	\$11,000,000

TANF Block Grant

The federal TANF Block Grant can be deposited into the federal Social Services Block Grant (SSBG); once deposited, the monies are spent on DCS programs. The federal government caps the amount of TANF Block Grant monies that can be transferred to the SSBG at 10%. A footnote in the General Appropriation Act allows DCS to make this transfer of TANF monies in the Out-of-Home Support Services, Emergency and Residential Placement, and Foster Care Placement line items to the SSBG. This amount is estimated at \$20,141,300 in FY 2017. The transfer to SSBG provides additional funding flexibility to DCS.

The FY 2017 budget includes adjustments to the TANF Block Grant appropriations to DES and DCS in FY 2016 and FY 2017. The budget includes an FY 2016 supplemental TANF increase in DCS of \$17.3 million and a supplemental TANF decrease in DES of \$(9.9) million. In FY 2017, the budget includes a further TANF increase of \$0.2 million in DCS and a further TANF decrease of \$(3.9) million in DES. The adjustments allow DCS to utilize surplus TANF available as a result of decreasing Cash Benefits caseloads in DES and surplus TANF available as a result of a structural balance in the fund. *(Please see the TANF Block Grant section in the DES narrative.)*

DCS Reporting Requirements

DCS provides a number of reports to the Governor and Legislature, including:

- Semi-Annual Child Welfare Report - tracks program performance measures
- Semi-Annual Financial & Program Accountability Report - tracks program performance measures
- Monthly Program Report - tracks program performance measures
- 30th of the Month Report - focuses on potential funding shortfalls during the current fiscal year
- Healthy Families Annual Report - home visitation program for at-risk families with young children
- Report on bridge loan elimination
- Report on backlog privatization
- Reports on administrative staff
- Monthly report on hiring and separations
- Report on potential deficiencies related to DCS' financial processes
- Report on Housing Assistance
- Independent Living Report
- Review of foster home requirements
- Behavioral Health Report
- Quarterly Benchmark Report - tracks caseworker hiring, backlog elimination, open reports, foster children and caseworker workload
- Summary of DCS Grants
- Community Advisory Committee Quarterly Report
- Joint Investigations Report
- OCWI Line Item Fund Transfer Report
- CHILDS Independent Third-Party Consultant Report
- Kinship Foster Care Report
- Arizona Families F.I.R.S.T. Report
- Expedited Substance Abuse Treatment Fund Report
- Report on the Implementation of Auditor General Recommendations
- Intensive Family Services Expenditure Plan

In addition to these reports, DCS provides a number of different reports to the federal government and other groups, such as Casey Family Programs and Chapin Hall.

In an effort to streamline DCS' reports, Laws 2014, 2nd Special Session, Chapter 1 requires JLBC, OSPB, and DCS to make recommendations on DCS report consolidation by September 1, 2016. The JLBC Staff's preliminary recommendation is for DCS to expand its existing performance measures webpage to include the information in DCS' 3 main reports (the Semi-Annual Child Welfare report, the Semi-Annual Financial and Program Accountability report and the Monthly Program report).

Data elements in these 3 reports include the number of out-of-home children, the number of in-home children, caseworker workload, the number of child maltreatment reports, measures of child wellbeing, the caseworker

Table 6

State FY 2016 Child Welfare Appropriations Compared to Caseload Data

State	Child Welfare Indicators			FY 2016 Child Welfare Appropriation (\$ in Millions)			
	Population under 18 in 2013	Children in Out-of-Home Care ^{1/}	Percent of Children in Out-of-Home Care	State General Fund Appropriation	Other Fund Appropriation	Federal Fund Appropriation	Total Appropriation
Arizona	1,618,900	18,917	1.2%	\$379.2	\$178.1	\$415.3	\$972.6
Colorado	1,238,900	9,705	0.8%	\$258.3	\$104.2	\$101.5	\$464.0
Nevada	661,600	4,955	0.7%	\$124.4	\$44.5	\$82.7	\$251.6
New Mexico	507,100	2,175	0.4%	\$83.9	\$5.0	\$53.5	\$142.4
Utah	897,000	2,729	0.3%	\$115.6	\$(1.7)	\$58.3	\$172.2

^{1/} Data based on March 2016 count for Arizona, FY 2014 average for Colorado, latest data available in July 2015 for Nevada, June 2014 count for New Mexico, and FY 2014 average for Utah.

retention rate, financial information, programmatic data, and other important child welfare indicators.

Several of the performance measures in the 3 main reports are redundant, so consolidating them into one online report should reduce the amount of work associated with preparing and publishing the reports.

Child Safety Funding

Table 6 shows how child welfare funding in Arizona compares to surrounding states. Arizona appears to place more children in out-of-home care on a percentage basis than surrounding states. Of the population under 18, Arizona has 1.2% in out-of-home care; other states range from 0.3% to 0.8%. This information parallels the narrative in the Chapin Hall report concerning Arizona’s out-of-home placement rate being above that of other states. Chapin Hall is a research and policy center located at the University of Chicago that provided a report of Arizona’s child welfare system pursuant to Laws 2014, 2nd Special Session, Chapter 1.

Arizona spends more on child welfare than surrounding states. The FY 2016 appropriation for DCS is \$972.6 million compared to \$464.0 million in Colorado, \$251.6 million in Nevada, \$172.2 million in Utah, and \$142.4 million in New Mexico.

It is difficult to compare child welfare funding across states because each state defines child welfare differently. For example, Arizona is the only state in Table 6 to have its own stand-alone agency for child welfare.

Because Arizona has a dedicated child welfare agency, central administrative costs are accounted for in its funding total. Other states, however, likely exclude child welfare central administrative costs that are borne at the

departmental level. There are also other irregularities from state to state. Colorado, for instance, has a county administered system. While county match funding appears in Table 6, county funding contributions (if any) above their capped allocation would not. Due to these concerns about what constitutes child welfare spending, a cost per placement comparison by state may be invalid.

Table 7 shows the growth in state funding for child safety year over year since FY 2013. Table 8 indicates the specific job titles of the 854 new child safety FTE Positions added since FY 2013, while Table 9 displays total child safety expenditures since FY 2008. Table 10 outlines the 14 different fund sources contained in Child Safety Expenditure Authority by line item.

Table 7

Increase in State Child Safety Funding ^{1/}
(\$ in Millions)

Staffing	FY 2013/2014	FY 2015	FY 2015 SS	FY 2016	FY 2017	Total (FY 17 Above FY 12)
Child Safety Staff (caseworkers & others)	\$17.7	^{2/} \$15.3	\$6.2	(\$1.2)	^{3/} \$2.5	\$40.5
Central Administrative Staff	0.0	0.0	0.0	0.0	6.7	6.7
Child Safety Staff Pay Raise/Retention Stipend	1.0	0.0	1.7	0.0	0.0	2.7
OCWI Staff	2.3	1.8	5.3	0.1	0.0	9.5
Records Retention Staff	0.0	0.5	0.0	0.0	0.0	0.5
Child Safety Legal Staff	1.5	see 16 ¹	0.0	1.0	5.0	7.5
Internal Legal Counsel	0.0	0.0	0.2	0.0	0.0	0.2
Inspections Bureau	0.0	0.0	2.2	(0.2)	^{3/} 0.0	2.0
Residential Placements						
Congregate Care	13.0	0.0	0.0	(5.1)	^{4/} 8.0	15.9
Congregate Care Backfill	0.0	^{5/} 0.0	6.5	0.0	0.0	6.5
Foster Care	4.8	0.0	0.0	2.7	^{4/} 2.3	9.8
Grandparent Stipends	1.0	0.0	0.0	0.0	0.0	1.0
Permanent Guardianship	2.4	0.0	0.0	1.0	0.1	3.5
Adoption Services	19.9	6.0	0.0	7.0	6.0	38.9
Services						
Intensive Family Services/In-Home Mitigation	5.0	3.5	0.0	0.0	5.0	13.5
Support Services	4.0	5.6	0.0	4.4	^{4/} 12.5	26.5
Child Care	9.0	0.0	0.0	0.0	2.0	11.0
Backlog						
Privatization	0.0	0.0	0.0	2.7	0.0	2.7
Action Determination	0.0	0.0	0.2	(0.2)	0.0	0.0
Investigation	0.0	0.0	4.2	(4.2)	0.0	0.0
Out-of-Home Care Placement	0.0	0.0	6.8	(2.3)	0.0	4.5
Out-of-Home Care Services	0.0	0.0	7.6	(2.5)	0.0	5.1
In-Home Care Services	0.0	0.0	4.2	(1.4)	0.0	2.8
Other						
Training Resources	0.0	0.0	0.2	0.0	0.0	0.2
Internet Crimes Against Children	0.0	0.0	0.4	0.0	(0.3)	0.1
Partial Deferral Payoff	0.0	0.0	3.0	(3.0)	0.0	0.0
Federal Funds Backfill	18.5	0.0	0.0	0.0	0.0	18.5
Contingency	10.5	0.0	0.0	0.0	0.0	10.5
Statewide Adjustments	0.0	0.0	0.0	(0.7)	(0.7)	(1.4)
Eliminate Payment Deferral	0.0	0.0	0.0	11.0	(11.0)	0.0
Lump Sum Supplemental	0.0	0.0	0.0	32.3	(32.3)	0.0
TANF Swap	0.0	0.0	0.0	0.0	(4.0)	(4.0)
Non-General Fund Solutions	0.0	0.0	0.0	0.0	(25.0)	(25.0)
Total - DCS Agency	110.8	32.7	48.7	41.4	(23.2)	210.2
Other Agency Funding						
New Agency One-Time Funding (ADOA) ^{6/}	0.0	19.5	0.0	(19.5)	0.0	0.0
CHILDS Replacement (ADOA)	0.0	5.0	0.0	(5.0)	4.6	4.6
Judiciary - Dependency Caseload Growth	0.0	0.0	0.0	0.0	3.0	3.0
Auditor General	0.0	0.0	0.3	(0.3)	0.0	0.0
Total ^{7/}	\$110.8	\$57.1	\$48.8	^{8/} \$16.6	(\$15.6)	\$217.7

^{1/} Each year shows the increase over the prior fiscal year. The FY 2015, FY 2016 and FY 2017 amounts are General Fund, while the FY 2014 and FY 2013 amounts include General Fund and Long Term Care System Fund.

^{2/} The \$5.7 million supplemental (Laws 2014, 2nd Regular Session) is not shown so as not to double count the funding.

^{3/} Represents elimination of one-time equipment funding.

^{4/} Foster care savings policy of \$(2.0) million consists of \$(5.1) million in congregate care, \$2.7 million in foster care, and \$0.4 million in support services.

^{5/} The \$5.1 million supplemental (Laws 2014, 2nd Special Session) is not shown so as not to double count the funding.

^{6/} Total appropriation of \$25.0 million subsequently reduced to \$19.5 million.

^{7/} Numbers do not add due to rounding.

^{8/} Excludes \$0.8 million for the Legislative Council Ombudsman.

Table 8

**New Child Safety FTE Positions
(All Funds)**

	FY 2013	Part 1 FY 2014 1/	Part 2 FY 2014 2/	FY 2015	FY 2015 SS 3/	FY 2017	Total Change 4/
Central Administrative Staff	-	-	-	-	-	60	60
Caseworkers/Hotline Staff	50	93	126	32	54	-	355
OCWI Staff	28 5/	-	-	20	73	-	121
Assistant Program Managers	4	2	4	-	2	-	12
Unit Supervisors	-	16	20	6	10	-	52
Case Aides	-	23	30	9	15	-	77
Records Retention Staff	-	-	-	5	-	-	5
AG Legal Staff via DCS	-	22	-	-	-	42	64
AG Legal Staff (Direct) 6/	-	-	-	12	-	-	12
In-House Counsel	-	-	-	-	1	-	1
Inspections Bureau	-	-	-	-	21	-	21
Support Staff/Other	-	16	12	3	9	34	74
Subtotal - New	82	172	192	87	185	136	854
Transferred Staff	-	-	-	-	99 7/	-	99
Subtotal - New and Transferred	82	172	192	87	284	136	953
Total Child Safety Staff	N/A	N/A	N/A	N/A	N/A	N/A	3,193

1/ Represents original FY 2014 budget.

2/ Represents FY 2014 supplemental in 2nd Regular Session.

3/ Reflects 2nd Special Session.

4/ Total change in FTE Positions since FY 2012.

5/ The agency indicates that 34 OCWI staff were hired.

6/ Shifted to DCS in FY 2016.

7/ Represents administrative staff transferred from DES, including 10 Inspections Bureau Staff.

Table 9

**Child Safety Total Fund Expenditures
(\$ in Millions)**

Fiscal Year	Expenditures	Reports of Child Maltreatment
2008	\$509.9	34,989
2009	\$487.6	33,186
2010	\$448.9	33,839
2011	\$478.8	34,904
2012	\$561.2	40,517
2013	\$625.8	44,119
2014	\$710.9	45,368
2015 Actual 1/	\$846.2	51,075
2016 Appropriation 2/	\$935.1	32,818 3/
2017 Appropriation 4/	\$972.6	-

1/ Excludes \$25.0 million for start-up funding appropriated to ADOA, \$5.0 million for CHILDS replacement, \$0.8 million for the Ombudsman and \$0.3 million for the Auditor General. Includes \$1.2 million for Attorney General expenses appropriated to the Attorney General.

2/ Excludes \$0.8 million for the Ombudsman.

3/ Represents data through February 2016, which is (1.2)% lower than February 2015.

4/ Excludes \$4.6 million for CHILDS Replacement and \$3.0 million for Judiciary caseload growth.

Table 10

Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source 1/	Operating Budget		New Case Aides		Attorney General		Inspections Bureau		OCWI		Overtime Pay		Records Retention		Training Resources	
	Budget	Caseworkers	Aides	General	Bureau	OCWI	Pay	Retention	Resources							
AHCCCS	\$12.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.4	\$0.0	\$0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AIPP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAN Basic	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CBCAP	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chafee IL	0.4	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SSBG	0.0	5.5	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B I CWS	0.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPCV	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-B II FPSS	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV-E	20.0	16.1	0.6	0.0	0.7	1.6	1.9	0.1	5.0	1.9	0.1	5.0	0.1	5.0	0.1	5.0
Over/(Under) Allocated Authority	6.8	6.5	0.0	5.2	(0.2)	(0.5)	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	\$41.1	\$34.2	\$0.6	\$6.7	\$0.6	\$1.1	\$1.9	\$0.1	\$5.0	\$1.1	\$0.1	\$5.0	\$0.1	\$5.0	\$0.1	\$5.0

Table 10

Child Safety Expenditure Authority by Federal Fund Source and Line Item
(\$ in Millions)

Federal Fund Source 1/	Adoption Services	Emergency & Residential	Foster Care	Independent Living	Child Care	In-Home Mitigation	Preventive Services	Out-of-Home Services	Total
AHCCCS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$42.0	\$54.5
AIPP	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
CAN Basic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
CBCAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Chafee ETV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.5
Chafee IL	0.0	0.0	0.0	1.5	0.0	0.0	0.0	3.1	5.1
HF FTF	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
HF Lottery	0.0	0.0	0.0	0.0	0.0	0.0	6.1	0.0	6.1
HF MIECHV	0.0	0.0	0.0	0.0	0.0	0.0	4.4	0.0	4.4
SSBG	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	12.7
IV-B I CWS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6
IV-B II FPCV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
IV-B II FPSS	0.5	0.0	0.0	0.0	0.0	5.6	0.0	0.0	6.8
IV-E	123.8	35.9	25.8	0.0	14.7	0.0	0.0	20.0	266.2
Over/(Under) Allocated Authority	1.0	(0.2)	2.6	0.2	(3.5)	0.2	0.4	28.4	46.5
Total	\$129.3	\$41.5	\$28.4	\$1.7	\$11.2	\$5.8	\$11.1	\$95.0	\$415.3

State Board of Chiropractic Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	206,300	220,200	220,200
Employee Related Expenditures	66,000	66,000	65,400
Professional and Outside Services	2,000	40,600	40,600
Travel - In State	1,600	3,600	3,600
Travel - Out of State	10,300	5,400	5,400
Other Operating Expenditures	78,400	89,600	89,900
Equipment	27,700	26,000	26,000
AGENCY TOTAL	392,300	451,400	451,100^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Chiropractic Examiners Fund	392,300	451,400	451,100
SUBTOTAL - Other Appropriated Funds	392,300	451,400	451,100
SUBTOTAL - Appropriated Funds	392,300	451,400	451,100
TOTAL - ALL SOURCES	392,300	451,400	451,100

AGENCY DESCRIPTION — The board licenses, investigates, and regulates chiropractors who practice a system of therapy in which disease is considered the result of neural malfunction. Manipulation of the spinal column and other structures is the preferred method of treatment.

Operating Budget

The budget includes \$451,100 and 5 FTE Positions from the Board of Chiropractic Examiners Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(300) from the Board of Chiropractic Examiners Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Citizens Clean Elections Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	8,909,200	11,732,600	11,732,600
TOTAL - ALL SOURCES	8,909,200	11,732,600	11,732,600

AGENCY DESCRIPTION — As authorized by a 1998 ballot initiative, the Citizens Clean Elections Commission (CCEC) provides full public funding to qualified candidates who agree to abide by the commission's guidelines. To qualify for funding, participating candidates must adhere to spending and contribution limits, and gather \$5 qualifying contributions from district constituents who are registered voters. Participating candidates also agree to attend required debates. The commission is not subject to legislative appropriation.

Other Issues		FY 2015 Actual	FY 2016 Estimate
Clean Elections Fund Transfer to the General Fund			
Pursuant to a 1998 ballot proposition (A.R.S. § 16-954B), the CCEC is instructed to return excess monies to the General Fund if it determines that anticipated revenues exceed anticipated expenses. The CCEC determines this on an annual basis by projecting revenues and expenses over the next 4 years and designating monies above the amount needed to meet current and future expenses as "excess monies" to be transferred to the General Fund. The most recent transfer was in FY 2012, when \$10 million was transferred to the General Fund. For a complete list of Citizens Clean Elections Fund transfers to the General Fund, please see <i>Table 1</i> .			
Funds Available			
Balance Forward		\$22,822,400	\$22,312,200
Revenue:			
Court Assessments		\$8,243,400	\$8,215,000
Qualifying Contributions		87,800	50,000
\$5 Check Off Box		33,600	0
Other		34,200	0
Total Revenue		\$8,399,000	\$8,265,000
Total Funds Available		\$31,221,400	\$30,577,200
Expenditures:			
Personal Services		\$416,100	\$489,500
Employee Related Expenditures		140,900	150,000
Professional & Outside Services		2,233,600	4,019,500
Travel - In State		6,100	15,000
Travel - Out of State		0	5,000
Candidate Funding		2,789,400	3,626,300
Other Operating Expenses		3,307,300	3,357,300
Capital Equipment		3,100	0
Non-Capital Equipment		12,900	70,000
Total Funds Expended		\$8,909,400	\$ 11,732,600
Transfer to General Fund		\$ 0	\$ 0
Year-End Fund Balance		\$22,312,000	\$18,844,600

Fiscal Year	Transfer
FY 2003	\$ 1,774,600
FY 2004	3,828,000
FY 2005	973,900
FY 2006	2,500,000
FY 2008	18,876,200
FY 2009	7,000,000
FY 2010	10,000,000
FY 2011	20,000,000
FY 2012	<u>10,000,000</u>
Total	\$74,952,700

Arizona Commerce Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET	10,000,000	10,000,000	10,000,000 ^{1/}
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	21,500,000	16,500,000	11,500,000 ^{1/}
Mexico City Trade Office	300,000	300,000	300,000
AGENCY TOTAL	31,800,000	26,800,000	21,800,000 ^{2/}
FUND SOURCES			
General Fund	31,800,000	26,800,000	21,800,000
SUBTOTAL - Appropriated Funds	31,800,000	26,800,000	21,800,000
Other Non-Appropriated Funds	8,593,100	7,859,600	5,673,800
Federal Funds	3,097,300	2,818,500	1,297,200
TOTAL - ALL SOURCES	43,490,400	37,478,100	28,771,000

AGENCY DESCRIPTION — The Arizona Commerce Authority (ACA) promotes economic, community, and workforce development. The Authority's duties include: support statewide for business expansion and attraction; workforce development and job training; online assistance for new business start-ups; tax credit administration.

Operating Budget

The budget includes \$10,000,000 from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

Of the \$10,000,000 FY 2015 operations allocation, ACA expended \$9,779,400 in FY 2015.

Arizona Competes Fund Deposit

The budget includes \$11,500,000 from the General Fund in FY 2017 for deposit into the Arizona Competes Fund. This amount funds the following adjustment:

Deposit Reduction

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2017 for a reduction in the Arizona Competes Fund deposit.

Prior to FY 2016, the Arizona Competes Fund received an annual appropriation of \$21,500,000 in income tax withholding from the General Fund. Additionally, the fund also receives a non-appropriated deposit of \$3,500,000 in lottery revenues and an average of

\$1,600,000 in Corporation Commission securities fees for a total annual deposit of \$26,600,000. The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12), reduces the General Fund deposit by \$(5,000,000) in FY 2016 to \$16,500,000. In FY 2017 and each year thereafter, the deposit is reduced by \$(10,000,000) to \$11,500,000.

Laws 2016, Chapter 372 made several changes to the Arizona Competes Fund including:

- Redirecting the Corporation Commission filing fees to the newly-created Office of Economic Opportunity.
- Extending the lapsing date for the Arizona Competes Fund to July 1, 2018.
- Mandating that at least 30% of monies appropriated to the Arizona Competes Fund be used for rural and small business grants.
- Requiring that a further 25% of the monies appropriated to the Arizona Competes Fund be reserved for businesses not located in Maricopa County with preference given to a county located on the Arizona-Mexico border, a county in which a military facility is located, or projects on tribal lands.

^{1/} Pursuant to A.R.S. § 43-409, \$21,500,000 of state General Fund withholding tax revenue is allocated in FY 2017 to the Arizona Commerce Authority, of which \$10,000,000 is credited to the Arizona Commerce Authority Fund established by A.R.S. § 41-1506, and \$11,500,000 is credited to the Arizona Competes Fund established by A.R.S. § 41-1545.01. (General Appropriation Act footnote)

^{2/} On or before August 31, 2016, the Arizona Commerce Authority shall submit a report on progress made in implementing the Auditor General's recommendations included in the September 2015 audit of the Authority for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

The 25% allocation is no longer reserved for these purposes after March 31 of each fiscal year.

Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona. Of the \$124,899,900 deposited into the Arizona Competes Fund from FY 2012 through FY 2016, ACA has expended \$24,047,400 through March 31, 2016. The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) included a transfer of \$75,000,000 from the fund balance in FY 2016. *(Please see Other Issues section for list of award recipients.)*

Mexico City Trade Office

The budget includes \$300,000 from the General Fund in FY 2017 for the operation of a trade office in Mexico City. This amount is unchanged from FY 2016.

Monies in this line item are used to lease a 2-story building in central Mexico City that serves as the Mexico City Trade Office and hire 4 contract workers to run the office. In the past, ACA partnered with the City of Phoenix, City of Tucson, the Maricopa Association of Governments, and Visit Phoenix (a non-profit) to administer the office. In FY 2015, the other partners provided \$135,000 to help fund the office. In FY 2016, however, no additional funds were provided. Currently, ACA does not fund any other trade offices.

Other Issues

Additional Legislation

ACA Program Changes

Laws 2016, Chapter 114 requires the ACA to make certain reporting changes regarding their incentive programs and extends the agency's sunset date to July 1, 2018. To increase transparency, the bill requires ACA to post on its website all of the following:

- The cumulative progress made toward ACA's job creation, capital investment, and higher average wage goals.
- To the extent allowed by law, information on each incentive application approved by ACA including the amount of the award and the applicant's job creation and investment activity that is projected or has been achieved.

The bill also requires ACA to develop and implement written policies and procedures regarding the administration of the Arizona Competes Fund. The policies will include procedures for documenting grantee

selection, verifying information submitted by grantees, and evaluating requests to amend grant terms.

Additionally, the bill expands the Arizona Competes Fund report that the ACA produces annually to include:

- The name of each grant recipient.
- The number of jobs each grant recipient created in comparison to the number of jobs that the recipient committed to creating.
- The actual average annual wage of the jobs that the recipient creates compared to the committed level of wages.
- The actual and committed level of capital investments of the grant recipient, including any investments by third-party developers of build-to-suit facilities.
- The total amount of grants made to each recipient.
- The average amount of money granted from the Arizona Competes Fund for each job created by grant recipients.
- The number of jobs created in Arizona by recipients in each sector of industry.
- The percentage of health insurance premium or membership cost offered by the recipient to employees in newly-created positions.
- The total amount of grants issued by the ACA in the past year.

Some of the provisions of this bill were based on recommendations made by the Auditor General in its September 2015 audit of ACA. *(Please see the Auditor General Recommendation section for more information.)*

ACA Responsibilities

A.R.S. § 41-1502 established ACA in place of the Department of Commerce. ACA's main purpose is to attract and retain business in Arizona and is governed by a board of directors. In addition to attracting businesses, ACA is responsible for the following functions:

- Arizona 21st Century Fund Administration and Fund
- Arizona Fast Grant Program
- Arizona Innovation Accelerator Fund
- Arizona Step Grant Program
- Capital Investment Incentives (Angel Investment) Program
- Commercial Solar Energy Tax Credit Applications
- Computer Data Center Tax Exemptions
- Energy Reduction Grant
- Environmental Technology Assistance Program
- Governor's Council on Workforce Policy Member *(Eliminated effective January 1, 2017)*

- Healthy Forest Enterprise Incentives Program
- International Operations Center Incentives
- Job Training Program and Fund (*Eliminated effective January 1, 2017*)
- Military Reuse Zone Tax Credit
- Private Activity Bonds (*Moved to Office of Economic Opportunity in FY 2017*)
- Qualified Energy Conservation Bonds
- Qualified Facility Tax Credit
- Quality Jobs Tax Credit
- Renewable Energy Tax Incentive Program Applications
- Research and Development Refundable Tax Credit
- Small Business Investment Tax Credit
- Solar Tax Credit

Prior to FY 2016, ACA received \$31.5 million in income tax withholding from the General Fund annually. Of that amount, \$10.0 million was deposited into the Arizona Commerce Authority Fund for ACA operational expenses and \$21.5 million was deposited into the Arizona Competes Fund. Beginning in FY 2016, the Arizona Competes Fund deposit was reduced to \$16.5 million with a further reduction to \$11.5 million being implemented in FY 2017 and beyond. In accordance with statute, the General Appropriation Act allocates these monies to ACA. Both funds are non-appropriated.

Additionally, ACA receives an annual deposit of \$3.5 million in lottery revenues to the Arizona Competes Fund. Combining General Fund and lottery revenues, ACA will have \$15.0 million in new resources in FY 2017 to provide grants to help attract, expand, or retain businesses in Arizona.

Arizona Competes Fund Expenditures

A.R.S. § 41-1545.01 established the Arizona Competes Fund beginning in FY 2012 with an annual deposit of \$21.5 million in income tax withholding monies from the General Fund and an additional appropriation of \$3.5 million in lottery tax revenues. Due to subsequent statutory changes, the General Fund deposit was reduced to \$16.5 million in FY 2016 and is further reduced to \$11.5 million in FY 2017 and beyond. The fund also received revenues from Corporation Commission securities fees which have averaged approximately \$1.6 million per year. In FY 2017 these fees are permanently redirected to the Office of Economic Opportunity Operations Fund.

Through March 31, 2016, the Arizona Competes Fund received \$124.9 million in total revenues and made \$39.9 million in commitments. Of these commitments, \$24.3 million has been expended through March 31, 2016 with

recipients displayed in *Table 1*. Currently, 3 types of grants are awarded from the fund: 1) Competes Fund grants awarded to businesses that are expanding in or relocating to Arizona; 2) Arizona Innovation Challenge grants for early-stage start-up companies; and 3) Rural Economic Development grants that are awarded to local governments to improve infrastructure and attract businesses.

Auditor General Recommendation

In a September 2015 audit, the Auditor General recommended that the ACA implement measures to enhance reporting, implement written procedures for all of its Competes Fund grants, and develop written grant-monitoring and grant-amending policies. The Auditor's specific recommendations were:

- Post a summary report on the ACA website that shows the authority's cumulative progress towards its economic development goals.
- Clarify whether reported information represents company commitments for investment and job creation or actual results.
- Develop a report that compares the cost of financial incentives to the actual economic benefits the state has received.
- Ensure the annual Competes Fund report includes the required information.
- Develop comprehensive written procedures for all of the Competes Fund grants.
- Create written grant-monitoring policies and procedures.
- Construct policies and procedures for making changes to grant agreements and documenting reporting requirement exceptions.

The FY 2017 General Appropriation Act includes a provision that requires ACA to submit a report by August 31 for JLBC review regarding the progress made on implementing the Auditor General's recommendations. Additionally, many of the Auditor General's recommendations were enacted in Laws 2016, Chapter 114. (*Please see the Additional Legislation section for more information.*)

Table 1
Arizona Competes Fund Expenditures through March 31, 2016

<u>Recipients</u>	<u>Total</u>
Competes Fund Grants for Expansion/Relocation	
Acceler8 Technologies Corporation	\$1,000,000
Clear Energy Systems, Inc.	1,000,000
General Motors, LLC	822,000
GoDaddy, Inc.	1,500,000
Hot Chalk	12,500
Maverick Healthcare Services, Inc.	783,900
Northern Trust Corporation	1,040,000
Silicon Valley Bank Financial Services	3,010,000
Ulthera, Inc.	548,400
United Healthcare Services, Inc.	2,000
Zoc Doc	<u>15,000</u>
Total Competes Fund Grants	\$9,733,800
Arizona Innovation Challenge Grants	
Agave Semiconductor LLC	\$250,000
Amber Alert GPS	200,000
appsFreedom, Inc.	245,000
Athena Wireless Communications, Inc.	250,000
Beacon Biomedical, Inc.	75,000
BeckonCall, Inc.	75,000
CampusLogic, Inc.	125,000
Cancer Prevention Pharmaceuticals, Inc.	229,900
Clear Demand, Inc.	250,000
Contatta, Inc.	220,000
Deliver IT, Inc.	250,000
EndoVantage	250,000
eVisit, LLC	175,000
Gingerbread Shed Corporation	250,000
HJ3 Composite Technologies LLC	170,000
Instant Bioscan LLC	250,000
Iris PR Management, Inc.	225,000
Iron Horse Diagnostics, Inc.	216,000
Kutta Radios, Inc.	249,500
LawLytics	250,000
MaxQ Technology LLC	250,000
Nasseo, Inc.	250,000
NuvOx Pharma, LLC	225,000
Paraffin International, Inc.	75,000
ParkX, LLC	200,000

Table 1 (cont.)

<u>Recipients</u>	<u>Total</u>
Photon Medical Communications LLC	250,000
Picomic	200,000
Post.Bid.Ship., Inc.	232,000
Pure Chat, Inc.	250,000
Rbar Organic, LLC	125,000
Recoleta Partners LLC	250,000
ReplyBuy, Inc.	250,000
RevolutionParts, Inc.	125,000
RightBio Metrics Inc.	162,000
Serious Integrated, Inc.	250,000
Smart Clinic, LLC	75,000
Spotlight Software, LLC	172,500
Stat Health Services, Inc.	250,000
Stimwave Technologies, Inc.	152,500
Strongwatch Corporation	250,000
The Medical Memory, LLC	100,000
Triton Microtechnologies	250,000
Viomics, Inc.	250,000
Whole Sale Fund Corporation	250,000
World View Enterprises	250,000
Yolia Health, Inc.	<u>250,000</u>
Total Arizona Innovation Challenge Grants	\$9,549,400
Rural Economic Development Grants	
Casa Grande	\$150,000
Central Arizona Regional Economic Development Foundation	340,000
Coolidge	369,200
Flagstaff	195,000
Globe	265,500
Greater Yuma Economic Development Corporation	432,500
Kingman	170,000
Mohave County	500,000
Nogales	500,000
Northern Arizona Business and Technology Incubator	59,600
PineTop-Lakeside	185,000
Prescott	54,000
Prescott Valley	500,000
Sahuarita	238,400
Verde Valley Wine Consortium, Inc.	255,300
Wickenburg	3,400
Yuma	296,300
Yuma County	<u>500,000</u>
Total	\$5,014,200
Total Arizona Competes Fund Grants	\$24,297,400

Arizona Community Colleges

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	5,343,400	5,206,000	4,670,000
Coconino	1,775,800	1,771,200	1,756,400
Gila	346,300	368,100	315,200
Graham	2,261,300	2,175,600	2,249,700
Maricopa	7,409,500	0	0
Mohave	1,543,300	1,524,000	1,315,000
Navajo	1,618,200	1,582,100	1,606,000
Pima	6,493,500	0	0
Pinal	2,023,900	1,903,500	1,724,700
Santa Cruz	47,900	57,300	81,200
Yavapai	887,000	890,300	800,200
Yuma/La Paz	2,726,600	2,702,500	2,690,100
<i>Subtotal - Operating State Aid</i>	<u>34,476,700</u>	<u>18,180,600</u>	<u>17,208,500</u>
STEM and Workforce Programs State Aid			
Cochise	1,236,700	1,150,000	1,008,200
Coconino	426,900	423,200	418,000
Gila	142,800	160,900	142,500
Graham	640,500	569,500	595,200
Maricopa	1,400,000	0	0
Mohave	593,700	577,700	505,200
Navajo	375,400	345,500	353,700
Pima	600,000	0	0
Pinal	1,009,300	96,500	96,500
Santa Cruz	45,400	53,100	61,400
Yavapai	802,900	805,700	774,400
Yuma/La Paz	882,500	867,300	864,000
<i>Subtotal - STEM and Workforce Programs State Aid</i>	<u>8,156,100</u>	<u>5,049,400</u>	<u>4,819,100</u>
Equalization Aid			
Cochise	3,870,500	4,332,800	4,878,400
Graham	15,025,500	14,538,800	14,695,800
Navajo	5,283,300	5,849,400	6,081,500
<i>Subtotal - Equalization Aid</i>	<u>24,179,300</u>	<u>24,721,000</u>	<u>25,655,700</u>
Rural County Allocation	3,195,500	2,523,400 ^{1/}	2,730,600 ^{2/}
Rural County Reimbursement Subsidy	1,273,800	1,273,800	1,273,800 ^{3/}
Tribal Community Colleges	2,625,000	2,625,000	2,625,000 ^{4/}
AGENCY TOTAL	<u>71,906,400</u>	<u>54,373,200</u>	<u>54,312,700^{5/}</u>
FUND SOURCES			
General Fund	71,906,400	54,373,200	54,312,700
SUBTOTAL - Appropriated Funds	<u>71,906,400</u>	<u>54,373,200</u>	<u>54,312,700</u>
Other Non-Appropriated Funds	17,520,900	18,200,300	18,200,300
TOTAL - ALL SOURCES	<u>89,427,300</u>	<u>72,573,500</u>	<u>72,513,000</u>

AGENCY DESCRIPTION — The Arizona community college system is comprised of 10 college districts and 2 provisional districts. Arizona's community colleges provide programs and training in the arts, sciences and humanities, and vocational education leading to an Associate's degree, Certificate of Completion, or transfer to a Baccalaureate degree-granting college or university.

Operating State Aid

The budget includes \$17,208,500 from the General Fund in FY 2017 for Operating State Aid. This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of \$(972,100) from the General Fund in FY 2017 to fund the statutory formula for Operating State Aid.

This amount funds statutory formula costs for a (1,614), or (5.1%), decrease in Full Time Student Equivalent (FTSE) students in rural community colleges (see Table 1). The (1,614) net FTSE decrease consists of a (1,600) FTSE decrease in non-dual enrollment students and a (14) FTSE decrease in dual enrollment students. A.R.S. § 15-1466.01 requires dual enrollment students be funded at 50% for state aid purposes. Dual enrollment refers to high school students who are enrolled in community college courses for both high school and community college credit.

As permanent law, the FY 2016 Higher Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 16) eliminated Operating State Aid for Maricopa and Pima.

Background – With the exception of Maricopa and Pima, the Operating State Aid Special Line Items provide each community college district with funds for continuing operating and maintenance expenses pursuant to A.R.S. § 15-1466. The Operating State Aid formula adjusts state aid in an amount that reflects changes in the FTSE enrollment count. This enrollment adjustment is calculated by multiplying the change 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 2017, the last actual FTSE data was from FY 2015.)

STEM and Workforce Programs State Aid

The budget includes \$4,819,100 from the General Fund in FY 2017 for Science, Technology, Engineering and

Table 1

Community College Enrollment

District	FY 2014 FTSE	FY 2015 FTSE	Percentage Change
Cochise	7,221	6,338	(12.2)%
Coconino	2,092	2,066	(1.2)%
Gila	785	702	(10.6)%
Graham	2,765	2,897	4.8%
Mohave	2,919	2,554	(12.5)%
Navajo	1,825	1,853	1.5%
Pinal	4,354	4,069	(6.5)%
Santa Cruz	254	293	15.4%
Yavapai	4,002	3,849	(3.8)%
Yuma/La Paz	5,451	5,433	(0.3)%
Total	31,668	30,054	(5.1)%

Mathematics (STEM) and Workforce Programs State Aid (formerly Capital Outlay State Aid). This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of \$(230,300) from the General Fund in FY 2017 to fund STEM and Workforce Programs State Aid.

As session law, the FY 2017 Higher Education BRB (Laws 2016, Chapter 130) suspended the program's funding formula in A.R.S. § 15-1464 for FY 2017 and instead funded the amounts specified in the General Appropriation Act, which totaled \$4,819,100. That amount provides full formula funding for all rural districts in FY 2017 except for Pinal, which is limited to \$96,500 in STEM and Workforce Programs State Aid.

The budget continues to fully fund the formula for all rural districts except for Pinal, which has been kept flat at \$96,500. If Pinal was fully funded it would cost an additional \$751,000.

As permanent law, the FY 2016 Higher Education BRB eliminated STEM and Workforce Programs State Aid for Maricopa and Pima.

- 1/ Each year, the Rural County Allocation is determined by enrollment counts submitted to the JLBC Staff. The JLBC Staff is required to report the county withholdings to the Treasurer by May 15 for the upcoming fiscal year. The FY 2016 Appropriations Report was published prior to this report and included an estimated total of \$3,195,500 for Rural County Allocation in FY 2016. The amount was subsequently revised to \$2,523,400.
- 2/ A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost of students attending community colleges who are from counties that are not part of an established community college district, and then the state will withhold these counties' sales tax revenues to offset that cost. In FY 2017 the JLBC Staff calculates that amount to be \$2,730,600. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- 3/ Of the \$1,273,800 appropriated to the Rural County Reimbursement Subsidy line item, Apache County receives \$699,300 and Greenlee County receives \$574,500. (General Appropriation Act footnote)
- 4/ A.R.S. § 42-5031.01 directs the State Treasurer to annually transmit to the tribal colleges 10% of Transaction Privilege Tax (TPT) revenues collected from sources located on the reservation, or \$1,750,000, whichever is less, as well as 5% of TPT revenues collected on the reservation, or \$875,000, whichever is less, to a technical college on the same reservation. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.
- 5/ General Appropriation Act funds are appropriated as District-by-District Special Line Items.

Background – The STEM and Workforce Programs Special Line Items provide the community college districts with funds for partnerships, faculty, technology equipment, student services, facilities, and property needs pursuant to A.R.S. § 15-1464.

The STEM and Workforce Programs State Aid formula provides per capita funding to districts other than Maricopa and Pima based on the district's size and the most recent year's actual audited FTSE. The statutory formula provides \$210 per FTSE for districts with 5,000 or less FTSE or \$160 per FTSE for districts with greater than 5,000 FTSE.

Equalization Aid

The budget includes \$25,655,700 from the General Fund in FY 2017 for Equalization Aid. This amount funds the following adjustments:

Property Value Changes

The budget includes an increase of \$934,700 from the General Fund in FY 2017 to reflect increased formula costs for funding Equalization Aid due to assessed valuation changes. Detail of specific district changes is shown in *Table 2*.

<u>District</u>	<u>FY 2016</u>	<u>Year-over- Year Change</u>	<u>FY 2017</u>
Cochise	\$ 4,332,800	\$545,600	\$ 4,878,400
Graham	14,538,800	157,000	14,695,800
Navajo	<u>5,849,400</u>	<u>232,100</u>	<u>6,081,500</u>
Total	\$24,721,000	\$934,700	\$25,655,700

Background – The Equalization Aid Special Line Items provide additional state aid to community college districts with property tax bases that are less than the minimum assessed value specified in A.R.S. § 15-1402. Under the Equalization Aid formula, the minimum assessed valuation is revised by the average change in actual assessed valuation for the most recent year for all rural districts with populations of less than 500,000 persons. For the FY 2017 Equalization Aid formula calculation, the minimum assessed valuation increased 0.4% to \$1.28 billion. (*See Table 3 for the calculation of the growth rate.*)

Equalization Aid is paid based on the difference between the minimum assessed valuation and the most recent actual assessed valuation for the district. Equalization Aid is calculated at the lesser of \$1.37 per \$100 of the district's assessed valuation or the district's levy rate.

<u>District</u>	<u>TY 2014 Primary AV</u>	<u>TY 2015 Primary AV</u>	<u>TY 2014- 2015 % Growth</u>
Cochise*	\$ 955,783,500	\$ 920,583,400	(3.7)%
Graham*	211,469,600	203,987,400	(3.5)%
Navajo*	845,018,200	832,770,200	(1.4)%
Coconino	1,512,794,300	1,537,418,200	1.6 %
Mohave	1,727,793,400	1,685,788,500	(2.4)%
Pinal	2,005,151,800	2,057,547,500	2.6 %
Yavapai	2,217,272,800	2,279,183,400	2.8 %
Yuma/LaPaz	<u>1,318,262,100</u>	<u>1,322,095,300</u>	<u>0.3 %</u>
Total	\$10,793,545,700	\$10,839,373,900	0.4 %
Minimum AV	\$1,271,334,900	\$1,276,674,500	0.4 %

* These districts qualify to receive Equalization Aid under the state funding formula.

As noted in *Table 3*, the average rural district assessed value increased by 0.4%, in TY 2015. In comparison, Cochise declined by (3.7)%, Graham declined by (3.5)%, and Navajo declined by (1.4)%. By declining more than the average district, Cochise, Graham, and Navajo qualify for more aid.

In any one year a district's equalization assistance will depend on 1) whether the district falls below the minimum threshold (\$1.28 billion in FY 2017) and 2) whether the district's change in assessed value was less than the rural districts' average and 3) the applicable tax rate.

Rural County Allocation

The budget includes \$2,730,600 from the General Fund in FY 2017 for Rural County Allocation. This amount funds the following adjustments:

Formula Increases

The budget includes an increase of \$207,200 from the General Fund in FY 2017 to reflect increased formula costs for funding Rural County Allocation.

Background – The Rural County Allocation Special Line Item facilitates payment to community college districts for students enrolled from counties that are not a part of an established community college district. If a county is not part of a community college district, it is responsible for the cost of their students attending community college in another county. A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost for these counties and then the state will withhold these counties' sales tax revenues to offset that cost; therefore there is no net General Fund impact. The FY 2015 expenditure of \$3,195,500 was offset by corresponding reductions in the

counties' sales tax apportionment. The payments made on behalf of the counties are not included in county expenditure limits established in the Arizona Constitution. The county payments are partially offset by a state subsidy. (See next line item.)

Each year, the amount is determined by enrollment counts submitted to the JLBC Staff. The JLBC Staff is required by A.R.S. § 1469D to report the county withholdings to the Treasurer by May 15 for the upcoming fiscal year. Prior to this report, the JLBC Staff estimated this amount at \$2,523,400. Based on new data in May 2016, the JLBC Staff reported the amount to be \$2,730,600 for FY 2017.

Monies for the Rural County Allocation are authorized by A.R.S. § 15-1469.01, and therefore do not appear in the General Appropriation Act.

Rural County Reimbursement Subsidy

The budget includes \$1,273,800 from the General Fund in FY 2017 for Rural County Reimbursement Subsidy. This amount is unchanged from FY 2016.

This funding partially offsets the cost to counties that are not part of an established community college district. The funding is appropriated to Apache and Greenlee Counties. The FY 2017 budget allocates \$699,300 to Apache and \$574,500 to Greenlee.

Tribal Community Colleges

The budget includes \$2,625,000 from the General Fund in FY 2017 for Tribal Community Colleges. This amount is unchanged from FY 2016.

Background – A.R.S. § 42-5031.01 allows any qualifying tribal community college to receive \$1,750,000, or 10% of the Transaction Privilege Tax (TPT) revenues collected from all sources located on the reservation, whichever is less. These monies provide tribal community colleges with funding for maintenance, renewal, and capital expenses. A.R.S. § 42-5031.01 also allows any additional technical college located on the same reservation to receive \$875,000, or 5% of the TPT revenues collected from sources located on the reservation, whichever is less. Actual amounts for FY 2017 will depend on FY 2017 collections. Given the language of A.R.S. § 42-5031.01, these monies do not appear in the General Appropriation Act.

This funding is limited to tribes that enter into a compact with the Executive. The FY 2016 Higher Education BRB extended the deadline for tribes to enter into a compact

from September 1, 2012 to September 1, 2017. Diné College and Navajo Technical College on the Navajo Nation are the only schools that currently qualify to receive TPT revenues. The only other existing tribal community college in Arizona is Tohono O'Odham Community College. If Tohono O'Odham enters into a compact with the Executive before September 1, 2017 it would receive roughly \$176,400, which is 10% of the total FY 2015 TPT collections from the reservation.

Laws 2016, Chapter 148 increased the term of an initial compact from 10 to 20 years and changed the time of a JLBC review required for a compact renewal from the last year of the term to the fourth year prior to the expiration of the term. The Navajo Nation compact is set to expire in 2020. If the Navajo Nation enters into a new 20-year compact with the Executive, the next JLBC review would be in 2036.

The budget assumes that \$1,750,000 will be distributed to Diné College and \$875,000 will be distributed to Navajo Technical College in FY 2017. These amounts represent 10% and 5%, up to \$1,750,000 and \$875,000, respectively, of the estimated TPT revenues to be collected in the Navajo reservation in FY 2017.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the JLBC Staff estimates Community College statutory caseload changes will require an additional \$256,600 in FY 2018 and an additional \$388,600 in FY 2019.

These estimates are based on:

- Flat enrollment growth
- Assessed valuation growth of 1.0% in FY 2018 and 1.5% growth in FY 2019

Community College Revenue Sources

In addition to state General Fund monies, Arizona's community colleges receive revenues from a number of other sources, including student tuition and fees, local property taxes, grants, and other monies generated by the colleges. Of the total, the community colleges receive 2.6% of their revenues (excluding bond proceeds) from state aid.

For FY 2016, base operating revenues from all sources are estimated to be \$1,828,917,100, which would be an

Table 4

Total Estimated Community College Revenues – FY 2016

District	State Aid	Tuition/Fees	Property Taxes	Grants	Other ^{1/}	FY 2016 Total ^{2/}	FY 2015 Total ^{3/}	% Change from FY 2015
Cochise	\$10,688,800	\$8,363,900	\$20,028,200	\$15,204,700	\$1,454,300	\$55,739,900	\$51,863,100	7.5%
Coconino	2,194,400	7,693,200	9,467,400	7,336,000	1,038,100	27,729,100	26,296,300	5.4%
Gila ^{4/}	529,000	1,400,000	4,112,000	130,000	475,000	6,646,000	5,285,600	25.7%
Graham	17,283,900	7,179,500	5,887,100	11,430,500	9,474,500	51,255,500	44,043,100	16.4%
Maricopa	-	286,437,400	517,264,500	274,420,900	54,097,500	1,132,220,300	996,068,500	13.7%
Mohave	2,101,700	8,830,000	21,792,200	8,661,900	571,500	41,957,300	42,016,600	(0.1)%
Navajo	7,777,000	4,600,000	14,470,800	6,054,500	2,985,500	35,887,800	35,055,700	2.4%
Pima	-	54,899,000	104,315,000	62,394,000	5,462,000	227,070,000	207,765,900	9.3%
Pinal	2,000,000	13,650,000	49,614,000	25,503,500	2,117,000	92,884,500	81,866,600	13.5%
Santa Cruz ^{4/}	110,400	0	1,483,700	20,000	11,200	1,625,300	1,534,100	5.9%
Yavapai	1,696,000	12,273,000	47,635,600	14,559,000	4,339,000	80,502,600	76,574,800	5.1%
Yuma/La Paz	<u>3,569,800</u>	<u>14,003,000</u>	<u>33,770,500</u>	<u>19,132,700</u>	<u>4,922,800</u>	<u>75,398,800</u>	<u>78,762,600</u>	<u>(4.3)%</u>
Total	\$47,951,000	\$419,329,000	\$829,841,000	\$444,847,700	\$86,948,400	\$1,828,917,100	\$1,647,132,900	11.0%

1/ Includes auxiliary programs, interest income, workforce development funds, and transfers.

2/ Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are estimated to be \$2,272,288,600 for FY 2016.

3/ Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are \$1,755,482,100 for FY 2015.

4/ Gila Provisional Community College contracts with Graham County's Eastern Arizona College in order to provide degree programs. Therefore, Gila's tuition and fee revenues are collected by Graham according to their contract agreement. Santa Cruz Provisional Community College contracts with Cochise County's Community College in order to provide degree programs. Therefore, Santa Cruz's tuition and fee revenues are collected by Cochise according to their contract agreement.

increase of 11.0% from FY 2015. (See Table 4 for a summary of FY 2016 total revenue estimates.)

Property taxes are the single largest revenue source for the community colleges, accounting for 45.4% of their revenues. There are 2 types of property taxes: primary and secondary. For the community colleges, primary property taxes are levied for operating purposes and secondary property taxes are levied to pay for capital outlay expenses. Each community college district determines its primary and secondary property tax rates. (See Table 5 for a summary of FY 2016 property tax rates.)

In November 2012, Arizona voters approved Proposition 117, which requires primary and secondary taxes to be levied on the same tax base. Previously, taxes were levied

Table 5

Community College Tax Rates – FY 2016

District	Primary Rate	Secondary Rate	Combined Rate	% Change in Combined Rate from FY 2015
Cochise	\$2.18	\$0.00	\$2.18	7.0%
Coconino	0.49	0.12	0.61	0.8%
Gila	0.85	0.00	0.85	(11.2)%
Graham	2.89	0.00	2.89	8.0%
Maricopa	1.26	0.23	1.49	(1.6)%
Mohave	1.29	0.00	1.29	5.8%
Navajo	1.74	0.00	1.74	4.9%
Pima	1.37	0.02	1.39	4.1%
Pinal	2.30	0.35	2.65	17.1%
Santa Cruz	0.47	0.00	0.47	4.4%
Yavapai	1.87	0.22	2.09	0.3%
Yuma/La Paz	2.17	0.39	2.56	7.3%

on 2 valuations: full cash value and limited property value. Proposition 117 requires all property taxes to be levied on the limited property value.

Proposition 117 also capped annual property value increases on any single parcel of real property to 5% starting in FY 2016. The existing 2% "levy limit" remains in place. Under A.R.S. § 42-17051, community colleges are allowed to collect 2% more in property tax revenues annually, not including revenue from new construction. Any increase over 2% requires voter approval, unless the district has foregone increases in prior years and consolidates those increases into a single year.

Long term property value growth has been approximately 5%. From that perspective, Proposition 117 would tend to reduce the year-to-year volatility in property tax values rather than reduce the dollar amount of long term revenues. However, the property tax base might grow more slowly under Proposition 117 because the property tax values would not be able to increase by more than 5% to offset the years that experience growth that is less than 5%.

To the extent that the property value grows more slowly because of Proposition 117, the community colleges could still generate the same level of revenue by increasing their tax rates.

The community colleges also collect tuition and fees from enrolled students. These collections account for approximately 22.9% of total revenues. Tuition and fees

Table 6

Community College Resident Tuition and Fees – FY 2016

<u>District</u>	<u>Cost Per Credit Hour</u>	<u>Annual Cost ^{1/}</u>	<u>% Change from FY 2015</u>
Cochise	\$77	\$2,310	2.7%
Coconino	92	2,760	3.4%
Gila	69	2,080	4.0%
Graham	69	2,080	4.0%
Maricopa	84	2,520	0.0%
Mohave	88	2,640	1.1%
Navajo	68	2,040	3.0%
Pima	82	2,460	7.0%
Pinal	82	2,460	2.5%
Santa Cruz	77	2,310	2.7%
Yavapai	75	2,250	4.2%
Yuma/La Paz	<u>78</u>	<u>2,340</u>	<u>2.6%</u>
Weighted Average	\$79	\$2,469	1.6%

^{1/} Annual cost is for 30 hours a year, or 15 hours per semester.

are assessed on a per credit hour basis. FY 2016 weighted average tuition (weighted for each district’s proportion of the statewide FTSE count) is \$2,469 if a full-time student attends for 30 hours a year. The FY 2016 amount represents an increase of 1.6% from FY 2015. (See Table 6 for FY 2016 resident tuition and fee rates.)

Community colleges also receive grants and “other” revenue from a variety of sources. Combined, they account for approximately 29.1% of community college revenues. Grants traditionally come from the federal government, including: the U.S. Department of Education, Small Business Administration, National Science Foundation, and Health and Human Services. Revenue listed in the “other” category includes auxiliary programs, interest incomes, workforce development funds, and transfers.

Total Community College Expenditures

Table 7 shows total budgeted FY 2016 community college expenditures. In FY 2016, total budgeted expenditures are \$2,273,243,100. As mentioned previously, base operating revenues for FY 2016 are \$1,828,917,100; however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are \$2,272,288,600. Of the total \$2,273,243,100 in expenditures, \$1,651,531,200, or 72%, of these expenditures are from the community colleges’ General and Restricted Funds. This includes about \$525,218,100, or 23%, for instruction and \$259,787,600, or 11%, for administrative support.

Expenditures for auxiliary enterprises, including revenue generating retail and business services such as parking

Table 7

Community Colleges - FY 2016 Budgeted Expenditures

<u>General/Restricted Funds</u>	<u>Total</u>	<u>% of Total</u>
Instruction	\$525,218,100	23%
Public Service	32,327,700	1%
Academic Support	150,546,500	7%
Student Services	156,819,600	7%
Institutional Support	259,787,600	11%
Operation & Maintenance	113,936,100	5%
Scholarships/Grants	333,083,200	15%
Contingency	<u>79,812,400</u>	<u>3%</u>
Subtotal	\$1,651,531,200	72%
Auxiliary Enterprises Fund	\$ 176,653,200	8%
Plant Fund	266,031,400	12%
Debt Service	<u>179,027,300</u>	<u>8%</u>
Total	\$ 2,273,243,100	100%

lots, book stores, and food service, are \$176,653,200, or 8% of the total. Plant Fund expenditures, which generally include capital costs, are \$266,031,400, or 12% of the total. The remaining \$179,027,300 is for debt service.

Community College Tuition Financing Districts

Laws 2015, Chapter 306 renamed provisional community college districts established after December 31, 2014, to *community college tuition financing districts* and specified that the county board of supervisors will serve as the governing board to any community college tuition financing district. Gila and Santa Cruz are the only existing provisional districts and they were both established before December 31, 2014.

An area that wishes to form a community college but does not meet the minimum assessed valuation or population requirements in A.R.S § 15-1402 may form a tuition financing district. A tuition financing district is required to contract with an existing community college district to provide instruction and services to students.

Additional Legislation

Community College Expenditure Limitation

Laws 2016, Chapter 58 modifies the method for calculating community college expenditure limits, excludes certain types of expenditures from counting against the limit, and allows for an adjustment to the base expenditure limit.

The expenditure limit is determined by the Economic Estimates Commission (EEC) by adjusting the FY 1980 base limit by changes in estimated FTSE and inflation. Districts are required to submit FTSE estimates annually to the EEC, which uses those estimates to calculate new

expenditure limits annually. Chapter 58 requires that districts use the same FTSE calculation method for the EEC submissions as the FTSE calculation for state aid, except that enrollment in career and technical education courses receives an additional weight. Chapter 58 permits districts to submit 1 of the 3 following options as FTSE estimates to the EEC:

- The most recent audited FTSE count for the expenditure limit calculation.
- The average of the 5 most recent audited FTSE counts for the expenditure limit calculation.
- A FTSE count that exceeds the most recent audited FTSE count for the expenditure limit calculations by up to 5% if the actual FTSE count 45 days after classes begin in the current fall semester exceeds the actual FTSE count 45 days after classes began in the previous fall semester.

As session law, Chapter 58 permits districts to submit the average of the 10 most recent audited FTSE counts until FY 2020.

The Auditor General is required to separately audit the expenditure limit FTSE calculation and provide a report to the JLBC by October 15 of each year.

Expenditures that count against the expenditure limits generally consist of operating costs of the districts excluding funds generated from tuition, fees, Federal Funds, bond proceeds, debt service, and state capital funding. Chapter 58 allows districts to exclude expenditures from the following revenue sources as counting against their expenditure limit: grants and donations, research and development royalty, licensing and profit-sharing agreements, entrepreneurial and commercial activities, auxiliary fees, and goods and services through a contract with a political subdivision or tribal government.

Chapter 58 also allows district boards to refer to the voters in the district a permanent change in the base limit used to determine the expenditure limitation. The resolution for a base limit adjustment must include the current base limit, the proposed base limit, the increase in expenditure limit capacity that would be generated by the adjustment, and a rationale for the request.

Tribal College Dual Enrollment Program Fund

The FY 2017 K-12 Education BRB (Laws 2016, Chapter 124) increases the maximum amount of unclaimed lottery prize monies that may be deposited annually into the Tribal College Dual Enrollment Program Fund to \$250,000 from the prior maximum of \$160,000. These monies are

accounted for in the Arizona Department of Education budget.

The Tribal College Dual Enrollment Program Fund is allocated 15% of unclaimed lottery prize monies, subject to legislative appropriation, plus any appropriations, gifts, grants, devices and other contributions. The fund is administered by the Department of Education and is used to compensate tribal colleges for tuition and fees that are waived to allow high school students to attend tribal college classes on campus and online.

Constable Ethics Standards and Training Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	303,200	383,000	383,000
TOTAL - ALL SOURCES	303,200	383,000	383,000

AGENCY DESCRIPTION — The board establishes and enforces the code of conduct for constables throughout the state. The board also administers funding for constable training and equipment. The Arizona Association of Counties currently manages the board's administrative responsibilities. The board receives fees from every writ collected on behalf of a Justice of the Peace.

Registrar of Contractors

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	105.6	105.6	105.6
Personal Services	4,441,200	5,591,200	5,591,200
Employee Related Expenditures	1,910,700	2,404,800	2,375,800
Professional and Outside Services	292,300	405,300	405,300
Travel - In State	185,500	505,100	505,100
Travel - Out of State	500	11,800	11,800
Other Operating Expenditures	981,100	2,151,400	2,158,300
Equipment	71,300	100,300	100,300
OPERATING SUBTOTAL	7,882,600	11,169,900	11,147,800
SPECIAL LINE ITEMS			
Office of Administrative Hearings Costs	254,400	1,017,600	1,017,600 ^{1/}
AGENCY TOTAL	8,137,000	12,187,500	12,165,400^{2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Registrar of Contractors Fund	8,137,000	12,187,500	12,165,400
SUBTOTAL - Other Appropriated Funds	8,137,000	12,187,500	12,165,400
SUBTOTAL - Appropriated Funds	8,137,000	12,187,500	12,165,400
Other Non-Appropriated Funds	931,900	4,666,800	4,666,800
TOTAL - ALL SOURCES	9,068,900	16,854,300	16,832,200

AGENCY DESCRIPTION — The agency licenses, regulates and conducts examinations of residential and commercial construction contractors.

Operating Budget

Monies in this line item are transferred from the Registrar of Contractors to OAH for services provided by OAH.

The budget includes \$11,147,800 and 105.6 FTE Positions from the Registrar of Contractors Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(22,100) from the Registrar of Contractors Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Office of Administrative Hearings Costs

The budget includes \$1,017,600 from the Registrar of Contractors Fund in FY 2017 for Office of Administrative Hearings (OAH) Costs. This amount is unchanged from FY 2016.

^{1/} Any transfer to or from the amount appropriated for the Office of Administrative Hearings Costs line item requires review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Corporation Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	300.9	300.9	300.9 ^{1/}
Personal Services	15,681,800	16,515,000	16,515,000
Employee Related Expenditures	6,154,900	6,254,200	6,130,200
Professional and Outside Services	473,800	264,500	264,500
Travel - In State	121,100	168,800	168,800
Travel - Out of State	114,800	87,000	87,000
Other Operating Expenditures	2,929,300	2,708,800	2,792,900
Equipment	370,800	201,500	201,500
OPERATING SUBTOTAL	25,846,500	26,199,800	26,159,900
SPECIAL LINE ITEMS			
Corporation Filings, Same-Day Service	0	398,500	397,300 ^{2/}
Corporations Division Database Upgrade	0	0	2,000,000 ^{3/}
Named Claimants	600	0	0
Securities Division Database Upgrade	20,000	0	0
Utilities Audits, Studies, Investigations & Hearings	0	380,000	380,000 ^{4/}
AGENCY TOTAL	25,867,100	26,978,300	28,937,200 ^{5/}
FUND SOURCES			
General Fund	606,100	614,200	2,611,600
<u>Other Appropriated Funds</u>			
Arizona Arts Trust Fund	50,100	50,100	49,900
Investment Management Regulatory and Enforcement Fund	715,100	712,600	708,900
Public Access Fund	6,174,900	6,541,400	6,558,800
Securities Regulatory and Enforcement Fund	4,718,000	4,898,700	4,909,600
Utility Regulation Revolving Fund	13,602,900	14,161,300	14,098,400
SUBTOTAL - Other Appropriated Funds	25,261,000	26,364,100	26,325,600
SUBTOTAL - Appropriated Funds	25,867,100	26,978,300	28,937,200
Other Non-Appropriated Funds	9,000	0	0
Federal Funds	812,100	825,000	825,000
TOTAL - ALL SOURCES	26,688,200	27,803,300	29,762,200

AGENCY DESCRIPTION — The Arizona Corporation Commission (ACC) was established by Article 15 of the Arizona Constitution and consists of 5 statewide elected Commissioners, each serving 4-year terms. The commission has 3 primary responsibilities. The Corporations Division provides public access to corporate annual reports, articles of incorporation, and corporate status change documents. The Securities Division regulates securities dealers and investment advisers. The Utilities Division monitors approximately 500 public service corporations operating in Arizona and establishes public utility rates. Other functions of the commission include inspecting gas pipelines and railroad track.

1/ Includes 2 OF FTE Positions funded from Special Line Items in FY 2017.

2/ The \$397,300 appropriated from the Public Access Fund for the Corporation Filings, Same-Day Service line item reverts to the Public Access Fund established by A.R.S. § 10-122.01 at the end of FY 2017 if the commission has not established a same-day service pursuant to A.R.S. § 10-122. (General Appropriation Act footnote, as adjusted for statewide allocations)

3/ This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations until June 30, 2018.

4/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act Footnote)

5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$26,159,900 and 298.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$611,600
Arizona Arts Trust Fund	49,900
Investment Management Regulatory and Enforcement Fund	708,900
Public Access Fund	6,161,500
Securities Regulatory and Enforcement Fund	4,909,600
Utility Regulation Revolving Fund	13,718,400

These amounts fund the following adjustments:

Risk Management Funding Increase

The budget includes an increase of \$77,000 in FY 2017 for a Risk Management funding increase. This amount consists of:

Public Access Fund	45,000
Securities Regulatory and Enforcement Fund	32,000

Statewide Adjustments

The budget includes a decrease \$(116,900) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(2,600)
Arizona Arts Trust Fund	(200)
Investment Management Regulatory and Enforcement Fund	(3,700)
Public Access Fund	(26,400)
Securities Regulatory and Enforcement Fund	(21,100)
Utility Regulation Revolving Fund	(62,900)

(Please see the Agency Detail and Allocations section.)

Corporation Filings, Same-Day Service

The budget includes \$397,300 and 2 FTE Positions from the Public Access Fund in FY 2017 for Corporation Filings, Same-Day Service. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the Public Access Fund in FY 2017 for statewide adjustments.

A footnote in the General Appropriation Act specifies that monies in this line item revert to the Public Access Fund if the commission has not established a same-day service pursuant to A.R.S. § 10-122. The fee for same-day and next-day services must be determined by a supermajority vote of the Commissioners. To date, such a fee has not

been set and same-day and next-day services have not been implemented.

Corporations Division Database Upgrade

The budget includes \$2,000,000 from the General Fund in FY 2017 for an upgrade to the Corporations Division database software. This amount funds the following adjustments.

One-Time Database Upgrade Funding

The budget includes an increase of \$2,000,000 from the General Fund in FY 2017 for one-time funding to replace database software.

Monies will be used to replace 2 outdated database and document imaging systems in the Corporations Division. The new software will include imaging and accounting components which will allow the public to submit documents and payments online. The General Appropriation Act exempts this funding from lapsing until June 30, 2018.

Laws 2016, Chapter 322 requires the Corporation Commission to create a searchable database of documents filed within the past 90 days at the Corporations Division by business entities located in Pima and Maricopa Counties. Previously, all businesses were required to publish a copy of the document in a newspaper. Business entities located in all other counties are still required to publish these documents in a newspaper.

Utilities Audits, Studies, Investigations & Hearings

The budget includes \$380,000 from the Utility Regulation Revolving Fund in FY 2017 for Utilities Audits, Studies, Investigations & Hearings. This amount is unchanged from FY 2016.

Monies in this line item allow the commission to hire outside consultants to provide professional expertise and advice to the Utilities Program staff.

Other Issues

Small Water Systems Fund Reporting Requirement

The General Appropriation Act requires that the Corporation Commission and the Water Infrastructure Finance Authority (WIFA) jointly report the total expenditures from the Small Water Systems Fund in FY

2017 for emergency grants to interim operators of small water systems by August 1, 2017.

The General Appropriation Act appropriated \$500,000 to the Small Water Systems Fund in FY 2017 and this funding is displayed in the Office of Economic Opportunity agency pages. Monies in the fund are used for emergency grants to interim operators of small water systems. WIFA approves the grants on recommendation of the Corporation Commission. Laws 2016, Chapter 372 transfers WIFA to the Office of Economic Opportunity.

Additional Legislation

Distributed Energy Generation Systems

Laws 2016, Chapter 56 makes changes to statutory requirements relating to the sale, warranty, and interconnection of distributed energy generation systems, such as solar panels. The Environment Budget Reconciliation Bill (Laws 2016, Chapter 120) further amends Laws 2016, Chapter 56 by allowing individuals to connect their distributed energy generation system to their utility's power grid using their utility's effective interconnection requirements, instead of using the interconnection standards developed by the Corporation Commission.

State Department of Corrections

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	9,534.0	9,534.0	9,541.0
Correctional Officer Personal Services	304,166,500	323,184,100	323,339,300
Health Care Personal Services	2,576,800	2,757,400	2,757,400
All Other Personal Services	62,263,700	64,435,100	64,612,800
Personal Services Subtotal	369,007,000	390,376,600	390,709,500
Employee Related Expenditures	188,516,900	210,196,200	205,099,900
Personal Services and Employee Related Expenditures for Overtime/Compensatory Time	39,312,700	15,549,300	15,549,300
Health Care All Other Operating Expenditures			
Professional and Outside Services	6,594,000	1,262,900	1,262,900
Travel - In State	26,000	25,000	25,000
Travel - Out of State	10,300	15,000	15,000
Other Operating Expenditures	639,000	760,000	760,000
Equipment	49,200	15,000	15,000
Health Care Operating Subtotal	7,318,500	2,077,900	2,077,900
Non-Health Care All Other Operating Expenditures			
Professional and Outside Services	5,429,200	6,624,000	6,624,000
Travel - In State	229,500	226,400	226,400
Travel - Out of State	51,300	119,100	119,100
Food	38,954,100	42,255,000	42,455,000
Other Operating Expenditures	106,274,100	111,385,600	112,105,700
Equipment	4,965,400	3,522,000	3,631,600
Non-Health Care Operating Subtotal	155,903,600	164,132,100	165,161,800
OPERATING SUBTOTAL	760,058,700	782,332,100	778,598,400 ^U
SPECIAL LINE ITEMS			
Leap Year	0	929,100	0
Radio Equipment	0	0	2,800,000
Private Prison Per Diem	136,290,200	151,518,600	168,617,100
Inmate Health Care Contracted Services	123,862,200	147,203,900	147,137,100 ^{2/3/}
AGENCY TOTAL	1,020,211,100	1,081,983,700	1,097,152,600 ^{3/3/11}
FUND SOURCES			
General Fund	976,257,400	1,035,107,500	1,046,682,600
Other Appropriated Funds			
Alcohol Abuse Treatment Fund	214,300	555,300	555,500
Corrections Fund	27,517,600	27,517,800	30,317,800
Penitentiary Land Fund	979,200	979,200	979,300 ^{8/}
Prison Construction and Operations Fund	13,223,100	13,686,000	13,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	338,800	1,861,200	1,861,500 ^{9/}
State Education Fund for Correctional Education	458,500	673,400	669,500 ^{10/}
Transition Program Fund	1,222,200	1,603,300	2,400,100
SUBTOTAL - Other Appropriated Funds	43,953,700	46,876,200	50,470,000
SUBTOTAL - Appropriated Funds	1,020,211,100	1,081,983,700	1,097,152,600
Other Non-Appropriated Funds	50,245,500	54,136,100	54,151,100
Federal Funds	6,712,000	6,755,800	6,732,800
TOTAL - ALL SOURCES	1,077,168,600	1,142,875,600	1,158,036,500

AGENCY DESCRIPTION — The Arizona Department of Corrections (ADC) maintains and administers a statewide system of prisons for adult and minor offenders legally committed to the department. The department is also responsible for the supervision of offenders on parole and other prison release mechanisms, as specified by law.

Summary

The budget increases ADC’s General Fund spending by \$11,575,100 or 1.1% in FY 2017. The changes include:

- \$17,098,500 for the cost of opening 1,000 new private beds on September 1, 2017.
- \$723,500 for higher employer retirement expenses.
- \$528,000 for private prison monitoring.
- \$103,500 for a reentry planner.
- \$(5,875,600) for statewide adjustments.
- \$(929,100) to remove one-time leap year costs.
- \$(73,700) for other adjustments.

The FY 2017 budget includes a FY 2016 supplemental for \$5,200,000 for the costs of a 3.6% inflation increase for inmate health care services. The budget includes \$5,133,300 for this increase in FY 2017.

In addition, the FY 2017 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 119) assumes that \$4,300,000 in General Fund savings from a new financing agreement for a private prison will be reallocated from the Private Prison Per Diem line item for the following adjustments:

- \$2,700,000 for a 4% inflationary health increase for the fourth year of the contract.
- \$1,600,000 for the Maricopa Community Corrections Center.

As part of the budget’s 3-year spending plan, ADC’s General Fund costs are projected to increase by \$7,090,800 in FY 2018 above FY 2017, and remain flat in FY 2019.

Operating Budget

The budget includes \$778,598,400 and 9,541 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$766,424,600
Alcohol Abuse Treatment Fund	555,500
Corrections Fund	3,000,800
Penitentiary Land Fund	100
Prison Construction and Operations Fund	3,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,500
State Education Fund for Correctional Education	669,500
Transition Program Fund	2,400,100

- 1/ Laws 2016, Chapter 153 appropriated \$596,000 from the Transition Program Fund for the cost of expanding the Transition Program.
- 2/ Before implementing any changes in per diem rates for inmate health care contracted services, the State Department of Corrections shall submit its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 3/ The amount appropriated for the department includes sufficient monies to fund a 4% adjustment for the fourth year of the contract. (General Appropriation Act footnote)
- 4/ Before placing any inmates in out-of-state provisional beds, the department shall place inmates in all available prison beds in facilities that are located in this state and that house Arizona inmates, unless the out-of-state provisional beds are of a comparable security level and price. (General Appropriation Act footnote)
- 5/ The State Department of Corrections shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing department expenditures for the month and year-to-date as compared to prior year expenditures on or before the 30th of the following month. The report shall be in the same format as the prior fiscal year and include an estimate of potential shortfalls, potential surpluses that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 6/ The State Department of Corrections shall provide a report on bed capacity to the Joint Legislative Budget Committee for its review on or before August 1, 2016. The report shall reflect the bed capacity for each security classification by gender at each state-run and private institution, divided by rated and total beds. The report shall include bed capacity data for June 30, 2015 and June 30, 2016 and the projected capacity for June 30, 2017, as well as the reasons for any change within that time period. Within the total bed count, the department shall provide the number of temporary and special use beds. If the department develops a plan subsequent to its August 1 report to close state-operated prison rated beds or cancel or not renew contracts for privately operated prison beds, the State Department of Corrections shall submit a bed plan detailing the proposed bed closures for review by the Joint Legislative Budget Committee before implementing these changes. (General Appropriation Act footnote)
- 7/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 8/ One hundred percent of land earnings and interest from the Penitentiary Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 9/ Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the State Department of Corrections in compliance with the Enabling Act and the Constitution of Arizona to be used for the support of state penal institutions. (General Appropriation Act footnote)
- 10/ Before the expenditure of any State Education Fund for Correctional Education monies in excess of \$669,500, the State Department of Corrections shall report the intended use of the monies to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

These amounts fund the following adjustments:

CORP Fund Adjustment

The budget includes an increase of \$723,500 from the General Fund in FY 2017 for an increase to the employer contribution rate for the Corrections Officer Retirement Plan (CORP) Fund. This employer contribution rate will rise from 18.54% to 18.74% in FY 2017. The 3-year spending plan in the FY 2016 budget included a projected employer contribution rate increase for FY 2017. *(For more detailed information, please see the Consolidated Retirement Report.)*

Transition Program Expansion

Laws 2016, Chapter 153 appropriates \$596,000 from the Transition Program Fund in FY 2017 for the costs of expanding the Transition Program.

The Transition Program allows certain inmates the opportunity to be released 90 days prior to their release date. Participants are located in homes or half-way houses across the state, and receive counseling through a vendor which includes substance abuse counseling and case management services. The FY 2017 Criminal Justice BRB removes the prohibition on having DUI offenders as participants and amends the behavioral qualifications for potential participants. *(For more detailed information on the Transition Program, please see Reentry Legislation in Other Issues.)*

Private Prison Monitoring

The budget includes an increase of \$528,000 and 6 FTE Positions from the General Fund in FY 2017 for the costs of monitoring new private beds and increasing the overall monitoring capacities of the department. The total amount includes \$83,200 for one-time equipment costs.

Reentry Planner

The budget includes an increase of \$103,500 and 1 FTE Position from the General Fund in FY 2017 for the costs of a reentry planner to assist prisoners, primarily older inmates, in transitioning out of prison. The total amount includes \$25,000 in one-time equipment costs.

Maricopa County Community Corrections Center

The budget includes an increase of \$200,000 from the Transition Program Fund in FY 2017 for the costs of operating a community corrections center in Maricopa County. The Maricopa County Community Corrections Center will provide 100 short-term beds for prisoners needing intensive treatment, emergency housing, or for inmates that have violated the conditions of their release that face a short-term sanction stay. ADC currently operates a similar facility in Tucson.

The FY 2017 Criminal Justice BRB allowed ADC to enter into a new financing agreement for an existing prison capital lease. At the June 16, 2016 JCCR meeting, the Committee favorably reviewed the department's plans to expend \$1.6 million in GF savings from refinancing the current debt obligation on the program. This amount will be transferred from the Private Prison Per Diem line item. *(Please see the Kingman Refinancing discussion for further details.)*

One-Time Named Claimants Funding

The budget includes a decrease of \$(6,948.18) from the General Fund in FY 2017 for the elimination of one-time funding of prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Statewide Adjustments

The budget includes a decrease of \$(5,877,800) in FY 2017 for statewide adjustments: This amount consists of:

General Fund	(5,875,600)
Alcohol Abuse Treatment Fund	200
Penitentiary Land Fund	100
Prison Construction and Operations Fund	300
State Charitable, Penal and Reformatory Institutions Land Fund	300
State Education Fund for Correctional Education	(3,900)
Transition Program Fund	800

(Please see the Agency Detail and Allocations section.)

The FY 2017 Criminal Justice BRB continues to require the department to report actual FY 2016, FY 2017, and requested FY 2018 expenditures as delineated in the prior year when the department submits its FY 2018 budget request.

Leap Year

The budget includes no funding in FY 2017 for Leap Year expenses. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(929,100) from the General Fund in FY 2017 for the elimination of one-time operating costs for the extra day in FY 2016.

Monies in this line were used to pay operating expenses and costs for contracted services for the extra day in FY 2016 due to the leap year.

Radio Equipment

The budget includes \$2,800,000 from the Corrections Fund in FY 2017 for one-time funding of 2,500 radios.

The department owns 10,079 radios, and 25% of the radios are over 10 years old. This money will be used to replace obsolete radios. Monies in this line item were transferred from other department funds to the Corrections Fund. *(Please see the Fund Transfers section in Other Issues for more information on the transfers.)*

Private Prison Per Diem

The budget includes \$168,617,100 in FY 2017 for Private Prison Per Diem. This amount consists of:

General Fund	143,120,900
Corrections Fund	24,517,000
Penitentiary Land Fund	979,200

These amounts fund the following adjustments:

Open 1,000 Male Medium Beds

The budget includes an increase of \$17,098,500 from the General Fund in FY 2017 for 1,000 new private male medium custody beds based on opening in September 2016. ADC may open some of the beds sooner.

The annualization cost for the beds is expected to be \$7,090,800 in FY 2018, for a total annual cost of \$24,189,300. The FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) authorized the department to issue requests for proposals (RFP) for up to 2,000 male medium security beds at new or existing contracted bed facilities. The department was authorized to award a contract or contracts to open up to 1,000 beds on July 1, 2016, and the remaining 1,000 beds could be awarded with specific legislative authorization. The FY 2017 Criminal Justice BRB repeals the authority for the legislature to authorize the remaining 1,000 beds.

The FY 2017 Criminal Justice BRB provides conditional authorization for 1,000 male medium beds if the male inmate state daily population exceeds the April 22, 2016 level of 38,762 by 1,000 prisoners by November 30, 2016. If 39,762 is reached, ADC may present their plans before the Joint Committee on Capital Review (JCCR). Approval by JCCR must occur on or before December 31, 2016. With the awarding of any contract from this RFP, counties with a population of less than 200,000 would have the first right of refusal for no more than 250 beds if they can meet the needs of the RFP and offer a per diem at the same rate or less than other non-county bidders. As written, counties with a population under 200,000 could

make a joint offer. ADC can also award more than the 250 beds if desired, or award a contract for less than 250 if that is what is made available by the eligible counties.

Background – Monies in this line item are paid to private prison contractors for housing and providing medical care to Arizona inmates in 8,538 beds under contract and operational by June 30, 2017. Private prison beds are considered permanent beds. ADC will usually own the facilities after a specified amount of time (typically 20 years) because the per diem rate includes a portion of the facilities' purchasing cost. Administrative expenses related to monitoring private prison contracts are included in the department's operating budget.

Inmate Health Care Contracted Services

The budget includes \$147,137,100 in FY 2017 for Inmate Health Care Contracted Services. This amount consists of:

General Fund	135,637,100
Prison Construction and Operations Fund	10,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,500,000

These amount funds the following adjustments:

Year 3 Inflation Increase

The budget includes a decrease of \$(66,800) from the General Fund in FY 2017 to fund a 3.6% inflation increase that occurred at the start of the third year of ADC's contract with its health care vendor. A FY 2016 supplemental included \$5,200,000 from the General Fund for the costs in FY 2016. The FY 2017 budget allocated \$5,133,200 for this purpose.

This adjustment funded the increased per diem which went from \$11.20 to \$11.60 as of March 2015. The JLBC favorably reviewed the 3.6% inflation increase on June 18, 2015. The costs in FY 2015 were covered by the department.

Year 4 Inflation Increase

The budget includes a 4% inflationary increase for inmate health care spending. This adjustment is expected to require \$2,700,000 in increased General Fund spending in FY 2017. The FY 2017 Criminal Justice BRB allowed ADC to enter into a new financing agreement for an existing prison capital lease. At the June 16, 2016 JCCR meeting, the Committee favorably reviewed the department's plans to expend \$1.6 million in GF savings from refinancing the current debt obligation for the program. *(Please see the Kingman Refinance discussion for further details.)*

A FY 2017 General Appropriation Act footnote states the money appropriated in the budget is sufficient to fund a 4% increase for the fourth year of ADC's contract with its health care vendor. On June 16, 2016, the JLBC approved this increase. With the increase, the per diem would increase from \$11.60 to \$12.06 retroactive to March 2016. The department will cover the FY 2016 costs of this increase.

Background – ADC provides healthcare to inmates within state facilities through a contract with a provider at a per diem rate of \$12.06. The line item funds the costs of the contract; ADC expenditures for monitoring the contracted services are included within the department's operating budget. Additional monies from Medicaid reimbursement of hospital stays outside prison facilities augment funding in this line item. (See below.) A General Appropriation Act footnote requires review of any changes to the per diem. The contract can be amended for changes to scope, and the vendor may request adjustments for inflation.

The budget presumes that the department will recover \$6,000,000 in savings annually for Medicaid reimbursement of the costs of outside health care. This is an increase of \$2,773,000 over the FY 2016 presumed savings. Any savings above \$6,000,000 can be used to offset growth in the prison population. In FY 2015, ADC reported a total of \$7.2 million in savings from services rendered in FY 2014 and FY 2015.

(For more detailed information on inmate health care, please see the Other Issues section.)

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2016 Supplemental
- Fund Transfers
- Automation Projects Fund - Arizona Inmate Management System
- Proposition 123
- Additional Legislation
- Reentry Legislation
- ASP - Kingman Refinance
- Inmate Health Care
- Bed Capacity Issues
 - Inmate Growth Rate
 - Bed Capacity
 - Bed Surplus/Shortfall

Long-Term Budget Impacts

Beyond FY 2017 budget changes for ADC, the budget estimates that policy changes approved in the FY 2017 budget will require an additional \$7.1 million in FY 2018 above FY 2017 and no changes in FY 2019. This estimate assumes the opening of 1,000 private medium custody beds opening in September 2016 and does not assume the opening of any additional beds in FY 2017, FY 2018, or FY 2019. (Please see Private Prison Per Diem line item for further details.)

FY 2016 Supplemental

The FY 2017 budget includes a FY 2016 supplemental appropriation of \$5,200,000 from the General Fund to ADC for funding the 3.6% inflation increase that commenced in March 2015 at the start of the third year of the contract. The department assumed the costs for FY 2015, the supplemental funds the FY 2016 costs, and the FY 2017 budget includes an adjustment for this increase. (Please see the Inmate Health Care line item and Inmate Health Care in Other Issues for more information.)

The FY 2017 budget includes a FY 2016 supplemental appropriation of \$6.948.18 from the General Fund in FY 2016 for the elimination of one-time funding of prior year unpaid claims. (Please see the Named Claimants discussion in ADOA Other Issues.)

Fund Transfers

The budget includes the following FY 2017 transfers from this agency's funds to the Corrections Fund for purchasing replacement radios. This amount consists of:

Inmate Store Proceeds Fund	\$1,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	500,000
State Department of Corrections Revolving Fund	500,000
Special Services Fund	400,000
Penitentiary Land Fund	400,000

(Please see the Radio Equipment line item for more information.)

Automation Projects Fund - Arizona Inmate Management System

The budget includes the transfer of \$8.0 million from department funds to the Automation Projects Fund (APF) in FY 2017 for the replacement of the Adult Inmate Management System (AIMS).

This amount consists of:

Special Services Fund	\$4,000,000
Arizona Correctional Industries Revolving Fund	1,000,000
Inmate Store Proceeds Fund	1,000,000
Penitentiary Land Fund	1,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,000,000

The FY 2017 Criminal Justice BRB provides authorization for monies from the Special Services Fund to be transferred for use in this project.

The replacement of the system is estimated to cost a total of \$24.0 million over 3 years. The APF received a transfer of \$8.0 million in FY 2014 and \$8.0 million in FY 2015 from department funds for the project. The FY 2017 General Appropriation Act allows the department to expend the FY 2015 monies in FY 2017. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Proposition 123

As a beneficiary of the Arizona State Land Trust, ADC, receives monies generated from lease revenues and the proceeds from land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, ADC received \$906,200 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer's annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, ADC will receive \$1,794,000 in additional revenue from the Treasurer's distributions in FY 2016 and a total of \$3,122,975 from the Treasurer's distributions in FY 2017. Since ADC land funds are subject to appropriation, ADC will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*

Additional Legislation

Corrections Fund Administrator

The FY 2017 Criminal Justice BRB establishes the Department of Corrections as the administrator of the Corrections Fund. The Corrections Fund is the recipient

of monies from liquor taxes, and these monies per A.R.S. 41-1641 are designated for use by the Director of the Department of Administration, the Director of the Department of Corrections, and the Director of the Department of Juvenile Corrections for maintenance and operations of adult and juvenile correctional facilities. By establishing the ADC as the administrator of the fund, this will improve the reporting of the funds expenditures by the different agencies.

Extension of Corrections Fund Revenue Sources

Laws 2016, Chapter 125 extends the distribution of luxury tax revenues to the Corrections Fund, permanently, retroactive to July 1, 2015. *(For additional information, please see Luxury Tax Revenue Allocation in Department of Revenue's Additional Legislation section.)*

End Half-Time Release

Laws 2016, Chapter 89 ends the early release of certain prisoners after the prisoner has served at least one-half of their sentences to the custody of the United States Immigration and Customs Enforcement.

During FY 2015, ADC reported 959 inmates were released under A.R.S. § 41-1604.14, which this bill repeals. The department estimates that an average of 268 bed days were saved per inmate for a total of 257,012 bed days saved, or the annual equivalent of about 700 inmates. The JLBC Staff assume this increase will be phased in: 175 in FY 2017, 525 higher than currently projected in FY 2018, and 700 by FY 2019. The budget does not address potential costs for this law. At the present time, it is likely given slow growth that the FY 2017 increase can be absorbed within the current growth projections.

Prison Education Services Budget

Laws 2016, Chapter 262 extends the use of prison education services budgets for each state prison to include prisoners incarcerated in a special management unit.

Reentry Legislation

Transition Program

Under the Transition Program, eligible prisoners are released 90 days before their release date if they have met behavioral standards. The FY 2017 Criminal Justice BRB expands eligibility of the Transition Program Fund to include DUI convictions. Laws 2016, Chapter 153 provides an additional \$596,000 from the Transition Program Fund for this purpose and made the following changes:

- Allows participation of prisoners that committed a DUI.

- Changes the behavioral qualification provisions to that prisoners must be classified as minimum or medium custody, not have been found in violation of any major violent rule during the inmate’s current period of incarceration or in violation of any other major rule within the previous 6 months.
- Clarifies that multiple minor rule violations cannot equal a major rule violation.
- Participants no longer need to be current on restitution payments.

Arizona Health Care Cost Containment System (AHCCCS)/ADC Collaboration

The FY 2017 Criminal Justice BRB, as permanent law, requires the collaboration of ADC and AHCCCS for inmates exiting ADC facilities reentering society. The law allows ADC to order certain prisoners as a condition of supervision to apply for AHCCCS. The law permits coordination between ADC, AHCCCS, and Regional Behavioral Health Authorities, especially for those in need of mental health assistance and requires AHCCCS/ADC to have an agreement to reinstate coverage for those prisoners that previously had health insurance and are serving a sentence of less than 12 months upon release.

Department of Corrections (DOC) Revolving Fund

Laws 2016, Chapter 153 expands the uses of the State DOC Revolving Fund for reentry, education, and medical health programming in addition to drug treatment programs. The legislation also modifies provisions to permit ADC to administer drug treatment programs and clarifies that other programs should be certified by either the Department of Health Services or the Board of Behavioral Health Examiners.

Re-Entry Work Program

Laws 2016, Chapter 311 allows ADC to establish a community reentry work program for prisoners who meet certain eligibility requirements. This provides the legislative authority for the development of future reentry work programs. At this time, there is no cost associated with this legislation.

ASP - Kingman Refinance

A July 2015 disturbance resulted in the temporary closure of the Hualapai Unit at the Kingman facility under the direction of a private vendor, Management and Training Corporation. This resulted in the temporary deactivation of (1,272) male medium custody beds, and the use of 1,259 temporary beds at other sites. After investigation, ADC reassigned the management-only contract with similar terms to a new vendor, GEO Group, effective December 1, 2015, maintaining the same per diem rates. The facility returned to full capacity by March 2016.

With this contract, the vendor is subject to an operating agreement with a third party that holds the lease for the land and buildings. Money from the per diem is designated to pay for the buildings. This arrangement qualifies as a capital lease, and is reported as part of the state’s debt obligation.

The FY 2017 Criminal Justice BRB allows the Arizona Department of Administration (ADOA) with the participation of ADC to enter into a financing agreement in FY 2017 for this existing prison capital lease. This legislation included a provision that the proposed agreement and expenditure of any cost savings be submitted to the JCCR. Further, any agreement must generate savings of at least \$25 million over the lifetime of the agreement. By executing a lease-purchase agreement, the state can lower the state’s debt obligation since the new agreement would be at a lower interest rate.

At the JCCR meeting on June 16, 2016, ADOA and ADC received a favorable review for the refinancing agreement. As submitted, the state will purchase the \$137.8 million buildings and facility through a lease-purchase agreement. The annual debt service payment is about \$17.3 million during most years. Over the 9-year term, the state will pay \$158.3 million at a projected 2% interest rate. The new financing agreement is projected to generate \$77.5 million in total savings through FY 2025. ADC proposed the following allocation of the savings:

Table 1
Proposed Allocation of Savings (\$ in Millions)

<u>Allocation</u>	<u>FY 2017</u>	<u>FY 2018</u>
ASP - Kingman Adjustment	\$1.7	\$2.5
ADC Health Care Adjustment	2.7	2.7
Maricopa County Community Corrections Center	1.6	1.6
Unallocated Savings	<u>2.0</u>	<u>1.9</u>
Total	\$8.0	\$8.7

Inmate Health Care

On March 4, 2013, ADC entered into a contract with the vendor, Corizon, to provide inmate health care contracted services at a daily rate of \$10.10 per prisoner, replacing the original vendor, Wexford. The contract was for 3 years, with the option for two 1-year renewals. During FY 2015, the vendor and ADC amended the contract twice raising the per diem for prisoners in state facilities from \$10.10 to \$11.20:

- \$0.32 for increased vendor staffing for mental health and pill distribution effective June 2014.

- \$0.09 for additional vendor staffing at inpatient care unit effective March 2015.
- \$0.06 for additional vendor staffing at new maximum custody unit effective March 2015.
- \$0.63 for additional staffing to meet scope changes for the health care litigation agreement effective March 2015. As of May 2016, plaintiffs in the health care litigation case alleged that ADC has not met the conditions of the settlement.

The FY 2016 budget appropriated an increase of \$16.8 million for these per diem changes and the increased population.

The per diem rate further increased from \$11.20 to \$11.60 effective back to March 4, 2015 to account for the change in prices for medical goods and services. This 3.6% increase was based on the inflation rate for medical goods in Metropolitan Phoenix in 2014. The department covered the FY 2015 costs, and the adjustment was paid for in FY 2016 and FY 2017 by a budget adjustment to the Inmate Health Care Contracted Services line item.

This May 2015 amendment included other contract changes:

- Extends the contract to March 3, 2017 with vendor agreeing to renew for Year 4.
- Extends the contract for Year 5 if the Legislature funds a 4% inflation increase for Year 4.
- Permits the vendor to exit the contract without penalty in November 2016 if the Legislature does not fund the Year 4 increase.

The Legislature included sufficient monies in the FY 2017 budget to pay for a 4% inflation increase for Year 4 retroactive to March 2016. The cost of this increase, which will raise the per diem from \$11.60 to \$12.06, will be paid for from savings from refinancing a private prison lease. Funding the Year 4 increase extends the contract through March 2018, at which time the contract will be re-bid. *(Please see the ASP - Kingman Re-Finance discussion for further details.)*

Bed Capacity Issues

Inmate Growth Rate

During FY 2015, the inmate population increased by 838 from 41,773 to 42,611. This continued the moderate growth seen in FY 2014.

During the first half of FY 2016, the average monthly inmate growth was lower than expected. As of June 20, 2016, the total inmate population is 42,953. This is an increase of 342 inmates since June 30, 2015. The FY 2017

Baseline assumed an increase of 900 inmates by June 30, 2016.

The budget assumes inmate growth of 75 prisoners per month in FY 2017, or approximately 900 annually (744 male inmates and 156 female inmates). There is uncertainty regarding population growth due to several factors:

- Growth has been lower than expected in FY 2016.
- The expansion of the Transition Program and other reentry efforts like the Maricopa Community Corrections Center may contribute to a small decrease in population.
- Laws 2016, Chapter 89, which eliminates early release for certain inmates, may increase the population by 175 in FY 2017.

Table 2 details the projected annual population growth rate by custody and gender for FY 2017:

<u>Custody</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Minimum	72	12	84
Medium	492	96	588
Close	120	24	144
Maximum	<u>60</u>	<u>24</u>	<u>84</u>
Total	744	156	900

As with the overall growth rate assumptions, the projections by gender and custody level may need further revision in light of growth and the availability of temporary beds.

Bed Capacity

In measuring ADC's ability to house its inmate population, there are 2 methods of defining bed capacity:

- "Rated" beds are permanent and were originally designed for housing prisoners. This amount was 38,085 public and private prisons on June 30, 2015, an increase of 904 from the 37,181 on June 30, 2014. This increase came from the opening 500 private medium custody beds at ASP - Red Rock in January 2015, the opening of 500 public maximum custody beds at ASPC - Lewis, and the loss of (96) permanent maximum custody beds upon their return to special use beds. ADC projects a total of 38,085 rated beds on June 30, 2016 as shown on Table 4. With the addition of 1,000 new male medium private beds in September 2016, the projected number of rated beds for FY 2017 is 39,085.

- Operating Capacity represents “rated” beds plus temporary beds. The latter may be located in areas not originally intended for housing prisoners or double-bunked beds in areas intended for single bed cells. From June 2011 to June 2014, the range of temporary beds available was 5,129 to 5,842. During FY 2015, the department increased its total operating capacity by 1,274 beds, from 42,415 to 43,689. As of June 30, 2015, public and private prisons have a total of 5,604 temporary beds, an increase from 5,234 as of June 30, 2014. This increase came from the activation of 6 minimum custody beds at ASPC - Phoenix, 40 medium custody beds at ASPC - Eyman, and the reactivation of 324 temporary medium beds at ASPC - Cheyenne. ADC projects 5,754 temporary beds in use at the end of FY 2016 as shown on *Table 4* for a total operating capacity of 43,839. This includes plans to activate 150 public medium custody temporary beds. The projected operating capacity for FY 2017 is 44,839 based on the opening of 1,000 rated private beds.

In addition, special use beds are employed for investigative detention, disciplinary isolation, maximum behavior control, mental health observation, or medical inpatient care. Due to their short-term usage, these beds are not counted as part of ADC’s operational capacity. The number of special use beds in public and private prisons was 1,689 as of June 30, 2015, 80 beds more than on June 30, 2014.

The department has flexibility in establishing or decommissioning beds (or shifting between inmate classification) as discussed in this section. A FY 2017 General Appropriation Act footnote continues to require the department to provide a report to the JLBC for its review regarding bed counts and reasons for changes in the number or classification of beds; this footnote also clarifies when the department needs to provide closure plans to the JLBC for its review after submitting the bed plan above.

Bed Surplus/Shortfall

During FY 2015, the inmate population increased by 838 inmates. At the end of FY 2015, the department had a total rated bed shortfall of (4,526). After adjusting for the 5,604 temporary beds in the overall ADC system, the rated bed shortfall became a 1,078 bed surplus as shown in *Table 4*.

Presuming an annual growth of 450 inmates in FY 2016 at the same proportion by gender and custody level as FY 2017, the projected rated bed shortfall in FY 2016 is (4,976). With a total of 5,754 temporary beds, this becomes an operational surplus of 778.

Presuming an annual growth of 900 inmates in FY 2017, the rated bed shortfall is projected at (4,876) by June 30, 2017. The proposed opening of 1,000 beds in September would offset inmate growth. The operating capacity is a bed surplus of 878, assuming 5,754 temporary beds.

Bed shortfall estimates vary by level of security (e.g. minimum, medium, or maximum), and by gender. While there is an overall projected operational capacity of 878 beds in June 2017, that estimate reflects a male surplus of 816 and a female surplus of 62. Within the 816 male surplus, there are differences by classification. For example, there is a projected male minimum custody surplus of 332, a male medium custody surplus of 147, and male close custody surplus of 218 as shown in *Table 3*.

Table 3

**Projected Operational Capacity
June Surplus/(Shortfall) - Male Beds**

Custody	FY 2015	FY 2016	FY 2017	FY 2018
Minimum	440	404	332	260
Medium	119	23	147	(745)
Close	14	(46)	218	498
Maximum	<u>209</u>	<u>179</u>	<u>119</u>	<u>59</u>
Total	782	560	816	72

The FY 2017 projections include the 1,000 male private medium custody beds scheduled to open by September 2016 and the department’s plans to reclassify 384 medium custody beds to close custody. Without the reclassification of the 384 medium beds, the medium custody bed shortfall would be 531 and the close custody bed shortfall would be (166).

For FY 2018, *Table 3* assumes a growth rate of 900 with the same growth rate assumptions by gender and custody level as FY 2017. There would be an overall male custody beds surplus of 72 beds, with the greatest shortfall of (745) for male medium custody beds. A proposed department shift of 400 medium custody beds to close custody at APSC - Winslow contributes to the shortfall at the medium custody level in FY 2018. Without the shift, the male medium bed shortfall would be (591) beds

The FY 2017 Criminal Justice BRB eliminated the option for the State Legislature to authorize the remaining 1,000 beds of the RFP issued in May 2015. Instead, the Criminal Justice BRB included conditional authorization for 1,000 additional private male medium beds if the male population is 1,000 higher than the April 2016 population of 38,762 by November 30, 2016 and ADC receives approval from the JCCR. As of June 20, 2016, the male population was reported at 38,904, or 858 short of the

trigger level. (For additional discussion, please see the Private Prison Per Diem line item.)

State	Fiscal Year-End Operating Capacity								
	FY 2015 Actual			FY 2016 Estimate			FY 2017 Estimate		
	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity	Rated	Temporary	Operating Capacity
Douglas	1,925	417	2,342	1,925	417	2,342	1,925	417	2,342
Eyman	3,928	1,359	5,287	3,928	1,359	5,287	3,928	1,359	5,287
Florence	3,440	697	4,137	3,440	697	4,137	3,440	697	4,137
Perryville	4,202	72	4,274	4,202	72	4,274	4,202	72	4,274
Phoenix	552	168	720	552	168	720	552	168	720
Lewis	5,104	752	5,856	5,104	852	5,956	5,104	852	5,956
Safford	1,453	316	1,769	1,453	366	1,819	1,453	366	1,819
Tucson	4,605	565	5,170	4,605	565	5,170	4,605	565	5,170
Winslow	1,626	216	1,842	1,626	216	1,842	1,626	216	1,842
Yuma	4,350	404	4,754	4,350	404	4,754	4,350	404	4,754
Subtotal 1/	31,185	4,966	36,151	31,185	5,116	36,301	31,185	5,116	36,301
Private (Per Diem)									
Kingman (\$40.37)	3,400	108	3,508	3,400	108	3,508	3,400	108	3,508
Phoenix West (\$49.28)	400	100	500	400	100	500	400	100	500
Marana (\$46.60)	500	-	500	500	-	500	500	-	500
Florence West (\$44.98 - 55.79)	600	150	750	600	150	750	600	150	750
Florence II (\$67.22)	1,000	280	1,280	1,000	280	1,280	1,000	280	1,280
Eloy (\$65.43)	1,000	-	1,000	1,000	-	1,000	1,000	-	1,000
Eloy II (\$66.35)							1,000	-	1,000
Subtotal 2/ 3/	6,900	638	7,538	6,900	638	7,538	7,900	638	8,538
Total - All Beds 4/	38,085	5,604	43,689	38,085	5,754	43,839	39,085	5,754	44,839
State Prison Population	35,206		35,206	35,581		35,581	35,989		35,989
Female	3,998		3,998	4,076		4,076	4,232		4,232
Male	31,208		31,208	31,505		31,505	31,757		31,757
Private Prison Population									
Male	7,405		7,405	7,480		7,480	7,972		7,972
Total Population	42,611		42,611	43,061		43,061	43,961		43,961
Bed Surplus/(Shortfall)	(4,526)		1,078	(4,976)		778	(4,876)		878
Male	(4,750)		782	(5,122)		560	(4,866)		816
Female	224		296	146		218	(10)		62
Bed Surplus / (Shortfall) (% of Beds)	-11%		3%	-12%		2%	-11%		2%
<p>1/ In FY 2015, ADC added 500 rated maximum custody beds at ASPC - Lewis, and lost (96) rated maximum custody beds with their return to special use beds. For temporary beds, the state activated 6 minimum custody beds at ASPC - Phoenix, 40 medium custody beds at ASPC - Eyman, and 324 medium custody beds at ASPC - Cheyenne. In FY 2016, ADC reported plans to open 150 public medium custody beds at ASPC - Safford and ASPC - Lewis. Including those beds, ADC reports 5,210 temporary beds in use at state facilities as of June 2016.</p> <p>2/ The base rate for the private (per diem) bed rate for each facility is listed. ADC may be charged a lower rate due to amendments or contract provisions that grant lower rates for temporary beds or beds used over an occupancy threshold.</p> <p>3/ In FY 2015, 500 private medium custody beds opened in January 2015. ADC will activate 1,000 private medium custody beds at Eloy II in FY 2017. The beds are displayed in the table.</p> <p>4/ Excludes special use beds totaling 1,609 in FY 2015, 1,689 in FY 2016, and 1,689 in FY 2017.</p>									

Board of Cosmetology

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	24.5	24.5	24.5
Personal Services	754,500	768,000	768,000
Employee Related Expenditures	330,800	334,800	330,400
Professional and Outside Services	266,300	266,300	266,300
Travel - In State	40,500	40,500	40,500
Travel - Out of State	10,000	10,000	10,000
Other Operating Expenditures	355,300	360,500	362,400
Equipment	27,600	27,600	27,600
AGENCY TOTAL	1,785,000	1,807,700	1,805,200^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Cosmetology Fund	1,785,000	1,807,700	1,805,200
SUBTOTAL - Other Appropriated Funds	1,785,000	1,807,700	1,805,200
SUBTOTAL - Appropriated Funds	1,785,000	1,807,700	1,805,200
TOTAL - ALL SOURCES	1,785,000	1,807,700	1,805,200

AGENCY DESCRIPTION — The board administers licensing examinations and licenses; inspects salons and schools; investigates violations of sanitation requirements and procedures. It conducts hearings and imposes enforcement actions where appropriate.

Operating Budget

The budget includes \$1,805,200 and 24.5 FTE Positions from the Board of Cosmetology Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,500) from the Board of Cosmetology Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

County Funding

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
FUND SOURCES			
General Fund	7,650,500	6,000,500	14,000,500
SUBTOTAL - Appropriated Funds	7,650,500	6,000,500	14,000,500
TOTAL - ALL SOURCES	7,650,500	6,000,500	14,000,500

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) distributes these monies to counties for maintenance of county services and to offset local cost sharing.

Assistance to Counties

The budget includes \$14,000,500 from the General Fund in FY 2017 for assistance to counties. This amount funds the following adjustments:

Local Cost Sharing Offset

The budget includes a one-time increase of \$8,000,000 from the General Fund in FY 2017 for distribution to counties. *Table 1* displays the one-time distribution by county, which was intended to offset the \$11.3 million county contribution for the costs of the Department of Juvenile Corrections (DJC).

equally among all counties with a population of less than 200,000 according to the 2010 Decennial Census (*see Table 2*). This includes all counties except Mohave, Yavapai, Pinal, Pima, and Maricopa. Each county would receive \$550,050. An additional \$500,000 is allocated to Graham County on an ongoing basis. These appropriations are in a separate section of the General Appropriation Act apart from the main ADOA appropriation.

The one-time distribution is appropriated to ADOA in FY 2017 for distribution to counties according to their proportional share of the population as reported by the 2010 Decennial Census. These appropriations are in a separate section of the General Appropriation Act apart from the main ADOA appropriation.

Table 1

County Distributions			
County	Ongoing Distribution	One-Time Distribution	FY 2017 Total
Apache	\$ 550,050	\$ 89,500	\$ 639,550
Cochise	550,050	164,400	714,450
Coconino	550,050	168,300	718,350
Gila	550,050	67,100	617,150
Graham	1,050,050	46,600	1,096,650
Greenlee	550,050	10,500	560,550
La Paz	550,050	25,700	575,750
Maricopa	-	4,777,300	4,777,300
Mohave	-	250,500	250,500
Navajo	550,050	134,500	684,550
Pima	-	1,226,900	1,226,900
Pinal	-	470,300	470,300
Santa Cruz	550,050	59,300	609,350
Yavapai	-	264,100	264,100
Yuma	550,050	245,000	795,050
Total	\$ 6,000,500	\$ 8,000,000	\$ 14,000,500

Table 2

County Population	
County	2010 Decennial Census Population
Maricopa	3,817,117
Pima	980,263
Pinal	375,770
Yavapai	211,033
Mohave	200,186
Yuma	195,751
Coconino	134,421
Cochise	131,346
Navajo	107,449
Apache	71,518
Gila	53,597
Santa Cruz	47,420
Graham	37,220
La Paz	20,489
Greenlee	8,437
Total	6,392,017

The ongoing distribution is appropriated to the Arizona Department of Administration (ADOA) and is allocated

Other Issues

Additional Legislation

County Flexibility

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) allows counties with a population of less than 250,000 according to the 2010 Decennial Census to use any source of county revenue, up to \$1,250,000, for purposes other than the purpose of the revenue source to meet a county obligation for FY 2017. Counties using the authority under Chapter 125 are required to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2016.

In contrast, the FY 2016 Revenue BRB (Laws 2015, Chapter 10) allowed counties with a population of less than 200,000 according to the 2010 Decennial Census to use any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2016. Laws 2015, Chapter 323 subsequently amended the FY 2016 Revenue BRB to also allow counties with a population of greater than 200,000 but less than 900,000, according to the 2010 Decennial Census, to use up to \$1,000,000 of any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2016. Counties using the authority under Chapter 10 or Chapter 323 were required to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2015.

In FY 2016, of the 13 eligible counties, 7 reported using the flexibility:

- Apache County: \$400,000 from the Juvenile Jail Fund to the Sheriff's Office to maintain deputies;
- Cochise County: \$23,000 from the Library District to the Heavy Fleet Management Fund to hire a mechanic;
- Coconino County: \$10,634,800 from the Jail District to the General Fund to cover the following costs: \$500,000 for current Public Safety Personnel Retirement System (PSPRS) costs; \$10,000,000 to pay down PSPRS unfunded liabilities; and \$134,800 for Adult Probation Pre-trial Services;
- La Paz County: \$992,500 from transportation-specific Vehicle License Tax disbursements to the General Fund to cover the structural deficit;
- Navajo County: \$1.2 million from 2 special taxing districts to the General Fund for general expenditures;

- Pinal County: \$1.0 million from the Flood Management District to the General Fund for debt payments; and
- Yuma County: \$10,200 from the Library District for the cleaning and maintenance of the South County facility.

The following 6 eligible counties did not utilize this provision:

Gila, Graham, Greenlee, Mohave, Santa Cruz, and Yavapai Counties.

Local Cost Sharing

The FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The FY 2016 Criminal Justice BRB required that each county pay their proportional share of \$12,000,000 according to their population in the 2010 Decennial Census. The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) reduced this amount to \$11,260,000 to reflect savings realized from a decline in the DJC population. The FY 2017 budget includes a one-time increase of \$8,000,000 from the General Fund for distribution to counties to offset counties' contributions for the costs of DJC. *(Please see the Local Cost Sharing Offset discussion for more information.)*

(Please see the Department of Juvenile Corrections sections for details regarding these county cost sharing requirements.)

La Paz County Expenditure Limitation

The FY 2017 Revenue BRB waives any penalties to La Paz County for exceeding county expenditure limits in FY 2014, FY 2015, and FY 2016 related to the contract with Los Angeles County to import incinerator ash for disposal during those years.

Elderly Assistance Fund

As permanent law, the FY 2017 Revenue BRB requires the County Board of Supervisors to spend any unspent monies in the Elderly Assistance Fund after December 31, 2015 and any subsequent appropriations to the Elderly Assistance Fund solely on the Elderly Assistance Program. Maricopa County is the only county that has this program, which is used to reduce the property taxes of certain low-income residents over the age of 65.

Arizona Criminal Justice Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	9.0	9.0
Personal Services	408,800	436,800	663,400
Employee Related Expenditures	131,200	133,400	212,900
Professional and Outside Services	71,800	177,400	183,500
Travel - In State	5,000	6,800	7,300
Travel - Out of State	7,200	10,000	11,500
Other Operating Expenditures	58,400	119,600	166,100
Equipment	8,700	3,900	6,400
OPERATING SUBTOTAL	691,100	887,900	1,251,100
SPECIAL LINE ITEMS			
State Aid to County Attorneys	973,600	973,600	973,700
Victim Compensation and Assistance	3,399,900	4,094,700	4,220,600
AGENCY TOTAL	5,064,600	5,956,200	6,445,400 ^{1/2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	532,500	648,800	646,600
Drug and Gang Prevention Resource Center Fund	158,600	239,100	604,500
State Aid to County Attorneys Fund	973,600	973,600	973,700 ^{3/}
Victim Compensation and Assistance Fund	3,399,900	4,094,700	4,220,600 ^{4/}
SUBTOTAL - Other Appropriated Funds	5,064,600	5,956,200	6,445,400
SUBTOTAL - Appropriated Funds	5,064,600	5,956,200	6,445,400
Other Non-Appropriated Funds	6,129,100	6,164,300	5,313,900
Federal Funds	7,606,900	11,308,500	7,706,500
TOTAL - ALL SOURCES	18,800,600	23,429,000	19,465,800

AGENCY DESCRIPTION — The commission was created to enhance the effectiveness and coordination of the criminal justice system in Arizona. The commission may identify needed revisions in the system and make reports. It receives 1.57% of Criminal Justice Enhancement Fund (CJEF) monies.

Operating Budget

The budget includes \$1,251,100 and 9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
CJEF	\$646,600
Drug and Gang Prevention Resource Center Fund	604,500

These amounts fund the following adjustments:

- 1/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 2/ On or before August 31, 2016, the Arizona Criminal Justice Commission shall report to the Joint Legislative Budget Committee regarding noncompliance with the reporting requirements contained in A.R.S. § 13-2314.01H and A.R.S. § 13-2314.03H. (General Appropriation Act footnote)
- 3/ All monies received by the Arizona Criminal Justice Commission in excess of \$973,700 in FY 2017 from the State Aid to County Attorneys Fund established by A.R.S. § 11-539 are appropriated to the State Aid to County Attorneys Program. Before the expenditure of any State Aid to County Attorneys Fund monies in excess of \$973,700, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 4/ All Victim Compensation and Assistance monies received by the Arizona Criminal Justice Commission in excess of \$4,220,600 in FY 2017 are appropriated to the Crime Victims Program. Before the expenditure of any Victim Compensation and Assistance monies in excess of \$4,220,600 in FY 2017, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

Statistical Analysis Center

The budget includes an increase of \$365,800 from the Drug and Gang Prevention Resource Center Fund in FY 2017 for the Statistical Analysis Center. The Statistical Analysis Center collects, analyzes, and reports on the state of criminal justice issues in Arizona and produces the Arizona Youth Survey to better understand problematic youth behaviors like juvenile delinquency; gang involvement; and alcohol, tobacco, and illegal drug use.

Laws 2016, Chapter 24 allows the Drug and Gang Prevention Resource Center Fund to be used to fund ACJC’s Statistical Analysis Center in addition to the Arizona Youth Survey. *(Please see the Other Issues section for more information on the Drug and Gang Prevention Resource Center Fund.)*

Statewide Adjustments

The budget includes a decrease of \$(2,600) in FY 2017 for statewide adjustments. This amount consists of:

CJEF	(2,200)
Drug and Gang Prevention Resource Center Fund	(400)

(Please see the Agency Detail and Allocations section.)

State Aid to County Attorneys

The budget includes \$973,700 from the State Aid to County Attorneys Fund in FY 2017 for State Aid to County Attorneys. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$100 from the State Aid to County Attorneys Fund in FY 2017 for statewide adjustments.

This line item provides funding for the various offices of county attorneys throughout Arizona to improve the processing of criminal cases. The line item receives funds from a 15.44% allocation of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations and a portion of the monies collected by the Supreme Court and Court of Appeals. The Arizona Criminal Justice Commission (ACJC) is required to distribute the monies to each county based on a composite index formula using Superior Court felony filings and county population.

Victim Compensation and Assistance

The budget includes \$4,220,600 from the Victim Compensation and Assistance Fund in FY 2017 for Victim

Compensation and Assistance. This amount funds the following adjustments:

VOCA Assistance Grant

The budget includes an increase of \$125,800 from the Victim Compensation and Assistance Fund in FY 2017 for increased compensation requests from the Office for Victims of Crime (VOCA) assistance grant program administered by the Department of Public Safety (DPS).

Statewide Adjustments

The budget includes an increase of \$100 from the Victim Compensation and Assistance Fund in FY 2017 for statewide adjustments.

This line item provides funding for 2 crime victim grant programs: the Victim Compensation Program and the Victim Assistance Program. Victim compensation monies are distributed to county compensation boards that award cash compensation to crime victims for specified expenses resulting from their victimization. Revenues for victim compensation grant monies come from 3 sources: 4.6% CJEF distribution, inmate work fees, and unclaimed victim restitution. Victim assistance monies are granted to local government and not-for-profit agencies on a competitive basis and are used for operating expenses related to their victim assistance programs. Revenues for victim assistance grants come from community supervision fees and interstate compact fees.

Other Issues

Additional Legislation

Drug and Gang Enforcement Fund

The FY 2017 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 119) converts the Drug and Gang Enforcement Account within the Criminal Justice Enhancement Fund (CJEF) into a separate non-appropriated fund to better track the expenditures from both funds. The Chapter 119 fund conversion does not change the sources of revenue or distributions for the Drug and Gang Enforcement Fund or CJEF.

Drug and Gang Prevention Resource Center Fund

The FY 2017 Criminal Justice BRB clarifies that ACJC administers the Drug and Gang Prevention Resource Center Fund.

The FY 2017 Criminal Justice BRB also allows DPS to use the Drug and Gang Prevention Resource Center Fund for one-time Border Strike Task Force expenses. The FY 2017 budget appropriates \$1,000,000 for equipment purchases for the Border Strike Task Force.

Indigent Defense

The budget includes \$700,000 from the State Aid to Indigent Defense Fund in the DPS budget for operational costs associated with the Arizona Counter Terrorism Information Center. This amount is unchanged from FY 2016 for DPS. However, in FY 2016 the Attorney General received an \$800,100 appropriation from the State Aid to Indigent Defense Fund for capital postconviction prosecutions, which was instead funded from the General Fund in the FY 2017 budget.

The State Aid to Indigent Defense Fund receives funding from a 14.66% allocation of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations and a portion of the monies collected by the Supreme Court and Court of Appeals.

Prior to FY 2012, ACJC was required to distribute the Indigent Defense monies to each county based on a composite index formula using Superior Court felony filings and county population. Since that time, the fund has been used for other purposes. The FY 2015 year-end fund balance, including the appropriations to the Attorney General and DPS, was \$651,200. The projected FY 2016 year-end fund balance, including appropriations to the Attorney General and DPS, is \$(4,100). In FY 2017, projected annual revenues are \$818,400, sufficient to fund the \$700,000 DPS appropriation.

Anti-Racketeering Revolving Fund Report

A.R.S. § 13-2314.01 and A.R.S. § 13-2314.03 require the Attorney General and departments and state agencies, including counties, that use the Anti-Racketeering Revolving Fund to report quarterly to the ACJC on the sources of all monies and all expenditures. The statutes further require ACJC to compile reports into a single comprehensive annual report and submit them by September 30 each year. This comprehensive report has not been provided in an annual format to the individuals established in statute for several years. The FY 2017 budget includes a new footnote requiring ACJC to submit a report by August 31, 2016 on the reasons for the noncompliance with these statutorily-required reports.

Arizona State Schools for the Deaf and the Blind

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
PROGRAM BUDGET			
Administration/Statewide	5,649,600	4,152,100	4,108,600
Phoenix Day School for the Deaf	9,207,000	10,194,700	10,137,900
Preschool/Outreach Programs	3,747,400	4,233,500	4,356,600
Regional Cooperatives	633,500	821,900	813,400
Tucson Campus	14,144,500	13,755,600	13,639,300
AGENCY TOTAL	33,382,000	33,157,800	33,055,800
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	541.2	541.2	541.2
Personal Services	17,150,800	17,845,400	17,845,500
Employee Related Expenditures	8,339,800	8,451,400	8,199,300
Professional and Outside Services	1,371,900	1,657,400	1,657,400
Travel - In State	34,000	42,500	42,500
Travel - Out of State	19,300	24,000	24,000
Food	126,200	76,700	76,700
Other Operating Expenditures	4,999,400	3,743,600	3,747,700
Equipment	582,800	578,800	578,800
OPERATING SUBTOTAL	32,624,200	32,419,800	32,171,900
SPECIAL LINE ITEMS			
Replace Network Core Infrastructure	695,800	0	0
School Bus Replacement	62,000	738,000	738,000
Voucher Fund Adjustment	0	0	145,900
AGENCY TOTAL	33,382,000	33,157,800	33,055,800 ^{1/}
FUND SOURCES			
General Fund	21,921,300	21,596,400	21,378,100
<u>Other Appropriated Funds</u>			
Schools for the Deaf and the Blind Fund	11,460,700	11,561,400	11,677,700 ^{2/}
SUBTOTAL - Other Appropriated Funds	11,460,700	11,561,400	11,677,700
SUBTOTAL - Appropriated Funds	33,382,000	33,157,800	33,055,800
Other Non-Appropriated Funds	16,400,100	18,639,000	18,639,000
Federal Funds	1,620,300	2,495,300	2,495,300
TOTAL - ALL SOURCES	51,402,400	54,292,100	54,190,100

AGENCY DESCRIPTION — The Arizona State Schools for the Deaf and the Blind (ASDB) provides comprehensive educational programs for students with sensory impairments from birth to age 22. ASDB has 2 main campuses, a day school in Phoenix and a residential campus in Tucson, satellite preschools in the Tucson and Phoenix Metropolitan areas, and 5 regional offices from which cooperative programs with school districts are operated. ASDB also serves infants and toddlers throughout the state. As of September 2015, ASDB served approximately 1,995 children: 414 students in the K-12 programs (146 in Tucson and 268 in Phoenix), 96 children in preschools, 348 infant/toddlers in regional areas, and 1,137 children through the 5 existing regional cooperatives.

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

^{2/} Before the expenditure of any Schools for the Deaf and the Blind Fund monies in excess of \$11,677,700 in FY 2017, the Arizona State Schools for the Deaf and the Blind shall report to the Joint Legislative Budget Committee the intended use of the monies. (General Appropriation Act footnote, as adjusted for statewide allocations)

Operating Budget

The budget includes \$32,171,900 and 541.2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$20,640,100
Schools for the Deaf and the Blind Fund	11,531,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(247,900) in FY 2017 for statewide adjustments. These amounts consist of:

General Fund	\$(218,300)
School for the Deaf and the Blind Fund	(29,600)

(Please see the Agency Detail and Allocations section.)

Assistive Technology Devices

The budget includes no change in funding from the General Fund in FY 2017 for assistive technology devices. The budget includes a total of \$253,100 from the General Fund in FY 2017 for this equipment, which may include: electronic dictionaries for visually impaired students, mobile classroom computer labs for visually disabled students, interactive whiteboards for hearing impaired students, and computer and software upgrades for computers used by visually impaired students.

Foundation for Blind Children

The budget maintains funding in FY 2017 for the preschool program at the Foundation for Blind Children at the previously appropriated level of \$1,054,100.

School Bus Replacement

The budget includes \$738,000 from the General Fund in FY 2017 for School Bus Replacement. This amount is unchanged from FY 2016.

Monies in this line item are used for the purchase of new school buses. According to the School Facilities Board rules for ASDB, a gasoline-powered bus should be replaced after 10 years or 150,000 miles.

Voucher Fund Adjustment

The budget includes \$145,900 from the ASDB Fund in FY 2017 for a Voucher Fund Adjustment. This amount funds the following adjustments:

Enrollment Decrease

The budget includes a decrease of \$(408,200) from the ASDB Fund in FY 2017 for an enrollment decline. ASDB's FY 2016 appropriation assumed an enrollment of 529 students. Based on updated data, however, the FY 2016 estimated enrollment has been revised down to 510 students. ASDB is projected to receive approximately \$11,153,200 in special education voucher funding in FY 2016 under the revised enrollment estimate, which would be \$(408,200) below the FY 2016 appropriation. The budget assumes that ASDB enrollment would remain at 510 students for FY 2017, resulting in voucher costs for FY 2017 that would be \$(408,200) below the amount appropriated for FY 2016.

These estimates are based on enrollment trends shown in *Table 1*. *(Please see Other Issues for additional enrollment information.)*

Base Level Increase

The budget includes an increase of \$554,100 from the ASDB Fund in FY 2017 for a base level increase. Proposition 123 increases the per pupil "Base Level" in the Basic State Aid (BSA) formula. That BSA base level also serves as the base level for the ASDB Voucher Fund formula, so Proposition 123 also increases ASDB's voucher funding. In addition, the budget increases the base level for inflation by an additional 0.99% in FY 2017 above the revised FY 2016 level occurred under Proposition 123. The estimated increase for these 2 base level increases combined for FY 2017 is \$554,100.

ASDB will receive \$230,900 in 2016 from Proposition 123. These amounts are not displayed in the table on the prior page. *(See the Arizona Department of Education narrative for more information on Proposition 123.)*

Background – Special education voucher monies in the ASDB Fund represent ASDB's reimbursement from the Arizona Department of Education (ADE) for educational costs based on its enrollment. As with school districts, ASDB's ADE funding is determined by statutory formula. The amounts are reflected within a separate line item to give ASDB flexibility in allocating funding changes among its 4 programs.

Other Issues

Proposition 123

As a beneficiary of the Arizona State Land Trust, ASDB receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into a “permanent fund,” pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, ASDB received \$116,300 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, ASDB will receive \$230,900 in additional revenue from the Treasurer’s distributions in FY 2016 and a total of \$399,700 from the Treasurer’s distributions in FY 2017. These monies are subject to legislative appropriation, but the FY 2017 General Appropriation Act allows ASDB to expend monies in excess of its stated appropriation as long as ASDB reports on the intended use of the monies to the Joint Legislative Budget Committee. Consequently, ASDB does not require additional appropriation authority to expend the new revenue generated by Prop 123. *(Please see the Department of Education - Other Issues section for more information on Proposition 123.)*

Enrollment Projections

Table 1 shows average annual enrollment data for ASDB’s Tucson, Phoenix, and Preschool campuses since FY 2013. FY 2016 estimates are based on reported enrollment through September 2015. The budget assumes that FY 2017 enrollment levels for ASDB will be unchanged from FY 2016.

Table 1 shows a substantial decrease in ASDB’s preschool population between FY 2013 and FY 2015. This may have been due, at least in part, to changes to A.R.S. § 15-771A that now allow charter schools to provide programs for preschool children with disabilities.

Table 1

	ASDB Average Annual Enrollment			
	FY 2013	FY 2014	FY 2015	FY 2016
Tucson	193	177	158	146
Phoenix	277	283	274	268
Preschool	150	113	97	96
Total	620	573	529	510^{1/}

^{1/} Enrollment projection as of September 2015

Commission for the Deaf and the Hard of Hearing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	15.0	15.0	15.0
Personal Services	828,800	895,700	895,700
Employee Related Expenditures	317,200	342,200	337,700
Professional and Outside Services	573,700	455,200	455,200
Travel - In State	9,200	11,100	11,100
Travel - Out of State	14,000	13,400	13,400
Other Operating Expenditures	1,922,900	2,456,800	2,458,000
Equipment	181,500	138,400	138,400
AGENCY TOTAL	3,847,300	4,312,800	4,309,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Telecommunication Fund for the Deaf	3,847,300	4,312,800	4,309,500
SUBTOTAL - Other Appropriated Funds	3,847,300	4,312,800	4,309,500
SUBTOTAL - Appropriated Funds	3,847,300	4,312,800	4,309,500
TOTAL - ALL SOURCES	3,847,300	4,312,800	4,309,500

AGENCY DESCRIPTION — The agency acts as an information and referral resource for the deaf and the hard of hearing and provides educational materials to the general public. The agency also administers a statewide telephone access program, the Telecommunication Devices for the Deaf (TDD) Relay Program. The agency licenses interpreters for the deaf and the hard of hearing. The agency is supported by the Telecommunication Fund for the Deaf, which derives monies from the Telecommunication Services Excise Tax.

Operating Budget

The budget includes \$4,309,500 and 15 FTE Positions from the Telecommunication Fund for the Deaf in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(3,300) from the Telecommunication Fund for the Deaf in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Additional Legislation

Hearing Loop Installation

The budget appropriates \$250,000 from the Telecommunication Fund for the Deaf to Legislative Council in FY 2017 for hearing loop installation. *(Please see the Legislative Council narrative for more information.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Dental Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	494,900	547,300	547,300
Employee Related Expenditures	229,100	151,800	149,600
Professional and Outside Services	168,500	299,200	299,200
Travel - In State	3,200	3,200	3,200
Travel - Out of State	4,600	5,500	5,500
Other Operating Expenditures	184,900	184,800	186,000
Equipment	30,800	23,700	23,700
AGENCY TOTAL	1,116,000	1,215,500	1,214,500^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Dental Board Fund	1,116,000	1,215,500	1,214,500
SUBTOTAL - Other Appropriated Funds	1,116,000	1,215,500	1,214,500
SUBTOTAL - Appropriated Funds	1,116,000	1,215,500	1,214,500
TOTAL - ALL SOURCES	1,116,000	1,215,500	1,214,500

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of dentists, denturists, dental hygienists and dental assistants.

Operating Budget

The budget includes \$1,214,500 and 11 FTE Positions from the Dental Board Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,000) from the Dental Board Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Early Childhood Development and Health Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	160,962,700	136,273,300	144,290,800
Federal Funds	1,587,800	9,400,400	7,477,800
TOTAL - ALL SOURCES	162,550,500	145,673,700	151,768,600

AGENCY DESCRIPTION — As authorized by a 2006 ballot initiative (Proposition 203), the Arizona Early Childhood Development and Health Board (ECDHB) is funded from an 80 cents per pack cigarette tax, plus taxes on other tobacco products. The board funds early childhood development programs and services for children prior to kindergarten and their families. The agency is also commonly known as “First Things First.”

Background

Early Childhood Development and Health Fund

Enacted in 2006, Proposition 203 implemented an additional 80 cents per pack cigarette tax to fund ECDHB, also known as “First Things First.” Revenues from the tobacco tax are deposited into the Early Childhood Development and Health (ECDH) Fund and go into 2 accounts: 90% of funds are allocated to the Program Account and 10% of funds to the Administrative Costs Account.

Of the annual Program Account budget set by the board each year, 10% (or 9% of the statewide total) may be spent on statewide programs with the remaining funds allocated to the Regional Councils (81% of the statewide total). Of the amount made available to regions, 60.8% is allocated to the various regions based on the total population aged 5 and under and the population under 5 living below the poverty line. The board uses its discretion to allocate the other 20.2% to regions.

In FY 2015, ECDHB’s largest expenditure was **Child Care Scholarships** at \$56.5 million, as displayed in *Table 1*, serving an average of 7,728 children monthly. ECDHB increased its child care reimbursement rates in FY 2015, so fewer children were served even though child care expenditures were greater than the prior year.

State-funded child care is provided through 3 agencies: the Department of Economic Security (DES), the Department of Child Safety (DCS), and ECDHB. DES and ECDHB provide child care for lower-income working families, while DCS provides child care for child welfare cases. Beyond requiring lower-income families to accept a DES subsidy if it is available, there is limited interaction between DES and ECDHB on child care. DES child care is offered as only a partial subsidy requiring a family copayment that varies based on a family’s income level.

ECDHB lower-income working child care is offered as a full “scholarship” without a copayment.

Table 1
FY 2015 ECDHB Fund Expenditures by Category
(\$ in Millions)

Expenditure Category	Amount	Percent
Child Care Scholarships	\$ 56.5	35%
Other Child Care	23.8	15%
Family Support	34.8	22%
Health	19.6	12%
Administration	12.9	8%
Professional Development	6.9	4%
Community Awareness	3.1	2%
Research & Evaluation	2.0	1%
System Coordination	1.4	1%
Total	\$161.0	100%

The **Other Child Care** spending of \$23.8 million was used for early care and education center support as well as professional development.

Since FY 2011, ECDHB child care expenditures have been used to meet federal child care funding requirements. The maintenance-of-effort requirement for the federal Child Care and Development Fund Block Grant (CCDF) is state child care spending of about \$10 million annually. In addition, the state must put up approximately \$20 million in matching funds to draw down the entire CCDF allocation. ECDHB disbursements largely fulfill both of these federal conditions.

Family Support mainly consists of voluntary in-home services for infants, children and their families, focusing on parenting skills, early physical and social development, literacy, health and nutrition; it also includes classes on parenting, food boxes, parent kits, and other services.

The **Health** category provides mental health consultations to teachers and caregivers, oral health services to families, case management to families, child care health

consultations to child care providers, obesity prevention to families, prenatal outreach to women and families, and other services.

The **Administration** category funds about 107 filled FTE Positions.

Professional Development includes training, scholarships, and financial incentives for professionals who provide education and early care to children.

Community Awareness is media and community outreach efforts. **Research and Evaluation** spending is used to evaluate the effectiveness of ECDHB programs. **System Coordination** establishes partnerships and expands services and programs for families with young children.

As shown in *Table 2*, the estimated FY 2016 expenditures leave the fund with a projected balance of \$353,522,900 at the end of FY 2016. The board intends to use the balance in future years to offset ongoing revenue losses that may occur if tobacco use (and the corresponding tax collections) continues to decline.

Other Issues

Additional Legislation

Joint Report on Child Welfare

The FY 2017 Human Services Budget Reconciliation Bill (Laws 2016, Chapter 123) continues to require ECDHB to report by February 1, 2017 with DCS on their collaborative efforts to address child welfare issues of common concern.

Table 2

	ECDH Fund ^{1/} (\$ in Millions)			
	FY 2014 <u>Actual</u>	FY 2015 <u>Actual</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>
Revenues				
Beginning Balance	\$421.6	\$396.9	\$364.1	\$353.5
Ongoing Revenues	<u>132.1</u>	<u>128.2</u>	<u>125.7</u>	<u>123.6</u>
Total Revenues	553.7	525.1	489.8	477.1
Expenditures				
Administrative	13.5	12.9	15.1	15.1
Program ^{2/}	<u>143.3</u>	<u>148.1</u>	<u>121.2</u>	<u>129.2</u>
Total Expenditures	156.8	161.0	136.3	144.3
Ending Balance	\$396.9	\$364.1	\$353.5	\$332.8
^{1/} Data from ECDHB.				
^{2/} Includes \$18.5 million from administrative account carry-forward balances that will be spent on programmatic efforts in FY 2016.				

Office of Economic Opportunity

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Personal Services	0	0	306,200
Employee Related Expenditures	0	0	132,300
Travel - Out of State	0	0	4,000
Other Operating Expenditures	0	0	126,200
OPERATING SUBTOTAL	0	0	568,700
SPECIAL LINE ITEMS			
Small Water Systems Fund Deposit	0	0	500,000 ^{1/2/}
AGENCY TOTAL	0	0	1,068,700
FUND SOURCES			
General Fund	0	0	1,068,700
SUBTOTAL - Appropriated Funds	0	0	1,068,700
Other Non-Appropriated Funds	0	0	244,131,700
Federal Funds	0	0	39,270,200
TOTAL - ALL SOURCES	0	0	284,470,600

AGENCY DESCRIPTION — Laws 2016, Chapter 372 created the Office of Economic Opportunity (OEO), which is responsible for monitoring the state's tax competitiveness, evaluating the effectiveness of state incentive programs, analyzing state and local regulatory costs to businesses, serving as the state's workforce planning coordinator, and providing economic and demographic research and analysis. Also established within OEO is the Arizona Finance Authority, which oversees the Water Infrastructure Finance Authority (WIFA) and the Greater Arizona Development Authority (GADA) in addition to being the state recipient of private activity bonding authority. Additionally, OEO oversees the Arizona Industrial Development Authority which is the sole state issuer of private activity bonds.

Operating Budget

The budget includes \$568,700 from the General Fund in FY 2017 for the operating budget. This amount funds the following adjustments:

Agency Creation

The budget includes an increase of \$568,700 from the General Fund in FY 2017 for transfer of the Office of Employment and Population Statistics and Governor's Regulatory Review Council resources from the Department of Administration (ADOA) to OEO. Laws 2016, Chapter 372 created the Office of Economic Opportunity through the consolidation of various components of existing state agencies. *(Please see the Other Issues section for more information.)*

Small Water Systems Fund Deposit

The budget includes \$500,000 from the General Fund in FY 2017 for a one-time deposit into the Small Water Systems Fund.

The FY 2017 General Appropriation Act included provisions exempting this appropriation from procurement code law, making the appropriation non-lapsing, and requiring the Corporation Commission and WIFA to report to JLBC by August 1, 2017 on the amount of emergency grants made to interim operators of small water systems during FY 2017.

On recommendation of the Corporation Commission, WIFA may approve a grant to repair a small water system or replace infrastructure of a small water system that serves 500 or fewer connections.

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (General Appropriation Act footnote)
- ^{2/} On or before August 1, 2017, the Corporation Commission and the Water Infrastructure Finance Authority shall jointly report the total amount of expenditures from the Small Water Systems Fund established by A.R.S. § 49-355, for emergency grants to interim operators of small water systems during FY 2017 to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)

Other Issues

Office of Economic Opportunity Creation

Laws 2016, Chapter 372 creates 3 new governmental entities: the Office of Economic Opportunity (OEO), the Arizona Finance Authority (AFA), and the Arizona Industrial Development Authority (AIDA). AFA is established in OEO and the AFA board serves as the board of AIDA, thus OEO has supervision over all 3 entities. *Table 1* below displays the FY 2017 estimated FTE allocations and administrative expenditures for each of the 3 newly-created entities.

<u>Recipient</u>	<u>FTE</u>	
	<u>Positions</u>	<u>Total Funds</u>
OEO	30.6	\$ 4,891,700
AFA	19.0	2,707,500
AIDA	3.5	3,120,200
Total	53.1	\$10,719,400

Table 2 displays the estimated fund balances that the newly-created entities will administer in FY 2017 as a result of these shifts.

<u>Transferring Agency</u>	<u>Recipient Agency</u>	
	<u>AFA</u>	<u>AIDA</u>
WIFA	\$ 205,982,900	\$ 0
GADA	13,290,900	0
Housing/Health Authorities	0	5,929,400
Total	\$ 219,273,800	\$5,929,400

OEO

OEO is the central state agency for economic, population, and unemployment statistical analysis, the administering agency for the Workforce Arizona Council, and oversees the newly-created Workforce Data Task Force.

OEO's statistical analysis arm is comprised of the Employment and Population Statistics unit from the Arizona Department of Administration (ADOA) and an economist from the Governor's Regulatory Review Council (GRRC). OEO is also required to enter into a memorandum of understanding with the Department of Economic Security (DES) to access unemployment insurance data for research purposes. The employment, population, and unemployment insurance data will be used to help develop analyses that evaluate the state's

competitiveness regarding incentive, tax, and regulatory policy.

The Workforce Arizona Council, transferred from the Arizona Commerce Authority (ACA), will develop a state workforce plan, review statewide policies and programs that affect workforce development, and develop allocation formulas for employment and training grants.

The newly-created Workforce Data Task Force will oversee the development and maintenance of the state workforce evaluation data system. The data collected on the workforce programs will be used by the task force to determine the most efficient ways to allocate funds and enhance performance of existing programs.

OEO's funding is provided through the transfer of resources tied to the functions shifting to OEO and fees paid to the Corporation Commission for securities filings that were previously deposited into the Arizona Competes Fund. Of these amounts, only the Corporation Commission fees will be deposited into the newly-created OEO Operations Fund. Remaining monies are either appropriated (General Fund), Federal monies that will be accounted for separately, or are being transferred to OEO's IGA & ISA Fund. In total, \$568,700 from the General Fund and \$4,891,700 in total funds is being transferred to OEO (*see Table 3*). Of that amount, ADOA is transferring \$568,700 from the General Fund and \$2,361,400 in total funds. This transfer reflects the following shifts:

ADOA

- Office of Employment and Statistics – The entire office is moved to OEO including its 16.6 FTE Positions and funding of \$362,100 General Fund, \$104,600 IGA and ISA Fund, and \$1,688,100 Federal Funds.
- Governor's Regulatory Review Council – 1 FTE Position and \$206,600 General Fund (\$84,600 of this amount is one-time to help develop a regulatory cost model).

Also included in the \$4,871,900 in total funds transferred to OEO are shifts of \$2,426,300 from ACA and \$104,000 from the Department of Economic Security (DES). These shifts are as follows:

ACA

- Workforce Arizona Council and Workforce Division – The entire Workforce Arizona Council and Workforce Division of ACA are transferred along with 4 FTE Positions and \$458,000 in Federal Funds for the operation of these programs.
- Corporation Commission Fees – \$1,968,300 in Corporation Commission filings fees for securities

that were previously deposited into the Arizona Competes Fund. These monies will fund an estimated 8 FTE Positions.

DES

- Workforce Innovation Opportunity Act Resources – 1 FTE Position and \$104,000 in Federal Funds.

Table 3 includes OEO’s estimated expenditures for FY 2017 by fund source and transferring agency.

<u>Transferring Agency Fund Source</u>	<u>FY 2017</u>
ADOA	
General Fund	\$ 568,700
IGA & ISA Fund	104,600
Federal Funds	<u>1,688,100</u>
Total ADOA	\$2,361,400
ACA	
Corporation Commission Fees	\$1,968,300
Federal Funds	<u>458,000</u>
Total ACA	\$2,426,300
DES	
Federal Funds	<u>\$104,000</u>
Total DES	\$104,000
OEO TOTAL	\$4,891,700^{1/}

^{1/} This amount funds an estimated 30.6 FTE Positions.

The bill also establishes the Economic Development Fund consisting of any remaining monies in the AFA Operations Fund or AIDA at the end of each prior fiscal year. The Economic Development Fund is estimated to receive a total of \$5,710,500 in FY 2018. Since these monies represent excess balances from state Industrial Development Authorities (IDAs) that were folded into the AIDA, it is estimated that any transfers beyond FY 2018 into the Economic Development Fund will be minimal.

AFA

Additionally, the bill creates AFA by consolidating the functions of WIFA and the Greater Arizona Development Authority (GADA) under the authority of the AFA Board and tasking AFA with the administration of the state’s Private Activity Bond (PAB) authorization.

WIFA finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities or projects.

GADA helps local governments obtain lower than market interest rates on debt incurred for infrastructure

development and construction by using the GADA Revolving Fund to guarantee loans.

The state’s PAB authorization, transferred from ACA, is the annual amount of tax exempt bonds issued by the federal government to the state for certain private industry use. As the state’s recipient of the PAB authorization, AFA will issue PAB authority to local IDAs to allow the IDAs to issue bonds on behalf of a private entity that will utilize the proceeds for projects such as school or multi-family home construction, mortgage revenue bonds, manufacturing projects, and qualified student loan projects.

Funding for the operational costs of AFA is derived from unrestricted and available monies of WIFA and GADA, bond proceeds from issuances of the AIDA, and gifts and grants. Monies received from these sources are to be deposited into the newly-created AFA Operations Fund.

AFA is expected to oversee \$276,458,600 in expenditures (see Table 4). Of this amount, \$500,000 is from the General Fund for the deposit to the Small Water Systems Fund.

The AFA is also responsible for the Clean Water Revolving Fund (\$171,371,400) and the Drinking Water Revolving Fund (\$67,353,900). These 2 funds provide loans to political subdivisions and Indian tribes for drinking water facilities and capital improvements at wastewater treatment facilities. Additionally, AFA will also administer Federal Funds (\$37,020,100) that provide water infrastructure loans to local governments and Indian tribes.

AFA will also expend an estimated \$213,200 for 1.4 FTE Positions from the GADA Revolving Fund to oversee the loan and bonding operations of GADA. This amount is small relative to the amounts expended from the Clean Water Revolving and Drinking Water Revolving Funds since the vast majority of the fund balance in the GADA Revolving Fund is used as collateral for the bonds they issue and is only directly loaned out in small amounts. Currently, the fund balance allows locals to bond at a rate of 30:1 while also providing a lower-than-market rate of interest. The FY 2016 estimated ending balance for the GADA Revolving Fund is \$13,290,900 which will allow for bonding of up to \$398,727,000 at the current leverage ratio.

Of the total \$276,458,600 in estimated FY 2017 AFA expenditures, an estimated \$2,707,500 will be deposited into the AFA Operations Fund to pay the administrative costs of AFA. Laws 2016, Chapter 372 requires that all costs and expenses of the AFA shall be paid from bond

proceeds, other AFA monies, and available monies of WIFA and GADA. It is unclear what level of bonding activity will occur in FY 2017; the only monies not federally restricted or already obligated within WIFA and GADA are their administrative expenditures. The \$2,707,500 FY 2017 deposit estimate represents the estimated administrative expenditures for WIFA and GADA that may be transferred to the AFA Operations Fund in FY 2017.

more information). Table 5 summarizes the estimated FY 2017 expenditures of AIDA.

<u>Agency/Fund Source</u>	<u>FY 2017</u>
<u>WIFA</u>	
General Fund	\$ 500,000
Clean Water Revolving Fund	171,371,400
Drinking Water Revolving Fund	67,353,900
Federal Funds	<u>37,020,100</u>
Total WIFA	\$276,245,400
<u>GADA</u>	
GADA Revolving Fund	<u>\$213,200</u>
Total GADA	\$213,200
 AFA TOTAL	 \$276,458,600 ^{1/2/}
 <u>1/</u> This amount funds an estimated 19 FTE Positions.	
<u>2/</u> Of this amount, an estimated \$2,707,500 will be deposited into the AFA Operations Fund to pay the administrative costs of AFA. The remaining monies will predominately be used for loans to local governments for water infrastructure improvements.	

<u>Fund Source</u>	<u>FY 2017</u>
<u>AIDA</u>	
IGA & ISA Fund	<u>\$3,120,300</u>
Total AIDA	\$3,120,300 ^{1/}
 <u>1/</u> This amount funds an estimated 3.5 FTE Positions.	

AIDA

Lastly, the bill also authorizes AFA to establish and govern the AIDA, which will consolidate the activities of the Arizona Housing Finance Authority, Arizona Health Facilities Authority, and Arizona International Development Authority in addition to issuing PABs for allowable projects not otherwise covered by the other state IDAs. As a result of the consolidation, all of the existing assets of the 3 state IDAs become assets of AIDA. The shifting of resources from the 3 consolidated IDAs to AIDA will allow for 3.5 FTE Positions and estimated expenditures of \$3,120,300 in FY 2017. Additionally, AIDA will receive a one-time transfer of \$5,929,400 in unobligated monies in FY 2017 from the 3 consolidated state IDAs. We estimate that revenues to AIDA will not fully cover expenditures in FY 2017 which will result in AIDA having an estimated FY 2017 ending balance of \$5,710,500. Laws 2016, Chapter 372 requires that any unobligated monies within AIDA be transferred to the Economic Development Fund at the end of each fiscal year. As a result, we estimate that all of the \$5,710,500 FY 2017 ending balance within AIDA would be transferred to the OEO-administered Economic Development Fund in FY 2018. (Please see the OEO section of this narrative for

Department of Economic Security

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,882.6	4,147.7	4,218.0 ^{1/}
Personal Services	84,227,700	72,375,500	73,444,800
Employee Related Expenditures	39,427,400	34,121,500	34,030,300
Professional and Outside Services	20,888,900	13,210,600	13,233,200
Travel - In State	923,300	634,200	654,500
Travel - Out of State	65,200	96,300	96,300
Other Operating Expenditures	52,673,400	30,273,000	34,236,900
Equipment	5,268,800	3,241,000	3,564,800
OPERATING SUBTOTAL	203,474,700	153,952,100^{2/}	159,260,800^{3/4/}
SPECIAL LINE ITEMS			
Administration			
ABLE Program	0	0	240,000 ^{5/}
Attorney General Legal Services	9,750,600	11,067,600	10,996,600
Aging and Adult Services			
Adult Services	7,924,100	7,924,100	8,624,100
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Services	2,522,600	2,522,600	2,522,600
Domestic Violence Prevention	12,123,700	12,123,700	14,003,700 ^{6/7/8/}
Benefits and Medical Eligibility			
TANF Cash Benefits	38,599,400	35,094,400 ^{2/9/}	27,736,400
Coordinated Hunger Services	1,754,600	1,754,600	1,754,600
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	5,155,700	6,740,200	8,740,200
Development Disabilities^{10/11/12/13/14/}			
DDD Operating Lump Sum	0	47,835,800 ^{2/}	49,477,100 ^{15/}
Case Management - Medicaid	48,403,700	50,968,300 ^{2/}	55,347,700 ^{15/}
Home and Community Based Services - Medicaid	762,045,500	942,362,600 ^{2/9/}	994,277,300 ^{16/}
Institutional Services - Medicaid	19,220,600	20,737,300 ^{2/}	22,610,900
Medical Services - Medicaid	138,695,000	151,677,700 ^{2/}	165,514,500
Arizona Training Program at Coolidge - Medicaid	15,403,800	15,822,100 ^{2/}	15,735,100
Medicare Clawback Payments	2,902,400	2,928,700	3,370,600
Case Management - State-Only	3,978,600	3,912,700	3,893,700 ^{15/}
Home and Community Based Services - State-Only	19,776,100	21,443,200 ^{2/}	16,913,400
State-Funded Long Term Care Services	25,930,800	26,554,000 ^{2/}	27,159,600
Employment and Rehabilitation Services			
JOBS	10,022,500	13,005,600	13,005,600
Child Care Subsidy	64,521,300	98,396,600	98,396,600 ^{17/}
Rehabilitation Services	3,799,100	5,799,100 ^{9/}	7,249,100
Independent Living Rehabilitation Services	1,257,800	1,289,400	1,289,400
Workforce Investment Act Services	39,654,300	51,654,600	51,654,600 ^{18/}
AGENCY TOTAL	1,445,716,100	1,693,971,300^{19/}	1,768,178,500^{20/-22/}
FUND SOURCES			
General Fund	482,462,200	523,934,200	530,124,400
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	9,789,900	16,719,600	16,632,600
Domestic Violence Services Fund	2,220,000	2,220,000	4,000,000 ^{9/1/8/}
Federal CCDF Block Grant	73,873,300	107,773,600	107,773,600

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
Federal TANF Block Grant	85,648,800	76,822,700	72,964,700
Health Services Lottery Monies Fund	0	0	700,000
Long Term Care System Fund (Non-Federal Matched)	28,930,800	31,251,300	26,559,600
Public Assistance Collections Fund	30,800	424,600	421,900
Special Administration Fund	2,817,300	2,939,700	5,528,700
Spinal and Head Injuries Trust Fund	1,807,200	1,874,800	2,323,700
Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	1,000,000
Workforce Investment Act Grant	41,730,500	56,050,500	56,040,200 ^{18/}
SUBTOTAL - Other Appropriated Funds	247,848,600	297,076,800	293,945,000
SUBTOTAL - Appropriated Funds	730,310,800	821,011,000	824,069,400
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund (EA)	36,352,500	40,230,200	42,299,500
Long Term Care System Fund (Federal Match)	679,052,800	832,730,100	901,809,600
SUBTOTAL - Expenditure Authority Funds	715,405,300	872,960,300	944,109,100
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,445,716,100	1,693,971,300	1,768,178,500
Other Non-Appropriated Funds	337,176,800	335,108,200	325,314,300
Federal Funds	1,928,553,600	1,944,424,900	1,962,863,200
TOTAL - ALL SOURCES	3,711,446,500	3,973,504,400	4,056,356,000

AGENCY DESCRIPTION — The department provides an array of services for low-income households and others in need. These services are provided through the following divisions: Administration; Developmental Disabilities; Benefits and Medical Eligibility; Child Support Enforcement; Aging and Community Services; and Employment and Rehabilitation Services.

- 1/ Includes 646.2 GF, 247.2 OF, and 1,450.2 EA FTE Positions funded from Special Line Items in FY 2017.
- 2/ In April 2016, DES made the following transfers: \$3,500,000 from the TANF Cash Benefits line item to the operating budget; \$1,000,000 from the Home and Community Based Services - State-Only line to the State Funded Long Term Care Services line; \$21,500,000 from the Home and Community Based Services - Medicaid line item to the DDD Operating Lump Sum (\$10,500,000), Case Management - Medicaid (\$5,500,000), Institutional Services - Medicaid (\$1,500,000), Medical Services - Medicaid (\$3,000,000), and Arizona Training Program at Coolidge - Medicaid (\$1,000,000) line items. The current display does not reflect these transfers.
- 3/ The operating lump sum appropriation may be expended on Arizona Health Care Cost Containment System eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriation Act footnote)
- 4/ All state shares of retained earnings, fees and federal incentives above \$16,632,600 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New FTE Positions may be authorized with the increased funding. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 5/ Laws 2016, Chapter 214 appropriated \$240,000 from the General Fund for the administration of the new Achieving a Better Life Experience (ABLE) Program.
- 6/ Of the \$4,000,000 in Domestic Violence Services Fund monies appropriated, the Department of Economic Security shall spend \$1,500,000 for capital improvements or one-time projects for domestic violence facilities that are receiving monies from the fund in FY 2017. (General Appropriation Act footnote)
- 7/ All Domestic Violence Services Fund monies in excess of \$4,000,000 received by the Department of Economic Security are appropriated for the Domestic Violence Prevention line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$4,000,000 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 8/ The Department of Economic Security shall report to the Joint Legislative Budget Committee on the amount of state and federal monies available statewide for domestic violence funding on or before December 15, 2016. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)
- 9/ In addition to any other appropriations made in FY 2016, the sum of \$21,000,000 is appropriated from the state General Fund in FY 2016 to the Department of Economic Security for payments of FY 2016 claims: 1. \$20,000,000 for the Home and Community Based Services Medicaid line item and 2. \$1,000,000 for the Rehabilitation Services line item.
In addition to any other appropriations made in FY 2016, the sum of \$6,752,300 is appropriated from the state General Fund in FY 2016 to the Department of Economic Security's Home and Community Based Services Medicaid line item. The Department of Economic Security shall use these monies to draw down federal matching funds in FY 2016 for the Division of Developmental Disabilities capitation payments. The Department of Economic Security shall request review by the Joint Legislative Budget Committee before spending monies for any other purpose.
In addition to any other appropriations made in FY 2016, the sum of \$14,893,200 is appropriated from the Long-Term Care Fund Expenditure Authority in FY 2016 to the Department of Economic Security's Home and Community Based Services Medicaid line item. The Department of Economic Security shall request review by the Joint Legislative Budget Committee before spending monies for any other purpose.

Summary

The Department of Economic Security's (DES) FY 2017 General Fund spending increased by \$27,190,200, or 5.2% above the FY 2016 appropriation. This amount excludes a

\$21,000,000 decrease associated with the removal of the one-time FY 2016 General Fund supplemental appropriation for the elimination of a payment deferral. The adjustment includes:

- In addition to any other appropriations made in FY 2016, the appropriation to the Department of Economic Security's Temporary Assistance for Needy Families Cash Benefits line is reduced by \$9,905,000 from the Temporary Assistance for Needy Families Block Grant in FY 2016. (General Appropriation Act footnote)
- 10/ The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for the Long-Term Care System, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the department shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
 - 11/ Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments that are not already specifically authorized by the Legislature, court mandates or changes to federal law, the department shall submit a report for review by the Joint Legislative Budget Committee that includes, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable. (General Appropriation Act footnote)
 - 12/ The department shall report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee any new placement into a state-owned ICF-IID or the Arizona Training Program at the Coolidge campus in FY 2017 and the reason why this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. The department shall make this report available on or before July 15, 2017. (General Appropriation Act footnote)
 - 13/ The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review of any new Division of Developmental Disabilities salary adjustments not previously reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
 - 14/ The department shall report to the Joint Legislative Budget Committee on or before September 1, 2016 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2016. The department shall submit an expenditure plan of its staffing levels for review by the Joint Legislative Budget Committee if the department plans on hiring staff for non-case manager, non-case aide, non-case unit supervisor and non-case section manager positions above the staffing level indicated in the September 1, 2016 report. (General Appropriation Act footnote)
 - 15/ Before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD Operating Lump Sum line items, the Department of Economic Security shall submit a report for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
 - 16/ The appropriated amount in the Home and Community Based Services - Medicaid line item includes \$2,791,800 from the state General Fund and \$6,260,600 in developmental disabilities Medicaid expenditure authority for an across-the-board 1% full-year rate adjustment for Home and Community Based Services providers to individuals with developmental disabilities whose current rates are less than 100% of the benchmark rates published in the 2014 rate rebase study, in addition to any adjustment as part of the aggregate 2.5% capitation rate increase. A provider rate may not increase to more than 100% of the benchmark rates published in the 2014 rate rebase study as a result of the 1% adjustment. The department shall report its distribution plan to the Joint Legislative Budget Committee on or before August 1, 2016. (General Appropriation Act footnote)
 - 17/ It is the intent of the Legislature that the combined number of children in child care assistance authorized pursuant to A.R.S. § 46-803D and F be maintained throughout the year at a minimum of 8,500 children. The department shall prioritize child care assistance for families who qualify for assistance pursuant to A.R.S. § 46-803F on the waiting lists established pursuant to A.R.S. § 46-803I. (General Appropriation Act footnote)
 - 18/ All Federal Workforce Investment Act monies that are received by this state in excess of \$56,040,200 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$56,040,200 to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
 - 19/ The Department of Economic Security may use up to \$35,000,000 from the Budget Stabilization Fund established by A.R.S. § 35-144 for the purpose of providing funding for reimbursement grants. Notwithstanding any other law, this appropriation shall be fully reimbursed on or before September 1, 2016 and be reimbursed in full as part of the closing process for FY 2016. The appropriation may not be used for additional programmatic expenditures.
The Department of Child Safety, the Department of Economic Security and the Department of Administration shall provide a report to the Joint Legislative Budget Committee Staff and the Governor's Office of Strategic Planning and Budgeting on or before November 30, 2016 outlining the process by which the agencies will improve the federal reimbursement claiming process with the intent to eliminate the need for an appropriation in FY 2017 that is similar to those in subsections A and B of this section. (General Appropriation Act footnote)
 - 20/ The above appropriations are in addition to monies granted to the state by the federal government for the same purposes but are deemed to include the sums deposited in the State Treasury to the credit of the Department of Economic Security pursuant to A.R.S. § 42-5029. (General Appropriation Act footnote)
 - 21/ The department shall forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in entitlement programs and potential federal and other monies, such as the statewide assessment for indirect costs, and any projected surplus in state-supported programs that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
 - 22/ General Appropriation Act fund are appropriated as an Operating Lump Sum with Special Line Items by Agency.

- \$21,077,600 for new FY 2017 Developmentally Disabled (DD) Medicaid formula changes. This also funds a 2.5% DD capitation rate increase in FY 2017.
- \$2,959,300 for a 1% increase for DD Home and Community Based Services (HCBS) provider rates.
- \$1,233,400 for DD adult dental services.
- \$2,000,000 for Vocational Rehabilitation (VR) services.
- \$240,000 to administer the new Achieving a Better Life Experience (ABLE) Program.
- \$100,000 in one-time funding for domestic violence shelters.
- \$(420,100) for statewide adjustments.

Operating Budget

The budget includes \$159,260,800 and 1,874.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$78,276,300
Child Support Enforcement Administration Fund	13,106,600
Child Support Enforcement Administration Fund (EA)	27,542,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	20,315,500
Federal Child Care and Development Fund (CCDF) Block Grant	12,077,100
Public Assistance Collections Fund	331,100
Special Administration Fund	3,692,800
Spinal and Head Injuries Trust Fund	543,600
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,375,600

These amounts fund the following adjustments:

Expenditure Authority

The budget includes an increase of \$248,900 and 3 FTE Positions from the Child Support Enforcement Fund (EA) in FY 2017 to align expenditure authority with actual operations.

Expenditure Alignment

The budget includes an increase of \$3,500,000 from the Federal TANF Block Grant in FY 2017 to the operating budget and a corresponding decrease of \$(3,500,000) from the TANF Cash Benefits line item to reflect actual fund usage. *(Please see TANF Cash Benefits section for further discussion.)*

One-Time Adult Protective Services Caseload Growth

The budget includes a one-time increase of \$2,000,000 from the Special Administration Fund in FY 2017 to fund Adult Protective Services (APS) caseload growth. APS staff responds to reports of abuse, neglect and exploitation of vulnerable and incapacitated adults and offers appropriate services. The current caseload per APS investigator is 72. The additional funding is expected to bring caseloads down to 55 per investigator in FY 2017.

Statewide Adjustments

The budget includes a decrease of \$(440,200) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(212,400)
Child Support Enforcement Administration Fund	(71,300)
Child Support Enforcement Administration Fund (EA)	(131,500)
Public Assistance Collections Fund	(2,600)
Special Administration Fund	(11,000)
Spinal and Head Injuries Trust Fund	(1,100)
Workforce Investment Act Grant	(10,300)

(Please see the Agency Detail and Allocations section.)

Administration

ABLE Program

Laws 2016, Chapter 214 appropriates \$240,000 from the General Fund in FY 2017 for the ABLE Program.

Monies in this line item support the administration of ABLE 529A accounts, which allow individuals to deduct interest earned on monies deposited into accounts used for qualifying expenses of a physically or developmentally disabled beneficiary. Individuals may contribute up to \$14,000 to an ABLE account annually.

Attorney General Legal Services

The budget includes \$10,996,600 and 156.9 FTE Positions in FY 2017 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,221,900
Child Support Enforcement Administration Fund	2,446,900
Child Support Enforcement Administration Fund (EA)	7,096,200
Federal TANF Block Grant	106,100
Federal CCDF Block Grant	17,700

Public Assistance Collections Fund	90,800
Special Administration Fund	5,000
Spinal and Head Injuries Trust Fund	2,000
Workforce Investment Act Grant	10,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(71,000) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(7,100)
Child Support Enforcement Administration Fund	(15,700)
Federal Expenditure Authority	(48,100)
Public Assistance Collections Fund	(100)

Monies in this line item fund all AG legal services for the department.

Aging and Adult Services

Adult Services

The budget includes \$8,624,100 in FY 2017 for Adult Services. This amount consists of:

General Fund	7,924,100
Health Services Lottery Monies Fund	700,000

These amounts fund the following adjustments:

One-Time Area Agencies on Aging Services

The budget includes a one-time increase of \$700,000 from the Health Services Lottery Monies Fund in FY 2017 for HCBS provided by the Area Agencies on Aging (AAA).

This line item provides an array of independent living support to elderly persons, distributed as shown in *Table 1*.

Table 1	
Independent Living Support	
Services	FY 2017
Adult Protective Contracted Services	\$ 295,100
Supplemental Payments	78,000
Home Care	4,407,300
Older Americans Act	1,742,500
Assessments and Case Management	1,639,200
Respite Care	462,000
Total	\$8,624,100

Community and Emergency Services

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2017 for Community and Emergency Services. This amount is unchanged from FY 2016.

Monies in this line item provide funding to 15 community action agencies to deliver a wide range of services related to the needs of low-income families and individuals. In FY 2015, this line item provided short-term crisis services to 1,614 households, energy assistance to 34,745 households, and 7,456 households participated in telephone discount programs.

Coordinated Homeless Services

The budget includes \$2,522,600 in FY 2017 for Coordinated Homeless Services programs. This amount consists of:

General Fund	873,100
Federal TANF Block Grant	1,649,500

These amounts are unchanged from FY 2016.

In FY 2015, this line item provided emergency shelter services to 9,613 individuals, rapid re-housing services to 1,811 individuals, and homeless prevention services to 93 individuals.

Domestic Violence Prevention

The budget includes \$14,003,700 in FY 2017 for Domestic Violence Prevention. This amount consists of:

General Fund	3,383,000
Federal TANF Block Grant	6,620,700
Domestic Violence Services Fund	4,000,000

These amounts fund the following adjustments:

One-Time Domestic Violence Shelters

The budget includes a one-time increase of \$100,000 from the General Fund in FY 2017 for domestic violence shelters.

Of the total, \$50,000 is appropriated to a facility that has a capacity of at least 100 beds and provides domestic violence services in Maricopa County. Another \$50,000 is appropriated to a facility that provides domestic violence services in Yuma County.

One-Time Projects

The budget includes a one-time increase of \$1,500,000 from the Domestic Violence Services Fund in FY 2017 for projects or capital improvements at domestic violence facilities.

Expenditure Alignment

The budget includes an increase of \$280,000 from the Domestic Violence Services Fund in FY 2017 to align the appropriation with actual expenditures.

In FY 2015, this line item, along with non-appropriated funds, served approximately 7,568 women and children in emergency shelters, 285 women and children in transitional housing, and 13,350 victims with legal and lay legal advocacy.

Benefits and Medical Eligibility

TANF Cash Benefits

The budget includes \$27,736,400 from the Federal TANF Block Grant in FY 2017 for TANF Cash Benefits. This amount funds the following adjustments:

Operating Budget Expenditure Alignment

The budget includes a decrease of \$(3,500,000) from the Federal TANF Block Grant in FY 2017 and a corresponding increase of \$3,500,000 to the operating budget to reflect actual fund usage.

DES annually makes a \$3.5 million transfer of surplus TANF from the Cash Benefits line to their operating budget. The FY 2017 budget adjustment makes the transfer permanent.

Cash Benefits Expenditure Alignment

The budget includes a decrease of \$(3,858,000) from the Federal TANF Block Grant in FY 2017 to reflect actual Cash Benefits expenditures. The FY 2017 Cash Benefits appropriation also continues an FY 2016 supplemental decrease of \$(9.9) million to the line item. The TANF Block Grant funds made available by the decrease in the DES Cash Benefits line will be used in the Department of Child Safety (DCS) to offset ongoing General Fund costs. *(Please see the DCS narrative for further details.)*

As of April 2016, DES served a regular TANF Cash Benefits caseload of 19,964 individual recipients. The enacted FY 2017 budget assumes a regular caseload level of 19,064. The average cost per person is projected to be \$90. In addition, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial

crisis. The enacted FY 2017 budget assumes a Diversion caseload of 754. The average Diversion payment per person is projected to be \$782.

The FY 2017 Human Services Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 123) includes a session law provision continuing to require recipients of TANF Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.

Monies in this line item provide financial assistance on a temporary basis to dependent children in their own homes, or in the homes of responsible caretaker relatives. There is currently a 24-month cumulative lifetime limit on regular TANF Cash Benefits, which will change to a 12-month limit starting on July 1, 2016. Pursuant to the FY 2016 Human Services BRB (Laws 2015, Chapter 18), financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

A household that is already receiving TANF Cash Benefits does not receive more benefits when they have more children. Additional children are considered "benefit capped." Laws 2016, Chapter 133 lifts the benefit cap on children in the legal custody of DCS placed in unlicensed kinship foster care with a non-parent relative and for children placed with a non-parent relative as a result of child maltreatment, a court order, deceased parents, or abandonment. The JLBC Staff estimates that this new policy will cost \$500,000 annually to provide benefits for children who would have previously been considered "benefit capped." These additional caseloads were not included in the overall Cash Benefits caseload assumptions discussed above.

Coordinated Hunger Services

The budget includes \$1,754,600 in FY 2017 for Coordinated Hunger Services programs. This amount consists of:

General Fund	1,254,600
Federal TANF Block Grant	500,000

These amounts are unchanged from FY 2016.

State and federal dollars are used to administer a USDA commodities food program, to assist in statewide food distribution, and for food banks. Monies are also used to provide information on where individuals and families can obtain food. In FY 2015, this funding assisted in the distribution of 4,700,854 congregate meals and 1,662,714 emergency food boxes.

Tribal Pass-Through Funding

The budget includes \$4,680,300 from the General Fund in FY 2017 for Tribal Pass-Through Funding. This amount is unchanged from FY 2016.

Monies in this line item are passed through to Native American tribes operating their own TANF programs. When originally implemented, program funding was designed to be roughly equivalent to what the state was spending on the population when the state still had responsibility for the cash assistance program for any particular tribe.

Child Support Enforcement

The Division of Child Support Enforcement (DCSE) budget includes direct appropriations from the following 4 fund sources: 1) General Fund; 2) State Share of Retained Earnings (SSRE) from child support owed to the state while the custodial parent received TANF Cash Benefits; 3) Federal incentives and 4) Fees from non-custodial parents.

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund. In addition to the General Fund and CSEA Fund appropriations, the displayed amounts also include Federal Expenditure Authority for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state.

Table 2 details the sources and uses of the CSEA Fund.

County Participation

The budget includes \$8,740,200 in FY 2017 for County Participation. This amount consists of:

CSEA Fund	1,079,100
CSEA Fund (EA)	7,661,100

These amounts fund the following adjustments:

Expenditure Alignment

The budget includes an increase of \$2,000,000 from the CSEA Fund (EA) in FY 2017 to align expenditure authority with actual operations.

Table 2

CSEA Fund Sources and Uses

<u>Sources</u>	<u>FY 2017</u>
State Share of Retained Earnings	3,291,900
Federal Incentive Payments	6,300,000
Fees	1,962,800
Excess Appropriation Authority ^{1/}	<u>7,492,500</u>
Total	\$19,047,200
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,177,900
Attorney General Legal Services	2,462,600
County Participation	1,079,100
Administration (Non-Appropriated)	<u>2,327,600</u>
Total	\$19,047,200

^{1/} This line is the difference between appropriation authority and expected revenues.

The division contracts with Gila, La Paz, and Navajo Counties to operate child support programs in those counties. This line item reflects contracting counties' SSRE and federal incentives, as well as expenditure authority for the federal match.

Developmental Disabilities

DES provides services to individuals with cognitive disabilities, cerebral palsy, autism, or epilepsy. Clients eligible for federal Medicaid program services are funded through the Long Term Care (LTC) program. To qualify for federal funding, an individual must have an income below 300% of the Supplemental Security Income (SSI) eligibility limit, which is approximately 222% of the FPL, and have certain functional needs. The division also provides 100% state-funded services for clients who are not eligible for federal Medicaid services.

The Legislature appropriates the division's resources on a Total Expenditure Authority basis. The Total Expenditure approach acknowledges all of the resources available to the Division of Developmental Disabilities but does not appropriate any specific non-appropriated fund.

As of April 2016, the Division of Developmental Disabilities serves 36,726 clients, which includes 29,083 clients in the LTC program and 7,643 clients in the state-only portion. The primary disabilities are shown in Table 3.

The LTC program is funded from 2 sources: the General Fund and the Long Term Care System Fund.

Table 3

Primary Disability of Clients Served

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	15,282	41.6%
Autism	8,282	22.6%
At Risk	8,272	22.5%
Cerebral Palsy	3,240	8.8%
Epilepsy	1,543	4.2%
Not Indicated	107	0.3%
Total	36,726	

Overall DES Formula Adjustments

The budget includes an increase of \$1,077,600 from the General Fund in FY 2017 for DES formula changes. Changes are described in further detail below. *(Please see Other Issues for further details on FY 2018 and FY 2019 formula changes.)*

As the AHCCCS-authorized provider of DD services, DES receives federal monies through prepaid monthly capitation payments based on rates for types of clients.

FMAP Adjustments

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2017, the Medicaid FMAP will increase to 69.16% (0.5% increase). The increased FMAP results in additional General Fund savings of \$(3,616,700).

FY 2017 Caseload Growth

The budget includes a net increase of \$21,344,200 from the General Fund in FY 2017 for DD caseload changes. From FY 2016 to FY 2017, LTC caseloads are expected to grow by 4.5% to a level of 31,035 by June 2017 (this amount excludes state-only clients.)

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to HCBS and Case Management/Medical Services only, while caseloads for Institutional Services and the Arizona Training Program at Coolidge were held flat. All

Table 4			
June Long Term Care Caseloads			
<u>Line Item</u>	<u>FY 15</u>	<u>FY 16 Est</u>	<u>FY 17 Est</u>
Home and Community Based Services	24,763	26,372	27,719
Institutional Services	95	88	82
AZ Training Program at Coolidge	89	83	78
Subtotal	24,947	26,543	27,879
Case Management and Medical Services only	<u>3,258</u>	<u>3,156</u>	<u>3,156</u>
Total	28,205	29,699	31,035

clients are eligible for Medical Services and Case Management as necessary, but not all clients access other services in any particular month.

FY 2016 Capitation Rate Adjustments

The budget includes a 2.5% net capitation rate increase beginning July 1, 2016. The increased capitation rate results in an additional General Fund cost of \$9,660,500 in FY 2017. Capitation rates include adjustments for medical inflation, utilization of services, and other factors. *(Please see Other Issues for further discussion of capitation and provider rates.)*

Medicare Clawback

The budget includes an increase of \$441,900 from the General Fund in FY 2017 for adjustments associated with Medicare Clawback Payments.

FY 2016 Supplemental

The budget includes an FY 2016 supplemental of \$26,752,300 from the General Fund for the DD HCBS - Medicaid line item to eliminate a payment deferral and to address a capitation shortfall. The supplemental has a corresponding negative impact of \$(26,752,300) on the DD formula adjustment in FY 2017. *(Please see Other Issues for further details about the FY 2016 supplemental.)*

DDD Operating Lump Sum

The budget includes \$49,477,100 and 294.3 FTE Positions in FY 2017 for the DDD Operating Lump Sum. These amounts consist of:

General Fund	15,256,900
Long Term Care System Fund	34,220,200

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,754,400 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change and premium tax costs. This amount consists of:

General Fund	971,400
Long Term Care System Fund	783,000

Statewide Adjustments

The budget includes a decrease of \$(113,100) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(36,800)
Long Term Care System Fund	(76,300)

Background – Monies in this line item fund direct DD operating and administrative costs, which include \$25,686,200 for a 2% premium tax. This line item does not include departmentwide administration and indirect costs. A total of \$1.0 million of central administration funding associated with the DD program remains in the DES operating budget. A footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items to provide oversight if the department proposes to increase or decrease administrative resources.

Case Management - Medicaid

The budget includes \$55,347,700 and 1,076.9 FTE Positions in FY 2017 for Medicaid Case Management. These amounts consist of:

General Fund	17,038,200
Long Term Care System Fund	38,309,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$4,659,000 and 67.3 FTE Positions in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. These amounts consist of:

General Fund	913,700
Long Term Care System Fund	3,745,300

Statewide Adjustments

The budget includes a decrease of \$(279,600) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(86,200)
Long Term Care System Fund	(193,400)

Background – In addition to providing case management services to an estimated 27,879 clients receiving direct services, this line item also funds “case management only” services to another 3,156 clients (see Table 4).

A footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - Medicaid

The budget includes \$994,277,300 and 94.5 FTE Positions in FY 2017 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	306,090,700
Long Term Care System Fund	688,186,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$58,934,200 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	14,663,000
Long Term Care System Fund	44,271,200

One-Time Rollover

The budget includes a decrease of \$(20,000,000) from the General Fund in FY 2017 to reflect the FY 2016 supplemental elimination of an annual payment deferral in this line.

Provider Rate Increase

The budget includes an increase of \$9,052,400 in FY 2017 for a 1% HCBS provider rate increase. This amount consists of:

General Fund	2,791,800
Long Term Care System Fund	6,260,600

A footnote requires DES to utilize \$9,052,400 from the HCBS - Medicaid line to provide a 1% across-the-board increase to HCBS providers whose current rates are less than 100% of the benchmark rates published in the 2014 rate rebase study. A provider rate may not increase to more than 100% of the benchmark rate as a result of the 1% increase.

Adult Dental

The budget includes an increase of \$3,999,400 in FY 2017 to provide dental services to adults with developmental disabilities. This amount consists of:

General Fund	1,233,400
Long Term Care System Fund	2,766,000

The FY 2017 Health BRB (Laws 2016, Chapter 122) restores dental coverage for ALTCS adults. The dental benefit will provide coverage for medically necessary diagnostic, therapeutic, and preventive dental services for

adults enrolled in ALTCS, with spending per member capped at \$1,000 annually. These are the same terms of coverage for the dental benefit that was previously eliminated by the enacted FY 2009 budget. ALTCS enrollees age 21 and under are already eligible for dental services.

Statewide Adjustments

The budget includes a decrease of \$(71,300) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(18,000)
Long Term Care System Fund	(53,300)

Background – Monies in this line item fund residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also funds staff in state-operated group homes, excluding the Arizona Training Program at Coolidge (ATP-C). Approximately 27,719 individuals are expected to receive Medicaid HCBS services in FY 2017 (see Table 4).

Of the \$994,277,300 in this line item, \$981,968,600 funds HCBS services to clients enrolled in the LTC program; the other \$12,308,700 funds program staff.

Institutional Services - Medicaid

The budget includes \$22,610,900 and 74 FTE Positions in FY 2017 for Medicaid Institutional Services. These amounts consist of:

General Fund	6,960,900
Long Term Care System Fund	15,650,000

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,895,600 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	498,500
Long Term Care System Fund	1,397,100

Statewide Adjustments

The budget includes a decrease of \$(22,000) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(6,500)
Long Term Care System Fund	(15,500)

Background – Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-IDs) (formerly referred to as ICF-MRs) or other nursing facilities, both privately and state-operated, excluding ATP-C. About 82 individuals are expected to receive Medicaid institutional services in FY 2017 (see Table 4).

Of the \$22,610,900 in this line item, \$17,045,400 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

Medical Services - Medicaid

The budget includes \$165,514,500 and 35.4 FTE Positions in FY 2017 for Medical Services. These amounts consist of:

General Fund	50,951,900
Long Term Care System Fund	114,562,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$13,864,700 in FY 2017 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

General Fund	3,645,100
Long Term Care System Fund	10,219,600

Statewide Adjustments

The budget includes a decrease of \$(27,900) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(9,000)
Long Term Care System Fund	(18,900)

Background – Of the \$165,514,500 in this line item, \$161,036,500 funds Acute Care services to clients enrolled in the LTC program; the other \$4,478,000 funds the staff of the division’s Managed Care unit.

Arizona Training Program at Coolidge - Medicaid

The budget includes \$15,735,100 and 383.7 FTE Positions in FY 2017 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

General Fund	4,854,400
Long Term Care System Fund	10,880,700

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(56,000) from the General Fund and a corresponding increase of \$56,000 from the Long Term Care System Fund in FY 2017 for formula adjustments. The formula adjustment consists of the federal match rate change.

Statewide Adjustments

The budget includes a decrease of \$(87,000) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(25,100)
Long Term Care System Fund	(61,900)

The ATP-C campus is made up of an ICF-ID and 5 group homes that are occupied by members, as well as a number of unoccupied group homes. DES is considering closing the facilities at Coolidge in the next 3 to 5 years and transitioning current residents to other residential or in-home service settings in order to comply with federal law that requires states to provide HCBS services and supports in a home or community setting which does not include an intermediate care facility. As permanent law, the FY 2017 Human Services BRB requires DES to annually report a plan and estimated budget to the JLBC for review by November 1 for the closure of ATP-C and associated group homes. DES is required to notify and meet with all clients and guardians that will be impacted by the transition and provide them with a list of potential residential settings and in-home service options.

Background – Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF-IDs or state-operated group homes (SOGHs). As of June 2015 the caseload at ATP-C was 89. The FY 2017 caseload is estimated at 78 (see Table 4). At that caseload, the blended cost per DD client at ATP-C will be roughly \$201,700.

Medicare Clawback Payments

The budget includes \$3,370,600 from the General Fund in FY 2017 for Medicare Clawback Payments. This amount funds the following adjustments:

Formula Adjustments

The budget includes an increase of \$441,900 from the General Fund in FY 2017 for formula adjustments associated with Medicare Clawback Payments.

Background – DES is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DES is required to make “Clawback”

payments to Medicare based on a certain percent (75% in 2017) of the estimated drug costs.

Case Management - State-Only

The budget includes \$3,893,700 and 79.3 FTE Positions from the General Fund in FY 2017 for state-only case management. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(19,000) from the General Fund in FY 2017 for statewide adjustments.

Background – This line item funds case management services to clients in the state-only DD program. In FY 2017, this line is expected to fund services for 7,643 clients.

A footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - State-Only

The budget includes \$16,913,400 and 53.6 FTE Positions in FY 2017 for state-only Home and Community Based Services. These amounts consist of:

General Fund	16,793,400
Special Administration Fund	120,000

These amounts fund the following adjustments:

Equity Adjustment

The budget includes a decrease of \$(4,697,300) from the Long Term Care System Fund in FY 2017 to reflect that Long Term Care System Fund dollars are no longer spent in this line.

In previous years, the Long Term Care System Fund appropriation in this line consisted of capitation payment equity. These monies are now required to be transferred to the General Fund, so there is no equity available for HCBS State-Only services.

Provider Rate Increase

The budget includes an increase of \$167,500 from the General Fund in FY 2017 for a 1% HCBS provider rate increase.

Background – This line item funds residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at

home to those living in group homes. It also includes funding for state-operated facilities, excluding ATP-C. As of April 2015, there are approximately 7,643 clients in the state-only program.

The budget continues to include \$120,000 from the Special Administration Fund to fund HCBS services for persons whose service costs go above the Cost Effective Study (CES) rate as a result of provider rate increases.

Of the \$16,913,400 in this line item, \$10,896,300 funds Home and Community Based Services to clients enrolled in the DD program, \$1,698,100 funds program staff, and \$4,319,000 funds the Arizona Early Intervention Program.

State-Funded Long Term Care Services

The budget includes \$27,159,600 and 2 FTE Positions in FY 2017 for State-Funded Long Term Care Services. These amounts consist of:

Long Term Care System Fund	26,559,600
Special Administration Fund	600,000

These amounts fund the following adjustments:

One-Time Room and Board Shortfall

The budget includes a one-time increase of \$600,000 from the Special Administration Fund in FY 2017 for room and board services for DD clients.

Statewide Adjustments

The budget includes an increase of \$5,600 from the Long Term Care System Fund in FY 2017 for statewide adjustments.

Background – This line item funds a variety of services ineligible for Federal Funds reimbursement from AHCCCS. The most common service provided in this line item is room and board. The program also funds residential and day programs to clients with more severe developmental disabilities. These clients reside in Large Group Living Facilities or other nursing facilities.

Of the \$27,159,600 in this line item, \$27,097,800 funds State-Funded Long Term Care (SFLTC) Services to clients enrolled in the DD program; the other \$61,800 funds program staff. *(Please see Other Issues for further discussion of SFLTC services.)*

Employment and Rehabilitation Services

JOBS

The budget includes \$13,005,600 and 93 FTE Positions in FY 2017 for JOBS. These amounts consist of:

General Fund	300,000
Federal TANF Block Grant	9,594,700
Workforce Investment Act Grant	2,000,000
Special Administration Fund	1,110,900

These amounts are unchanged from FY 2016.

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors. *Table 5* highlights total estimated expenditures for the JOBS line item.

<u>Expenditures</u>	<u>Amount</u>
Case Management	\$ 9,420,000
Job Training	1,700,600
FLSA Supplement	150,000
Work-Related Transportation	1,435,000
Job Search Stipends	<u>300,000</u>
Total	\$13,005,600

Child Care Subsidy

The budget includes \$98,396,600 in FY 2017 for child care subsidies. This amount consists of:

Federal CCDF Block Grant	95,678,800
Federal TANF Block Grant	2,717,800

These amounts are unchanged from FY 2016.

The FY 2017 Human Services BRB includes a session law provision continuing to allow DES to reduce the maximum income eligibility levels for child care assistance to manage within appropriated and available monies.

Laws 2016, Chapter 187 extends child care assistance to some current recipients. Under current law, once recipient income exceeds 165% of FPL (\$33,100 for a family of 3), they are no longer eligible for child care subsidies. Chapter 187 retains the 165% entry maximum, but allows clients to remain eligible for services until their income reaches 85% of the state median income (\$41,900 for a family of 3). The law allows DES to set rules for how long families can receive child care when they are between 165% FPL and 85% of state median income. The

law also extends the child care eligibility redetermination period to 1 year from 6 months and adds a state-approved quality indicator that the department can use to determine pay levels for child care. These provisions fulfill new federal CCDF reauthorization requirements.

The JLBC Staff estimates that the provisions could expand child care eligibility to more families and increase costs by \$5.3 million, but without additional funds the department would place families on the child care waitlist and manage within their appropriated funding level.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 85% of the state median income that were below 165% of the FPL at the time of application, and the Transitional Child Care program in which child care subsidies are provided to clients who no longer receive TANF Cash Benefits due to finding employment. DES also processes DCS child care payments but those dollars are in DCS.

Depending on the population group to which they belong, the length of time for which families are eligible to receive child care subsidies is restricted by statute. For the low-income working population, there is a 60-month cumulative time limit per child. The Transitional Child Care benefit is available for 24 months. The TANF Child Care benefit is available to families as long as they are receiving TANF Cash Benefits, which currently has a 24-month cumulative lifetime time limit that will go down to a 12-month limit on July 1, 2016.

Subsidy Rates – The average subsidy paid to providers per child for the DES population is projected to be \$337 per month in FY 2017 and the average subsidy for the DCS population is projected to be \$405 per month. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day.

Families in non-mandatory categories are required to make co-payments to defray the state’s share of the cost of care. For families with an income level at or below 100% of the FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$26.60 Maricopa rate, this \$2.00 co-payment would account for 7.5% of the total cost of care (with the state paying the other 92.5%). By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 37.6% of the child’s child care costs.

Caseloads – The estimated average number of children receiving child care services in FY 2017 is projected to be 17,340 (see *Table 6*) excluding DCS-related child care.

DES initiated a waiting list for the Low-Income Working category of child care services on February 18, 2009. Children must be determined eligible for child care services to be placed on the waitlist. In January 2015, DES released all 5,239 children on the waitlist and notified the families to re-apply for child care. DES then re-established the waitlist for any new applications received after the full release. As of May 2016, approximately 7,182 children are on the waiting list. It is unknown how many of those children remain eligible.

<u>Category</u>	<u>FY 15</u>	<u>FY 16 est</u>	<u>FY 17 est</u> ^{1/}
TANF	2,233	2,262	1,940
Low-Income Working	11,878	12,844	10,550
Transitional Child Care	4,855	5,066	4,850
Total Served	18,966	20,172	17,340

^{1/} FY 2017 numbers are DES estimates.

Rehabilitation Services

The budget includes \$7,249,100 in FY 2017 for Rehabilitation Services. This amount consists of:

General Fund	6,594,400
Spinal and Head Injuries Trust Fund	654,700

These amounts fund the following adjustments:

Vocational Rehabilitation Services

The budget includes an increase of \$2,450,000 in FY 2017 for Vocational Rehabilitation services. This amount consists of:

General Fund	2,000,000
Spinal and Head Injuries Trust Fund	450,000

DES categorizes VR clients into 3 categories: Priority 1, Priority 2 and Priority 3. Priority 1 clients have a severe physical or mental impairment that limits 3 or more functional capacities, Priority 2 clients have a severe physical or mental impairment that limits 1 or more functional capacities, and Priority 3 clients have an impairment that does not seriously limit functional capacities. Currently DES provides VR services to all Priority 1 clients. The additional funds included in the FY 2017 budget will allow DES to serve roughly 2,868 Priority 2 clients currently on the waitlist.

One-Time Rollover

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2017 to reflect the FY 2016 supplemental elimination of an annual payment deferral in this line.

Background – This line item funds services for the physically disabled to return them to the workforce. The federal government provides 78.7% of funding for every 21.3% of state match. The program is expected to serve up to 11,799 clients at an average Total Funds cost of \$15,647 per client. Administrative expenditures and local match draw down additional federal match.

Independent Living Rehabilitation Services

The budget includes \$1,289,400 in FY 2017 for Independent Living Rehabilitation Services. This amount consists of:

General Fund	166,000
Spinal and Head Injuries Trust Fund	1,123,400

These amounts are unchanged from FY 2016.

The Independent Living Rehabilitation Services program is expected to serve up to 665 clients in FY 2017 at an average Total Funds cost of \$3,250.

In addition to these clients, the division is also expected to serve 100 clients at an average annual cost of \$4,870 per client, using federal Social Services Block Grant monies.

The line item assists severely disabled individuals in living more independently. Funds are used to purchase technology assistance, adaptive aids and devices, home modifications, and independent living skills training.

Workforce Investment Act Services

The budget includes \$51,654,600 from the Workforce Investment Act (WIA) Grant in FY 2017 for the Workforce Investment Act Services line item. These amounts are unchanged from FY 2016.

Background – These monies are the state’s allotment of the federal WIA Grant for job training activities of dislocated workers and disadvantaged adults and youth. Of the total grant received by the state, 95% is allocated to local governments and 5% is retained at the state level.

The allocation of the WIA Grant for workforce related programs in FY 2017 is shown in *Table 7*.

<u>Category</u>	<u>Amount</u>
WIA Line Item	\$51,654,600
Administration	2,385,900 ^{1/}
AG Legal Services	10,000
JOBS	<u>2,000,000</u> ^{2/}
Total	\$56,050,500

^{1/} This funding is included in the operating budget.
^{2/} This funding is included in the JOBS line item.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2016 Supplemental
- State-Funded Long Term Care Services
- Provider Rates
- Appropriation Transfers
- Federal TANF Block Grant
- Additional Legislation

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, DES’ General Fund costs are projected to increase by \$25.5 million in FY 2018 above FY 2017 and \$28.7 million in FY 2019 above FY 2018 based on estimated DD formula costs. The DD estimates are based on:

- 4.5% caseload growth in FY 2018 and FY 2019, resulting in caseloads of 32,432 and 33,891 in June 2018 and June 2019, respectively.
- FMAPs of 69.39% and 69.50% in FY 2018 and FY 2019, respectively.
- 2.5% capitation growth for utilization and medical inflation in FY 2018 and FY 2019.

FY 2016 Supplemental

DD Shortfall

As part of the FY 2017 budget, the Division of Developmental Disabilities received a supplemental appropriation in FY 2016 of \$6,752,300 from the General Fund and \$14,893,200 in LTCSF Expenditure Authority to address a program shortfall. These monies were allocated to the HCBS - Medicaid line item.

The Division of Developmental Disabilities receives funding through capitated payments at a per member per month rate. The capitation rate represents the total cost to operate the ALTCS portion of the DD program and to provide services for its members. The capitation rate is

renegotiated annually by DES, AHCCCS and the federal government to adjust for changes in medical inflation, utilization of services, and provider costs. The capitation rate along with caseload estimates are used to calculate the division's annual appropriation.

The FY 2016 budget assumed a 4.5% increase to the DD caseloads. The revised FY 2016 caseload estimates show a 5% increase, which will produce higher costs. As a result the originally-enacted FY 2016 budget was short by roughly \$3.6 million from the General Fund to fully fund the DD capitation rates.

In addition, DES stated that they used \$3.2 million of the FY 2016 General Fund appropriation to draw the entire FY 2015 capitation amount, bringing the total FY 2016 budget shortfall to \$6.8 million. The department says drawing down the entire FY 2015 capitation will allow them to transfer an equity balance of \$34.0 million back to the General Fund at the end of FY 2016.

Theoretically, the capitated system of payments should not generate significant amounts of equity in the long run. Capitation rates are renegotiated annually, and the federal government should be adjusting their rates accordingly.

Payment Deferral Elimination

As part of the FY 2017 budget, DES received an FY 2016 supplemental appropriation of \$21.0 million from the General Fund to eliminate a payment deferral. These monies were allocated as follows:

Home and Community Based Services - Medicaid	20,000,000
Rehabilitation Services	1,000,000

Bridge Loan

As part of the FY 2017 budget, DES received an FY 2016 supplemental loan of \$35.0 million from the Budget Stabilization Fund to fund federal reimbursement grants. DES is required to fully reimburse the \$35.0 million by September 1, 2016 as part of the closing process for FY 2016 so it has no impact on the General Fund bottom line. DES must submit a report by November 30, 2016 outlining the process by which the agency will improve the federal reimbursement claiming process to eliminate the need for a future bridge loan.

TANF Cash Benefits Ex-appropriation

As part of the FY 2017 budget, the FY 2016 TANF Block Grant appropriation in the Cash Benefits line is reduced by \$(9.9) million to reflect actual expenditures. The TANF Block Grant funds made available by the decrease in DES

will be used in DCS to offset ongoing General Fund costs. (Please see the DCS narrative for further details.)

State-Funded Long Term Care Services

The state deposits SFLTC revenues in the LTCSF. SFLTC revenues, as seen in Table 8, include client billing revenue from room and board charges, one-time monies, and interest. SFLTC revenues primarily fund the SFLTC Services line item.

DES requires clients using residential programs to contribute a percentage of their income to help cover the cost of their room and board. Laws 2014, Chapter 167 decreased the amount of income DES is allowed to collect from clients for room and board from 88% to 70%, which was estimated to reduce client billing revenue by \$(2.7) million. Additionally, the SFLTC line item has been operating with an ongoing structural shortfall that DES has mitigated with transfers from LTCSF equity, which is no longer available. Any equity accrued to the LTCSF is now required to be transferred to the General Fund so it is no longer available for the SFLTC line item. DES estimates a FY 2016 shortfall of \$(2.9) million and an ongoing structural shortfall of \$(4.4) million in the SFLTC line item. The budget includes a one-time increase of \$600,000 from the Special Administration Fund to the SFLTC line in FY 2017, which will decrease the shortfall to \$(3.8) million in FY 2017. The budget did not address the FY 2016 shortfall.

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Sources			
Carry-Forward	\$ 7,306,800	\$ 2,384,700	\$ -
Client Billing Revenue	19,904,400	21,628,800	23,391,500
Interest	2,118,900	870,900	870,900
Special Admin Fund	-	-	600,000
Other	<u>1,137,300</u>	<u>1,137,300</u>	<u>1,137,300</u>
Total	\$30,467,400	\$26,021,700	\$25,999,700
Uses			
SFLTC Services	<u>28,082,700</u>	<u>28,910,100</u>	<u>29,762,500</u>
Total	\$28,082,700	\$28,910,100	\$29,762,500
Ending Balance	\$ 2,384,700	\$ (2,888,400)	\$ (3,762,800)

Provider Rates

Provider rates are a component of the overall capitation rate. A capitation rate increase, however, does not mean that provider rates will experience the same increase.

The capitation rate funds provider rate, inflation, and utilization adjustments so a capitation rate increase of a certain percent does not guarantee a like provider rate increase.

DES has different contracted rates with various types of providers. The divisions recently completed a rate rebase study that compared adopted provider rates with market "benchmark" rates. Current rates range from 75% to 100% of the benchmarks. These adopted rates are the result of revised FY 2016 capitation rates which included an overall 1.5% increase for HCBS providers effective October 2015. DES used the adjustment to provide a 1.0% across-the-board increase for services at or below 85% of the benchmark rate, excluding targeted services which received a larger rate increase. DES increased the adopted rates of most ALTCS covered services to a minimum of 75% of benchmark, and reduced rates over 100% of benchmark to 100%. The FY 2017 budget includes an additional 1% across-the-board increase for HCBS providers, but caps any increase from taking a rate above 100% of benchmark.

Appropriation Transfers

DES' appropriation delineates specific amounts for programs by line items. Agencies are generally permitted to shift funds among line items without further legislative review; however, the FY 2017 budget continues a footnote requiring DES to submit a report for review to the JLBC before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD Operating Lump Sum line items. The purpose of the footnote is to provide oversight if the department proposes to increase or decrease administrative resources.

In February 2016, DES received JLBC review for a requested transfer of \$10.5 million from the HCBS - Medicaid line to the DDD Operating Budget to align appropriations with FY 2015 expenditures, pay for a premium tax increase, and for contingency funding. DES also requested a transfer of \$5.5 million from the HCBS - Medicaid line to the Case Management - Medicaid line to align appropriations with FY 2015 expenditures and pay for salary adjustments for case managers. The JLBC favorably reviewed a portion of the requested transfers, which included \$7.3 million for the DDD Operating Budget and \$4.2 million for Case Management - Medicaid to align appropriations with FY 2015 expenditures, pay for the premium tax increase, and pay for case manager salary adjustment for the remainder of FY 2016.

An ADOA agency appropriation transfer report showed that in April 2016, contrary to JLBC review, DES

transferred the entire \$10.5 million from the HCBS - Medicaid line to DDD Operating and the entire \$5.5 million from the HCBS - Medicaid line to Case Management - Medicaid.

Federal TANF Block Grant

The budget appropriates \$222.4 million of the state's Federal TANF Block Grant allocation in FY 2017. *Table 9* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

The FY 2017 Human Services BRB retroactively notwithstanding a provision in the FY 2016 budget that would have required DES and DCS to proportionally reduce General Fund dollars for every federal TANF Block Grant dollar received in excess of their FY 2016 TANF appropriations. The BRB also stipulates that DES and DCS may not spend TANF monies in excess of their FY 2016 appropriations unless either department receives a supplemental TANF appropriation.

The FY 2017 budget includes adjustments to the TANF Block Grant distributions between DES and DCS in FY 2016 and FY 2017. The budget includes an FY 2016 supplemental TANF increase in DCS of \$17.3 million and a supplemental TANF decrease in DES of \$(9.9) million. In FY 2017, the budget includes a further TANF increase of \$0.2 million in DCS and a further TANF decrease of \$(3.9) million in DES. The adjustments allow DCS to utilize surplus TANF available as a result of decreasing Cash Benefits caseloads in DES and surplus TANF available as a result of a structural balance in the fund.

Additional Legislation

Supplemental Nutrition Assistance Program

Laws 2016, Chapter 20 prohibits the sale, transfer, acquisition or redemption of Supplemental Nutrition Assistance Program (SNAP) benefits for cash or items other than eligible food and defines what is considered as eligible food items. Violation of the law is considered a Class 5 felony with a presumptive 1.5 years of incarceration and a fine of up to \$150,000 plus surcharges.

Domestic Violence Services Fund

Laws 2016, Chapter 94 renames the Domestic Violence Shelter Fund to the Domestic Violence Services Fund and allows providers of domestic violence services, rather than only shelters for victims of domestic violence, to be eligible to receive fund monies.

Office of Economic Opportunity

Laws 2016, Chapter 372 creates the Office of Economic Opportunity (OEO), which is responsible for monitoring the state's tax competitiveness, evaluating the effectiveness of state incentive programs, analyzing state and local regulatory costs to businesses, serving as the state's workforce planning coordinator, and providing economic and demographic research and analysis. The budget includes a transfer of 1 FTE Position and \$104,000 in Federal Funds from DES to OEO. *(Please see the Office of Economic Opportunity section for more information.)*

Table 9

TANF Block Grant Spending

	Actual FY 2015	Estimate FY 2016	Estimate FY 2017
Revenues			
Beginning Balance	\$ 383,500	\$ 3,709,300	\$ -
Administrative Adjustments ^{1/}	(383,500)	-	-
TANF Base Revenues	200,141,300	200,141,300	200,141,300
TANF Contingency Fund Revenues	22,296,100	22,296,100	22,296,100
Total TANF Available	\$ 222,437,400	\$ 226,146,700	\$ 222,437,400
Expenditures			
Department of Child Safety			
DCS Operating	\$ 46,928,000	\$ 46,928,000	\$ 16,928,000
Line Items			
Caseworkers	-	-	30,000,000
Lump Sum Appropriation	-	17,323,600	-
Attorney General Legal Services	649,100	99,400	99,400
Inspections Bureau	-	549,700	549,700
Overtime	3,859,500	3,859,500	3,859,500
Adoption Services	20,645,700	20,645,700	20,445,700
Emergency and Residential Placement	16,423,000	16,423,000	16,423,000
Foster Care Placement	6,973,100	6,973,100	6,973,100
Permanent Guardianship Subsidy	1,743,000	1,743,000	1,943,000
In-Home Mitigation	-	-	5,911,200
Preventive Services	-	-	-
In-Home Preventive Support Services	5,911,200	5,911,200	-
Out-of-Home Support Services	28,867,800	28,867,800	46,340,100
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 132,000,400	\$ 149,324,000	\$ 149,472,700
Department of Economic Security			
DES Operating	\$ 23,198,500	\$ 20,315,500	\$ 20,315,500
Line Items			
Administration			
Attorney General Legal Services	\$ 123,100	\$ 106,100	\$ 106,100
Aging and Adult Services			
Community and Emergency Services	\$ 3,724,000	\$ 3,724,000	\$ 3,724,000
Coordinated Homeless Programs	1,649,500	1,649,500	1,649,500
Domestic Violence Prevention	6,620,700	6,620,700	6,620,700
Total - Aging and Adult Services	\$ 11,994,200	\$ 11,994,200	\$ 11,994,200
Benefits and Medical Eligibility			
TANF Cash Benefits	\$ 38,599,400	\$ 31,594,400	\$ 27,736,400
Coordinated Hunger Program	500,000	500,000	500,000
Total - Benefits and Medical Eligibility	\$ 39,099,400	\$ 32,094,400	\$ 28,236,400
Employment and Rehabilitation Services			
JOBS	\$ 9,594,700	\$ 9,594,700	\$ 9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
Total - Employment and Rehabilitation Services	\$ 12,312,500	\$ 12,312,500	\$ 12,312,500
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 86,727,700	\$ 76,822,700	\$ 72,964,700
TOTAL - STATEWIDE	\$ 218,728,100	\$ 226,146,700	\$ 222,437,400
Ending Balance	\$ 3,709,300	\$ -	\$ -

^{1/} Per a General Appropriation Act footnote, the portion of the carry-forward balance that is used to pay administrative adjustments is deducted from the beginning balance.

State Board of Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	0.0	11.0	4.0 ^{1/}
Personal Services	0	650,500	307,200
Employee Related Expenditures	0	255,000	119,800
Professional and Outside Services	0	363,300	242,000
Travel - In State	0	2,000	2,000
Travel - Out of State	0	5,000	5,000
Other Operating Expenditures	0	329,200	318,000
Equipment	0	100,000	100,000
AGENCY TOTAL	0 ^{2/}	1,705,000	1,094,000 ^{3/}
FUND SOURCES			
General Fund	0	1,325,200	1,094,000 ^{1/}
<u>Other Appropriated Funds</u>			
Teacher Certification Fund	0	379,800	0 ^{1/}
SUBTOTAL - Other Appropriated Funds	0	379,800	0
SUBTOTAL - Appropriated Funds	0	1,705,000	1,094,000
TOTAL - ALL SOURCES	0	1,705,000	1,094,000

AGENCY DESCRIPTION — The State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The board is composed of 11 members: the Superintendent of Public Instruction, the president of a state university or college, 4 lay members, a president or chancellor of a community college district, a charter school administrator, a high school district superintendent, a teacher, and a county school superintendent. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

Operating Budget

The budget includes \$1,094,000 and 4 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Transfers to ADE

Laws 2016, Chapter 138 transfers \$(611,000) and (7) FTE Positions in FY 2017 to the Department of Education to clarify responsibilities between the 2 entities. These amounts consist of:

General Fund	\$(231,200)
Teacher Certification Fund	(379,800)

(Please see Additional Legislation below for more information.)

Other Issues

Background

The FY 2016 budget included \$1,325,200 and 6 FTE Positions from the General Fund and \$379,800 and 5 FTE Positions from the Teacher Certification Fund in FY 2016 in order to establish the State Board of Education (SBE) as a separate budget unit.

The General Fund amount was \$90,400 and 2 FTE Positions higher than the amount appropriated to the board as a line item within the department's budget in FY 2015 due to a transfer from the department's K-3 Reading line item for FY 2016 as a cost allocation measure.

^{1/} Laws 2016, Chapter 138 transferred \$(231,200) and (2) FTE Positions from the State Board of Education's General Fund appropriation and \$(379,800) and (5) FTE Positions from its Teacher Certification Fund appropriation to the Department of Education to reflect a permanent transfer of responsibilities between the 2 entities starting in FY 2017.

^{2/} Funded as part of the Department of Education budget prior to FY 2016.

^{3/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Additional Legislation

Clarification of Duties

Laws 2016, Chapter 138 clarifies the duties and powers of the department and Superintendent of Public Instruction (SPI) versus SBE. In 2015, SPI filed suit against the SBE over the authority to hire and dismiss SBE staff. In 2015 also, SBE filed suit against SPI seeking remote access to data housed at the department for SBE's teacher investigation unit. The unit's staff, funded by an appropriation to SBE from the Teacher Certification Fund, could access required files in the Online Arizona Certification Information System (OACIS) only through terminals located at the Department of Education building.

The SPI and SBE have agreed to settle all ongoing litigation between them as a result of provisions enacted in Chapter 138. The legislation clarifies that SBE shall employ and direct its own staff without the recommendation of SPI, who shall execute SBE policies and provide information to SBE related to its statutory powers and duties.

Chapter 138 also requires SPI, rather than the SBE, to direct the work of all investigations related to immoral or unprofessional conduct and requires the department and the SBE to submit a transition plan by August 1, 2016 to the Executive and Legislature related to the transfer of investigative unit personnel from SBE to the department.

In conjunction with the clarification and transfer of responsibilities between the 2 entities, Chapter 138 transfers (7) FTE Positions and \$(611,000) from SBE to the department. Of this amount, \$(231,200) and (2) FTE Positions are transferred from SBE's General Fund appropriation, and \$(379,800) and (5) FTE Positions are transferred from its Teacher Certification Fund appropriation.

SBE's 4 remaining FTE Positions equal the number of non-investigative staff that were appropriated to the SBE line item in the department's budget prior to the 2 entities' separation.

Chapter 138 also requires the Department of Administration, rather than SPI, to approve travel expenses and reimbursements for SBE board members, increases the statutorily-authorized number of board members by 2 to conform to the Arizona Constitution, and allows SBE to collect fees for the evaluation of certificates, name changes, duplicates or changes of coding to existing files or certificates.

K-3 Reading

Laws 2016, Chapter 245 amends A.R.S. § 15-211 to clarify that SBE may establish rules and policies related to the K-3 Reading program, while the department, rather than SBE, shall administer the program. (See the *Department of Education budget for more information.*)

Department of Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.9	164.9	171.9 ^{1/}
Personal Services	4,543,100	5,297,300	6,110,100
Employee Related Expenditures	1,648,500	1,929,300	2,077,000
Professional and Outside Services	398,400	960,300	1,244,600
Travel - In State	19,700	22,600	24,600
Travel - Out of State	16,700	12,500	14,000
Other Operating Expenditures	1,888,600	2,136,800	2,329,100
Equipment	842,500	1,116,900	1,118,200
OPERATING SUBTOTAL	9,357,500	11,475,700	12,917,600 ^{2/3/4/5/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,341,523,300	3,621,149,600 ^{6/}	3,723,868,200 ^{7/-12/}
State Aid Supplement	0	50,000,000 ^{13/14/}	50,000,000 ^{13/14/}
Current-Year Funding Backfill	0	0	31,000,000 ^{15/16/17/}
Former District-Sponsored Charter Schools	0	0	1,148,000 ^{18/19/}
Additional Inflation	0	0 ^{20/}	0 ^{20/}
K-3 Reading	40,005,400	39,917,300	0 ^{21/}
School Year 2013-2014 School District Charter School Conversions	24,500,000	0	0
Student Success Funding	18,746,600	0	0
Special Education Fund	33,242,100	32,242,100	32,242,100
Other State Aid to Districts	181,500	983,900	983,900
Property Tax Relief			
Additional State Aid - Homeowner's Rebate	354,994,900	359,303,700	391,456,100
Additional State Aid - 1% Cap	7,407,200	7,380,300	7,380,300
Non-Formula Programs			
Accountability and Achievement Testing	11,223,700	16,422,400	16,420,800 ^{22/}
Adult Education	4,486,900	4,500,000	4,498,200
Alternative Teacher Development Program	0	500,000	500,000
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
Code Writers Initiative Pilot Program	0	0	500,000 ^{23/24/}
English Learner Administration	6,451,100	6,507,900	6,495,000 ^{25/}
Geographic Literacy	0	0	100,000 ^{26/}
Information Technology Certifications	1,000,000	0	0
JTED Performance Pay	500,000	0	0
JTED Soft Capital and Equipment	0	1,000,000	1,000,000 ^{27/}
School Safety Program	4,125,800	3,646,500	3,645,600
State Block Grant for Vocational Education	11,575,400	11,560,900	11,576,300
Student Success Fund Deposit	22,400,000	0	0
Teacher Certification	1,656,100	1,834,500	1,828,100
Technology-Based Language Development and Literacy Intervention Pilot Program	0	246,800	0
Tribal College Dual Enrollment Program Fund	0	160,000	250,000
State Board of Education			
State Board of Education	1,036,500	0	0
AGENCY TOTAL	3,899,374,400	4,173,792,000	4,302,770,600 ^{28/-31/}

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
FUND SOURCES			
General Fund	3,831,124,100	3,941,873,900	4,069,375,800
<u>Other Appropriated Funds</u>			
Department of Education Empowerment Scholarship Account Fund	200,100	399,000	797,900
Department of Education Professional Development Revolving Fund	777,700	2,700,000	2,700,000
Permanent State School Fund	46,475,500	219,440,500	219,804,200
Proposition 301 Fund	0	7,000,000	7,000,000
State Web Portal Fund	0		500,000
Student Success Fund	18,746,600	0	0
Teacher Certification Fund	2,050,400	1,971,800	2,342,700
Technology-Based Language Development and Literacy Intervention Fund	0	246,800	0
Tribal College Dual Enrollment Program Fund	0	160,000	250,000
SUBTOTAL - Other Appropriated Funds	68,250,300	231,918,100	233,394,800
SUBTOTAL - Appropriated Funds	3,899,374,400	4,173,792,000	4,302,770,600
Other Non-Appropriated Funds	521,847,700	592,397,400	605,374,200
Federal Funds	1,135,613,800	1,175,376,900	1,175,376,900
TOTAL - ALL SOURCES	5,556,835,900	5,941,566,300	6,083,521,700

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2017 it is anticipated that the department will oversee 237 school districts, accommodation districts and Joint Technological Education Districts and approximately 430 charter schools in their provision of public education from preschool through grade 12.

- 1/ Includes 48.7 GF and 21.1 OF FTE Positions funded from Special Line Items in FY 2017.
- 2/ The operating lump sum appropriation includes \$683,900 and 8.5 FTE Positions for average daily membership auditing and \$200,000 and 2 FTE Positions for information technology security services. (General Appropriation Act footnote)
- 3/ The appropriation from the Department of Education Empowerment Scholarship Account Fund includes \$100,000 in funding for one-time information technology changes. (General Appropriation Act footnote)
- 4/ The amount appropriated for the department's operating budget includes \$500,000 for technical assistance and state level administration of the K-3 Reading program established pursuant to A.R.S. § 15-211. (General Appropriation Act footnote)
- 5/ The FY 2017 total includes \$231,200 and 2 FTE Positions from the General Fund and \$379,800 and 5 FTE Positions from the Teacher Certification Fund that are transferred to the department from the State Board of Education pursuant to Laws 2016, Chapter 138.
- 6/ Includes \$2,354,400 from the General Fund and \$172,081,000 from the Permanent State School Fund appropriated by Laws 2015, 1st Special Session, Chapter 1. Also includes \$74,394,000 that Chapter 1 transferred to Basic State Aid from a separate Additional Inflation separate line item in the original FY 2016 budget.
- 7/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2015, Chapter 8. Laws 2016, Chapter 117 also appropriates \$930,727,700 in FY 2018 to reflect the deferral of FY 2017 payments.
- 8/ The above appropriation provides basic state support to school districts for maintenance and operations funding as provided by A.R.S. § 15-973, and includes an estimated \$219,804,200 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2017, except that if Proposition 123 is not approved by voters, the amount of expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B, for FY 2017 is estimated to be \$47,359,500. (General Appropriation Act footnote) Note: Proposition 123 was approved.
- 9/ Monies derived from the Permanent State School Fund and any other nonstate General Fund revenue source that is dedicated to fund Basic State Aid shall be expended, whenever possible, before expenditure of state General Fund monies. (General Appropriation Act footnote)
- 10/ Except as required by A.R.S. § 37-521, all monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, income from the investment of permanent state school funds as prescribed by the Enabling Act and the Constitution of Arizona and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure may not be made except as specifically authorized above. (General Appropriation Act footnote)
- 11/ The following footnote did not become effective, since Proposition 123 was approved by voters in May 2016: The amount appropriated for Basic State Aid from the Permanent State School Fund for FY 2017 is reduced by \$172,444,700 if Proposition 123 is not approved by voters. (General Appropriation Act footnote)

- 12/ The following footnote did not become effective, since Proposition 123 was approved by voters in May 2016: If Proposition 123 is not approved by voters, the department shall allocate \$74,394,000 of the Basic State Aid appropriation for a separate additional inflation adjustment apart from the Basic State Aid formula. The additional inflation monies would be allocated to school districts and charter schools in FY 2017 in the same manner that they would be allocated if they were for an additional increase of \$54.31 in the base level prescribed in A.R.S. § 15-901B2, for FY 2017 and the department would increase budget limits accordingly. The department also would increase the budget limits of a school district that is not eligible to receive Basic State Aid funding for FY 2017 by the amount that the district's budget limits would be increased for additional inflation if the school district was eligible to receive Basic State Aid funding for FY 2017. The additional inflation amount is not an increase in the base level as defined in A.R.S. § 15-901. (General Appropriation Act footnote)
- 13/ Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 annually for FY 2016 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 from the General Fund for school districts and charter schools conditional upon passage of Proposition 123 in May 2016. Note: Proposition 123 was approved.
- 14/ The Department of Education shall allocate the appropriated amount to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943, paragraph 2, subdivision (a) and increase the budget limits pursuant to A.R.S. § 15-947 accordingly. For the purposes of this subsection, the weighted student count for a school district that serves as the district of attendance for nonresident pupils shall be increased to include nonresident pupils who attend school in the school district. (Laws 2015, 1st Special Session, Chapter 1, Section 6 footnote)
- 15/ The appropriation consists of one-time monies to backfill the loss of base support level state aid for FY 2017 that school districts with declining student counts otherwise would experience in FY 2017 due to the implementation of current-year base support level funding. The Department of Education shall allocate the appropriated amount in a manner that backfills the loss of base support level state aid that school districts with declining student counts otherwise would experience in FY 2017 due to the implementation of current-year base support level funding. The department shall allocate current-year funding backfill monies for FY 2017 as if they were base support level monies for FY 2017 and shall increase budget limits for FY 2017 accordingly. For a school district with a declining student count that is not eligible to receive state aid for FY 2017, the department shall increase the school district's budget limits for FY 2017 by the amount that the limits would be increased if the school district were eligible for current-year funding backfill state aid for FY 2017. (General Appropriation Act footnote, Section 141)
- 16/ If the appropriation is insufficient to fully fund current-year funding backfill costs for school districts that are eligible to receive state aid for FY 2017, the Department of Education shall use monies appropriated for Basic State Aid for FY 2017 to make up the difference. (General Appropriation Act footnote, Section 141)
- 17/ If the appropriation exceeds the amount needed to fully fund current-year funding backfill costs for FY 2017 for school districts that are eligible to receive state aid for FY 2017, the Department of Education shall revert the difference to the state General Fund. (General Appropriation Act footnote, Section 141)
- 18/ The appropriation for Former District-Sponsored Charter Schools for FY 2017 consists of one-time monies to provide additional base support level funding on a one-time basis to school districts that operated district-sponsored charter schools in FY 2016 and that qualify for state aid in FY 2017. The appropriated amount shall be allocated to school districts that operated district-sponsored charter schools in FY 2016 and that qualify for state aid in FY 2017 on a pro rata basis based on the number of average daily membership pupils who attended district-sponsored charter schools in each school district for FY 2016. Monies that a school district receives from this line item shall be added to the district's base support level for FY 2017, and the Department of Education shall increase its budget limits accordingly. (General Appropriation Act footnote)
- 19/ The department also shall increase the base support level of a school district that operated a district-sponsored charter school in FY 2016 but that does not qualify for state aid in FY 2017 by an amount equal to the average per pupil base support level increase provided per former district-sponsored charter school pupil under this line item for a school district that qualifies for state aid for FY 2017, multiplied by the number of average daily membership pupils who attended district-sponsored charter schools in the school district in FY 2016, and shall increase the school district's budget limits accordingly. (General Appropriation Act footnote)
- 20/ The original FY 2016 budget appropriated \$74,394,000 for Additional Inflation, but Proposition 123 incorporated those monies into Basic State Aid starting in FY 2016.
- 21/ Beginning in FY 2017, formula costs are funded through Basic State Aid and administrative costs are funded through the department's operating budget.
- 22/ Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall submit the estimated fiscal impact of those changes to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)
- 23/ Laws 2016, Chapter 124 appropriated \$500,000 from the State Web Portal Fund for a Code Writers Initiative Pilot Program.
- 24/ The appropriation for the Code Writers Initiative Pilot Program is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Laws 2016, Chapter 124, Section 40)
- 25/ The Department of Education shall use the appropriated amount to provide English language acquisition services for the purposes of A.R.S. § 15-756.07 and for the costs of providing English language proficiency assessments, scoring and ancillary materials as prescribed by the Department of Education to school districts and charter schools for the purposes of Title 15, Chapter 7, Article 3.1, Arizona Revised Statutes. The Department of Education may use a portion of the appropriated amount to hire staff or contract with a third party to carry out the purposes of A.R.S. § 15-756.07. Notwithstanding A.R.S. § 41-192, the Superintendent of Public Instruction also may use a portion of the appropriated amount to contract with one or more private attorneys to provide legal services in connection with the case of Flores v. State of Arizona, No. CIV 92-596-TUC-RCC. (General Appropriation Act footnote)
- 26/ The Department of Education shall use the appropriated one-time amount to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in the state. The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (General Appropriation Act footnote)
- 27/ The Department of Education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts. (General Appropriation Act footnote)
- 28/ After review by the Joint Legislative Budget Committee, in FY 2017, the department may use a portion of its FY 2017 state General Fund appropriations for Basic State Aid or Additional State Aid to fund a shortfall in funding for Basic State Aid or Additional State Aid, if any, that occurred in FY 2016. (General Appropriation Act footnote)
- 29/ The department shall provide an updated report on its budget status every 3 months for the first half of each fiscal year and every month thereafter to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting. Each report shall include, at a minimum, the department's current funding surplus or shortfall projections for Basic State Aid and other major formula-based programs and is due 30 days after the end of the applicable reporting period. (General Appropriation Act footnote)

Summary

ADE's FY 2017 General Fund budget spending increases by \$127,501,900, or 3.2% above FY 2016. After adjusting for an estimated \$231,956,000 that public schools will receive from Proposition 123 in FY 2017 above the original FY 2016 appropriations, ADE General Fund and state land trust spending combined increases by an estimated 9.1%. Proposition 123 monies were added to the original FY 2016 appropriation upon voter approval of the Proposition on May 17, 2016 and remain in the department's budget for FY 2017. (See *October 2015 Special Session and Proposition 123 in Other Issues section for more information.*)

The \$127,501,900 non-Proposition 123 General Fund increase includes both current law formula adjustments and policy changes for FY 2017 in addition to 2 technical "base adjustments" for FY 2016:

Base Adjustments

- A decrease of \$(2,400,000) for higher-than-budgeted savings from multisite charter small school weight reductions in FY 2016.
- A decrease of \$(745,000) for lower-than-budgeted incremental costs for district-sponsored charter schools for FY 2016.

Current Law Formula Adjustments

- An increase of \$73,575,700 for 1.25% Average Daily Membership (ADM) growth in FY 2017.
- An increase of \$19,500,000 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$55,969,800 for a 0.99% inflator.
- A decrease of \$(50,151,200) for local property tax growth due to new construction offset by Homeowner's Rebate impact of \$6,023,800.
- A decrease of \$(363,700) to offset higher available endowment earnings under Proposition 123.
- An increase of \$700,000 for Empowerment Scholarship Accounts (ESAs).
- An increase of \$26,128,600 for higher Homeowner's Rebate costs due to recent statutory changes.
- A decrease of \$(67,300) for standard changes.

The current law formula adjustments total \$131,315,700.

Policy Changes

- A decrease of \$(31,000,000) to establish current year Base Support Level funding.

- A one-time increase of \$31,000,000 to backfill losses that otherwise would occur in FY 2017 under current year Base Support Level funding.
- A decrease of \$(1,000,000) for Joint Technical Education District (JTED) funding for high school graduates.
- A decrease of \$(6,500,000) for small school weight for multisite charter phase out.
- A one-time increase of \$6,500,000 to freeze the small school weight phase out for FY 2017 at the FY 2016 level.
- A decrease of \$(1,148,000) to eliminate district-sponsored charter schools.
- A one-time increase of \$1,148,000 to backfill losses that otherwise would occur in FY 2017 under the elimination of district-sponsored charter schools.
- An increase of \$231,200 due to a transfer from the State Board of Education.
- An increase of \$100,000 for Geographic Literacy.

The policy changes total \$(668,800).

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$86,389,600 in FY 2018 above FY 2017 and \$127,823,300 in FY 2019 above FY 2018. (See *Other Issues for more information.*)

Operating Budget

The budget includes \$12,917,600 and 102.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$8,905,100
Department of Education Empowerment Scholarship Account Fund	797,900
Department of Education Professional Development Revolving Fund	2,700,000
Teacher Certification Fund	514,600

These amounts fund the following adjustments:

K-3 Reading Transfer

The budget includes an increase of \$500,000 and 2 FTE Positions from the General Fund in FY 2017 to transfer funding for administration of the K-3 Reading program from the K-3 Reading line item to the department's operating budget. The transfer is required for FY 2017 because the budget eliminates the separate K-3 Reading line item and instead funds program formula costs through Basic State Aid and program administrative costs

^{30/} Within 15 days after each apportionment of state aid that occurs pursuant to A.R.S. § 15-973B, the department shall post on its website the amount of state aid apportioned to each recipient and the underlying data. (General Appropriation Act footnote)

^{31/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

through the agency's operating budget. (See the Transfer K-3 Reading Monies policy issue under Basic State Aid for more information.)

ESA Administration

The budget includes an increase of \$400,000 from the Department of Education Empowerment Scholarship Account Fund in FY 2017 for administration of the Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402. This will provide the department with \$797,900 in ESA administration funding for FY 2017 after adjustments for standard changes. The budget continues a General Appropriation Act footnote stipulating that the budgeted amount includes \$100,000 for one-time information technology changes.

The Department of Education Empowerment Scholarship Account Fund is funded with monies retained from students' ESAs pursuant to A.R.S. § 15-2402C. That law allows ADE to retain up to 5% of each student's ESA funding for program administration, which for FY 2017 would be as much as \$1,850,000 (an estimated \$37,000,000 in ESA cost for the year X 5%). A.R.S. § 15-2402C requires ADE to transfer 1/5th of the 5% to the State Treasurer to fund the latter's costs for ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. (See State Treasurer budget for State Treasurer's ESA administration funding.) (See Empowerment Scholarship Accounts policy issue under Basic State Aid for more information regarding Empowerment Scholarship Account Administration.)

State Board of Education Transfer

Laws 2016, Chapter 138 transfers \$611,000 and 7 FTE Positions in FY 2017 from the State Board of Education to the department to reflect the clarification of roles and responsibilities of the department and Board. This amount consists of:

General Fund	231,200
Teacher Certification Fund	379,800

The transferred FTE Positions consists of 2 FTE Positions from the General Fund and 5 FTE Positions from the Teacher Certification Fund.

Chapter 138 clarified statutory responsibilities for the department and the State Board of Education and transferred the amounts shown above from the State Board of Education to the department. (See State Board of Education line item narrative for more information.)

Professional Development

The budget includes no change in funding from the Department of Education Professional Development

Revolving Fund (DEPDRF) in FY 2017 for professional development activities provided by the department pursuant to A.R.S. § 15-237.01. The original FY 2016 budget did not appropriate any DEPDRF monies to the department, but the General Appropriation Act for FY 2017 (Laws 2016, Chapter 117) appropriates \$2,700,000 in supplemental funding from the DEPDRF to the department's operating budget in FY 2016 for estimated professional development costs for FY 2016. The budget maintains program funding for FY 2017 at the revised FY 2016 level of \$2,700,000.

A.R.S. § 15-237.01 establishes the DEPDRF and requires the department to deposit into it any tuition monies generated by its professional development courses.

Statewide Adjustments

The budget includes a decrease of \$(69,100) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(65,500)
Department of Education Empowerment Scholarship Account Fund	(1,100)
Teacher Certification Fund	(2,500)

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$3,723,868,200 in FY 2017 for Basic State Aid. This amount consists of:

General Fund	3,504,064,000
Permanent State School Fund	219,804,200

The \$3,723,868,200 total does not include \$86,280,500 in "additional school day" funding from Proposition 301 that will be allocated through Basic State Aid in FY 2017 because those monies are non-appropriated (see Table 1). It also excludes local property taxes that will help fund K-12 formula costs for FY 2017, as they also are non-appropriated. In addition, it excludes formula monies for State Aid Supplement, Current-Year Funding Backfill and Former District-Sponsored Charter Schools, as they are appropriated through separate line items apart from Basic State Aid for FY 2017.

(See Other Issues for background information regarding the Basic State Aid formula.)

Table 1
FY 2017 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2016 Appropriation (original)	\$3,324,960,700
FY 2016 "Additional Inflation" transfer	74,394,000
FY 2016 Supplemental (special session)	<u>2,354,400</u>
FY 2016 Appropriation (revised)	\$3,401,709,100
Base Adjustment for multisite charter weights	\$ (2,400,000)
Base Adjustment for District-Sponsored Charters	(745,000)
Enrollment Growth @ 1.25%	73,575,700
Higher Average Cost Per Pupil	19,500,000
0.99% Inflation	55,969,800
Property Taxes from New Construction	(50,151,200)
Endowment Earnings	(363,700)
Eliminate Hold Harmless for Enrollment Losses ^{1/}	(31,000,000)
JTED Enrollment - No New Graduates	(1,000,000)
Multisite Charter Small School Weights ^{2/}	(0)
Eliminate District-Sponsored Charter Schools ^{3/}	(1,148,000)
Move K-3 Reading Funding	39,417,300
Empowerment Scholarship Accounts	<u>700,000</u>
FY 2017 Budget	\$3,504,064,000
Permanent State School Fund	
FY 2016 Original	\$ 47,359,500
FY 2016 Special Session Increase	<u>172,081,000</u>
FY 2016 Revised	\$ 219,440,500
Estimated FY 2017 Growth	<u>363,700</u>
FY 2017 Budget	\$ 219,804,200
Prop 301 Sales Tax (no change) ^{3/}	\$ 86,280,500
Local Property Taxes ^{3/}	
FY 2016 Base - estimated	\$2,379,675,400
Property Taxes from New Construction	50,151,200
Non-State Aid Formula Changes	<u>11,923,600</u>
FY 2017 Estimated ^{4/}	\$2,441,750,200
Grand Total (all sources) ^{5/ 6/}	\$6,251,898,900

- ^{1/} Backfilled through a separate line item apart from Basic State Aid.
- ^{2/} Frozen at FY 2016 level, so no funding change for FY 2017.
- ^{3/} Non-appropriated, so excluded from appropriated totals.
- ^{4/} An estimated \$398,836,400 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.
- ^{5/} Statutory formula cost would be approximately \$401,846,100 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are assumed to continue in the Budget on a session law basis, including the impact on non-state aid districts.
- ^{6/} Does not include \$50,000,000 for State Aid Supplement, \$31,000,000 for Current Year Funding Backfill or \$1,148,000 for Former District-Sponsored Charter Schools, which are appropriated to separate line items apart from Basic State Aid.

Base Adjustment – Small School Weights

The budget includes a decrease of \$(2,400,000) from the General Fund in FY 2017 for a higher-than-budgeted savings from multisite charter school small school weight reductions for FY 2016. The FY 2016 budget enacted a 3-year phase out of small school weights for multisite charter schools starting in FY 2016. It assumed a General Fund savings of \$(6,500,000) for this issue for FY 2016, but

the revised estimated savings is approximately \$(8,900,000), or \$(2,400,000) higher. This reduced starting point costs for Basic State Aid for FY 2017 by an estimated \$(2,400,000). (See *Multisite Charter Small School Weight Reduction policy issue for more information.*)

Base Adjustment – District Charters

The budget includes a decrease of \$(745,000) from the General Fund in FY 2017 for lower-than-budgeted incremental costs for district-sponsored charter schools for FY 2016. The FY 2016 budget assumed a cost of \$1,893,000 for this issue, but the revised estimate is \$1,148,000 based on updated data for a FY 2016 savings of \$(745,000).

Enrollment Growth

The budget includes an increase of \$73,575,700 from the General Fund in FY 2017 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.25% in FY 2017 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

Fiscal Year	K-12 ADM (unweighted) ^{1/}			Change	% Change
	District ^{2/}	Charter ^{3/}	Total		
2010	936,594	110,231	1,046,825	4,542	0.4%
2011	914,952	119,321	1,034,273	(12,552)	(1.2)%
2012	909,530	131,993	1,041,523	7,250	0.7%
2013	910,476	140,199	1,050,675	9,152	0.9%
2014	913,313	152,158	1,065,471	14,796	1.4%
2015	917,913	159,032	1,076,945	11,474	1.1%
2016 est	923,660	167,868	1,091,528	14,583	1.4%
2017 est	928,447	176,725	1,105,172	13,644	1.25%
2018 est	934,608	185,612	1,120,220	15,048	1.4%
2019 est	940,815	194,604	1,135,419	15,199	1.4%

^{1/} Actuals for FY 2010 through FY 2015 are from ADE payment data. Figures shown for FY 2014 and FY 2015 have been adjusted by JLBC Staff in an attempt to compensate for data anomalies caused by charter conversions for those fiscal years. Figures for other years are current JLBC Staff estimates. Excludes students enrolled at the Arizona State Schools for the Deaf and the Blind (ASDB).

^{2/} Includes district-sponsored charter schools.

^{3/} Excludes district-sponsored charter schools.

Higher Average Cost Per Pupil

The budget includes an increase of \$19,500,000 from the General Fund in FY 2017 for growth in the average Basic State Aid cost per pupil for FY 2017. The average cost per pupil increases annually due to ongoing growth in the proportion of K-12 pupils who are enrolled in charter schools or special education programs. Charter school students typically receive more formula funding per pupil than non-charter school students, although they do not receive local bond and override funding. Special

education students receive “add on” funding that increases their average per pupil costs.

The \$19,500,000 estimate includes \$9,000,000 for charter school pupils and \$10,500,000 for special education students in FY 2017. The charter estimate assumes that board-sponsored charter schools will continue to grow by approximately 9,000 ADM in FY 2017 and receive approximately \$1,000 more per pupil than non-charter pupils (9,000 X \$1,000 = \$9,000,000). The special education estimate assumes that the statewide special education weighted student count will increase by approximately 3,000 ADM in FY 2017 (see Table 3) and an average per pupil base level “add on” of \$3,500 (3,000 X \$3,500 = \$10,500,000). The assumed \$3,500 base level amount is “add on” in nature for special education pupils because it is in addition to base level funding that they generate under the “main” (non-special education) part of the Basic State Aid formula.

Table 3

Special Education ADM (weighted) ^{1/}

Fiscal Year	Districts	Charters	Total	Change	% Change
2010	83,450	4,104	87,554	3,004	3.6%
2011	88,633	5,189	93,822	6,268	7.2%
2012	92,738	5,858	98,596	4,774	5.1%
2013	95,887	6,522	102,409	3,813	3.9%
2014	95,024	7,698	102,722	313	0.3%
2015	106,217	9,124	115,341	12,619	12.3%
2016 est	108,979	9,362	118,341	3,000	2.6%
2017 est	111,736	9,605	121,341	3,000	2.5%
2018 est	114,495	9,846	124,341	3,000	2.5%
2019 est	117,254	10,087	127,341	3,000	2.4%

^{1/} Actuals for FY 2010 through FY 2015 are from ADE payment data. Excludes “Group B” category that only receives funding weight of 0.003 (295 additional “weighted” students for FY 2015) and students enrolled at ASDB.

0.99% Inflation Adjustment

The budget includes an increase of \$55,969,800 from the General Fund in FY 2017 for a 0.99% inflation increase in the per pupil base level prescribed in A.R.S. § 15-901B2, the transportation funding levels prescribed in A.R.S. § 15-945A5 and the charter school Additional Assistance amounts prescribed in A.R.S. § 15-185B. These inflation adjustments are all included in the FY 2017 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 124) and will result in a base level of \$3,635.64 per pupil for FY 2017 versus \$3,600.00 for FY 2016. Chapter 124 also included a contingency base level of \$3,460.66 for FY 2017 in case Proposition 123 was not approved by voters. The contingency base level did not take effect because Proposition 123 received voter approval.

The FY 2016 base level originally was \$3,426.74 per pupil, as established by the FY 2016 K-12 Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15). Laws 2015, 1st Special Session, Chapter 1 from the October 2015 Special Session, however, changed it to \$3,600.00 per pupil for FY 2016 contingent upon voter approval of Proposition 123 in May 2016. Chapter 124, however, would have changed the FY 2016 base level back to the original \$3,426.74 per pupil if Proposition 123 was not approved by voters. (See *Other Issues for more information regarding the October 2015 Special Session and Proposition 123.*)

A.R.S. § 15-901.01 (established by Proposition 301) requires the Legislature to increase the “base level or other components of the Revenue Control Limit” (RCL) by 2% or by the change in the GDP price deflator for the most recent prior calendar year, whichever is less. The FY 2017 adjustment is 0.99%, which equals the GDP price deflator for calendar year 2015. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of \$2,687.32. (See the *FY 2016 Appropriations Report for background information regarding the related Cave Creek, et. al. v Ducey lawsuit.*)

Property Taxes from New Construction

The budget includes a decrease of \$(50,151,200) from the General Fund in FY 2017 due to a projected 2.29% increase in statewide Net Assessed Value (NAV) from new construction in FY 2017. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) and State Equalization Tax Rate (SETR) by an estimated \$50,151,200 in FY 2017. It also will decrease state costs by \$(50,151,200), since QTR and SETR revenues offset state formula costs on a dollar for dollar basis. Statewide NAV for property already on the tax rolls (“existing property”) is expected to increase by 0.88% in FY 2017, resulting in a net 3.17% NAV increase for new construction and existing property combined for FY 2017.

The projected 0.88% NAV increase for existing property will not affect net QTR or SETR collections in FY 2017 because A.R.S. § 41-1276 (the “Truth in Taxation” or “TNT” law) requires the QTR and SETR to be adjusted each year in order to offset NAV changes for existing properties. As a result, the QTR will decrease to \$4.16 (from \$4.20 currently) and the SETR will decrease to \$0.5010 (from \$0.5054 currently) in FY 2017 in order to offset the estimated 0.88% NAV increase for existing property (see Table 4).

TNT Tax Rates			
Tax Rate	FY 2016	FY 2017	
Qualifying Tax Rate (QTR)			
• High School districts and elementary districts located within a high school district	\$2.0977	\$2.0793	
• Unified districts and elementary districts not located within a high school district	\$4.1954	\$4.1586	
• State Equalization Tax Rate (SETR)	\$0.5054	\$0.5010	

On a related note, Proposition 117 from the November 2012 General Election, caps annual growth in property values at 5% starting in FY 2016. (See the FY 2016 Appropriations Report for more information.)

Endowment Earnings

The budget includes a decrease of \$(363,700) from the General Fund and increase of \$363,700 from the Permanent State School Fund in FY 2017 for endowment earnings funding for Basic State Aid. This assumes that K-12 endowment earnings from the State Land Department and State Treasurer combined under Proposition 123 will equal \$219,804,200 for FY 2017, which would be \$363,700 more than the \$219,440,500 total assumed for FY 2016 (see Table 5).

Source	FY 2016	FY 2017	Change
Original 2.5% ^{2/}	\$47,359,500	\$47,359,500	\$0
New 4.4% ^{2/}	<u>172,081,000</u>	<u>172,444,700</u>	<u>363,700</u>
Total	\$219,440,500	\$219,804,200	\$363,700

^{1/} K-12 Endowment Earnings also help fund School Facilities Board debt service and the Classroom Site Fund (see Table 11).
^{2/} The October 2015 Special Session increased the state trust land distribution percentage in the State Constitution from 2.5% to 6.9% (an increase of 4.4%) if voters approved Proposition 123 in May 2016, which did occur.

A.R.S. § 37-521 caps the amount of K-12 endowment earnings that may be used for SFB debt service and Basic State Aid combined at the FY 2001 level of endowment earnings, which was \$72,263,000. Of that total, an estimated \$46,475,500 will be used for Basic State Aid for FY 2017 and \$25,787,500 will be used for SFB debt service.

All endowment earnings above \$72,263,000 go to the Classroom Site Fund established by A.R.S. § 15-977, except that Laws 2015, 1st Special Session, Chapter 1 appropriates for Basic State Aid any increase in State Treasurer land trust distributions from the new 4.4% distribution starting in FY 2016. (See Other Issues for more information on the October 2015 Special Session and Proposition 123.)

The estimated \$219,804,200 in K-12 endowment earnings for FY 2017 assumes that debt service costs for State

School Trust Revenue Bonds and Qualified Zone Academy Bonds (QZABs) that were issued by the School Facilities Board (SFB) in prior years in order to fund deficiencies correction in public schools will remain at \$24,903,500 for FY 2017 based on input from SFB, which would be unchanged from the currently budgeted level. This would keep the amount of land trust monies available to fund Basic State Aid from the original 2.5% distribution rate unchanged for FY 2016 at \$47,359,500.

Eliminate Hold Harmless

The budget includes a decrease of \$(31,000,000) from the General Fund in FY 2017 in order to eliminate a “hold harmless” provision that currently delays for 1 year the impact of school district enrollment declines on their Base Support Level (BSL) funding. This change will reduce Basic State Aid funding to school districts statewide by an estimated \$(31,000,000) for FY 2017. The budget, however, appropriates \$31,000,000 to a separate Current-Year Funding Backfill line item for FY 2017 in order to fully offset the \$(31,000,000) Basic State Aid funding reduction for this issue for FY 2017. (See Current-Year Funding Backfill line item narrative below for more information.)

The FY 2016 K-12 Education BRB required the department to notify school districts by December 15, 2015 on how it planned to implement current year ADM funding in FY 2017 and report the estimated fiscal impact by district. In its report, which was based on ADM data from FY 2015, the department estimated that current year ADM funding would have resulted in a net state savings of \$(24,238,000) in FY 2015 if it had been in effect for that year.

The \$(24,238,000) estimate, however, assumed that both the BSL and District Additional Assistance (DAA) would be funded on a current year basis. The original policy intent was to fund only the BSL on current year ADM in order to eliminate the BSL “hold harmless.”

Funding both the BSL and DAA on current year ADM would increase DAA state aid costs by an estimated \$6,509,400 because growing districts would now receive DAA based on their current year (higher) rather than prior year (lower) ADM counts. Without the DAA increase, the department’s estimated net state aid savings would be \$(30,747,400).

The FY 2017 K-12 Education BRB, however, includes a statutory change clarifying that DAA will continue to be funded based on prior year ADM in FY 2017 and subsequent years, which will forego the DAA increase included in the department’s estimates. The budget therefore assumes a net state savings of \$(31,000,000) for this issue for FY 2017, which rounds the department’s

adjusted \$(30,747,400) estimate (without the DAA increase) given its preliminary nature. The actual savings for this issue will depend on final ADM counts for FY 2017, which will not be known until after the end of FY 2017.

(See Current-Year Funding Backfill policy issue for more information.)

JTED Funding for High School Graduates

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2017 for Basic State Aid funding for JTED students who have already graduated from high school.

The FY 2016 K-12 Education BRB (Laws 2015, Chapter 15) originally required Base Support Level (BSL) funding for students who attend JTEDs to be funded at 92.5% (a 7.5% reduction) for both the “sending” district or charter and for the JTED itself starting in FY 2017, except that districts and charters sending students to a JTED centralized campus would still receive full BSL funding for them. This change for satellite and central campus sites combined was expected to reduce state aid to JTEDs, districts and charters by an estimated \$(30,000,000) statewide for FY 2017.

Laws 2016, Chapter 4, however, repealed the JTED 7.5% BSL reductions scheduled for FY 2017 and instead amended permanent law (A.R.S. § 15-393D4c) to prohibit JTEDs from including students who had already graduated from high school in their ADM counts starting in FY 2016 with certain exceptions. The net impact of these changes is to restore all but an estimated \$(1,000,000) of the \$(30,000,000) reduction for FY 2017.

The FY 2017 K-12 Education BRB further amends A.R.S. § 15-393D4c to remove incorrect “exception” language from Chapter 4 and establishes corrected “exception” language in session law. The latter language allows any high school graduate under age 21 to remain in a JTED’s ADM count for FY 2016 and allows any graduate under age 21 who was enrolled in a JTED program on February 1, 2016 to remain in their JTED’s ADM count in FY 2017 until they finish the program or through the end of FY 2017, whichever occurs first. High school graduates who were not enrolled in a JTED program on February 1, 2016, however, must be excluded from JTED ADM counts starting in FY 2017.

That exclusion will reduce Basic State Aid costs by an estimated \$(1,000,000) in FY 2017 and by an additional \$(1,800,000) in FY 2018 for a total ongoing savings of \$(2,800,000) starting in FY 2018. The estimated savings is greater starting in FY 2018 because no exceptions to the new prohibition are allowed after FY 2017.

Chapter 4 also modifies statute in order to establish new program quality and accountability requirements for JTEDs. For example, it establishes additional criteria that courses and programs must meet in order to qualify for JTED funding and requires JTEDs to provide certain minimal services to all member districts. It also requires the department to review compliance of all JTED programs and courses with new requirements in the Act and stipulates that the Auditor General shall conduct a special audit of JTEDs, as scheduled by the Joint Legislative Audit Committee. In addition, Chapter 4 permanently extends a requirement that the Joint Committee on Capital Review (JCCR) approve all JTED leases that would establish a “leased centralized campus.” That requirement would have expired after December 31, 2016 under prior law.

The FY 2017 K-12 Education BRB also establishes new accountability requirements for JTEDs. It requires them to annually report the student enrollment of each JTED program and course and to also report student retention data.

On a related note, the FY 2017 K-12 Education BRB continues to suspend 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2017 by funding their state aid at 95.5% of the full funding amount apart from unrelated District Additional Assistance (DAA) suspensions. This is suspending an estimated \$1,747,400 of JTED formula funding for the East Valley Institute of Technology (EVIT), West-MEC and the Pima County JTED for FY 2017.

A.R.S. § 15-393 allows a Joint Technical Education District (JTED) to receive up to 0.75 ADM (versus 0.25 ADM in most situations) for each student who attends a JTED “centralized campus” or “leased centralized campus.” A.R.S. § 15-393R4 allows the latter to be located at a school district or charter school if the site is leased at fair market value and if the lease is approved by the Joint Committee on Capital Review (JCCR). The JCCR approval requirement is made permanent by Laws 2016, Chapter 4. It otherwise would have expired under prior law after December 31, 2016. To date, only 2 JTEDs have sought JCCR approval for JTED leases.

Multisite Charter Small School Weight Reduction

The budget includes no change from the General Fund in FY 2017 for a continued phase out of small school weight funding for multisite charter schools in FY 2017. Multisite charters schools generally are charters schools with common organizational or governance structures.

The FY 2016 K-12 Education BRB (Laws 2015, Chapter 15) originally reduced school weight funding for most

multisite charter schools by 33% for FY 2016, 67% for FY 2017 and 100% for FY 2018 and beyond unless their combined student counts were less than 600 for grades K-8 or high school. The FY 2016 budget assumed that the phase out would reduce Basic State Aid costs by \$(6,500,000) in FY 2016 and by an additional \$(6,500,000) in FY 2017 and \$(7,000,000) in FY 2018 for a total reduction of \$(20,000,000) over 3 years.

The budget, however, assumes no additional savings for this issue for FY 2017, as the FY 2017 K-12 Education BRB maintains for FY 2017 the same 33% reduction factor in effect for FY 2016. As a result, there will be no additional incremental savings for this issue for FY 2017. For FY 2018, Chapter 124 maintains the reduction at the original 100% factor assumed in Laws 2015, Chapter 15.

Chapter 15 assumed a savings of \$(6,500,000) for this issue for FY 2016 and additional savings of \$(6,500,000) and \$(7,000,000) in FY 2017 and FY 2018, respectively, for an ongoing savings of \$(20,000,000) starting in FY 2018, as noted above. The department, however, estimated in October 2016 that the savings for FY 2016 would be approximately \$(8,900,000) based on revised data. As a result, the budget assumes an additional \$(2,400,000) savings for this issue above the originally-assumed \$(6,500,000) for a total FY 2016 savings of \$(8,900,000), which is the savings again assumed for this issue for FY 2017. *(Please see the "Base Adjustment - Small School Weights" policy issue narrative above for more information.)*

For FY 2018 and beyond, the budget continues to assume an ongoing savings of \$(20,000,000).

Small school weights are authorized by A.R.S. § 15-943, paragraph 1. They generate additional funding per pupil for eligible entities that have fewer than 600 ADM pupils in Grades K-8 or high school. Small school weights can increase a district or charter's BSL funding by up to 32%. Only isolated districts with fewer than 100 high school students, however, qualify for the highest small school weights (A.R.S. § 15-943).

Eliminate District Charters

The budget includes a decrease of \$(1,148,000) from the General Fund in FY 2017 from the elimination of all remaining district-sponsored charter schools (DSCS) in FY 2017. The budget, however, appropriates \$1,148,000 to a separate line item apart from Basic State Aid for FY 2017 in order to hold affected school districts harmless for this issue for FY 2017. *(Please see Former District-Sponsored Charter Schools line item narrative below for more information.)*

The FY 2017 K-12 Education BRB repeals statutes authorizing DSCS in order to permanently eliminate DSCS in FY 2017. It also repeals statutory language that otherwise would require school districts to repay all Charter Additional Assistance funding that they received while operating DSCS once they convert their DSCS back to non-charter status. In addition, Chapter 124 clarifies that increases in school district non-charter enrollment that result from the elimination of DSCS do not make a school district eligible for District Additional Assistance growth funding pursuant to A.R.S. § 15-961B3 for FY 2016 or FY 2017.

DSCS existed from FY 1996 through FY 2016 pursuant to A.R.S. § 15-183C. Fewer than 2,400 students attended DSCS in FY 2014. In FY 2015, however, that number increased to approximately 39,000 students, as many additional school districts established DSCS. This raised state costs substantially because DSCS students receive approximately \$1,000 more per pupil under the Basic State Aid funding formula than non-charter students.

In response, the FY 2015 budget eliminated after FY 2015 any DSCS that did not operate prior to FY 2014. It allowed a DSCS that operated prior to FY 2014, however, to remain in operation. The FY 2016 budget later reduced Incremental funding for the latter DSCS by 50% and included language indicating that the Legislature intended to eliminate all remaining district-sponsored charter schools after FY 2016.

As a result of the DSCS intent language in the FY 2016 budget, the FY 2017 Baseline assumed that the remaining DSCS would be eliminated in FY 2017. It also assumed that eliminating DSCS would reduce General Fund savings by \$(1,893,000) for FY 2017 based on preliminary estimates of incremental costs for DSCS for FY 2016. The revised estimate of incremental state aid costs for DSCS for FY 2016, however, is \$1,148,000 based on updated data. As a result, the amount appropriated by the budget to the Former District-Sponsored Charter School line item for FY 2017 in order to hold school districts harmless for this issue for FY 2017 is \$1,148,000. *(Please see Former District-Sponsored Charter Schools line item narrative for more information.)*

Transfer K-3 Reading Monies

The budget includes an increase of \$39,417,300 from the General Fund in FY 2017 to move K-3 Reading formula funding from a separate line item to Basic State Aid. This incorporates funding for the K-3 Reading Group B weight into Basic State Aid, which conforms to current practice for all other formula weights.

Prior practice did not display the full cost of the weight, as the annual appropriation to the K-3 Reading program only reflected the initial cost of the weight when it was created in FY 2013. Since then, enrollment growth and inflation have increased its cost by approximately \$5,560,000 through FY 2016, which has been funded through Basic State Aid as part of annual increases provided to that program for enrollment growth and inflation for the formula as a whole. The estimated \$5,560,000 cost increase for the program reflects 3.8% enrollment growth and 10.1% base level growth since FY 2013, including the base level reset from the October 2015 special session ($\$40,000,000 \text{ initial cost} \times (3.8\% + 10.1\%) = \$5,560,000$).

The budget also transfers \$500,000 and 2 FTE Positions from the K-3 Reading program to the department's operating budget for continued administration of the statewide K-3 Reading program. (*See the Operating Budget narrative for more information.*)

On a related note, Laws 2016, Chapter 245 clarifies that the department rather than the State Board of Education (SBE) is responsible for administering the K-12 reading program. As a result, school districts and charter schools will now submit their annual K-3 Reading program plans to the department rather than to the SBE. (Under Chapter 245, however, "A" and "B" school districts and charter schools now only have to submit K-3 Reading plans in odd-numbered years.) Chapter 245 requires the department to review those plans and make recommendations to the SBE for their approval or disapproval. It also allows the SBE to establish rules and policies for the K-3 reading program.

Rollover

The budget includes no change from the General Fund in FY 2017 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2017) state aid payments until the following fiscal year (now FY 2018).

The FY 2017 rollover will affect only school districts with more than 600 students, as has been the policy since FY 2013. The budget continues to exempt small districts from the K-12 rollover in FY 2017, which will continue it at the \$930,727,700 level.

As a result of the continuing rollover, the 12 monthly payments that "large" school districts receive in FY 2017 will again consist of approximately 4.5 months of deferred payments from the prior year and 7.5 (rather than 12) payments from the current year. Laws 2015, Chapter 8 advance appropriated \$930,727,700 from the General Fund in FY 2017 in order to fund the \$930,727,700 deferred obligation from FY 2016. Those monies,

therefore, do not appear in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117). Chapter 117, however, advance appropriates \$930,727,700 from the General Fund in FY 2018 in order to fund the deferred FY 2017 obligation.

A continued \$930,727,700 rollover for FY 2017 will include \$272,627,700 for the original FY 2008 rollover, \$330,000,000 for the additional FY 2009 rollover, \$350,000,000 for the additional FY 2010 rollover and \$(21,900,000) to exempt districts with less than 600 students.

Additional Assistance Suspensions

The budget includes no change from the General Fund in FY 2017 for a continued partial suspension of the district additional assistance (DAA) and charter additional assistance (CAA) statutory funding formulas. This will continue to suspend \$(352,442,700) of DAA state aid and \$(18,656,000) of CAA for FY 2017.

School districts will receive approximately \$75,000,000 of DAA funding in FY 2017, including \$6,000,000 self-funded by non-state aid districts under current estimates. Without the continuing suspension they instead would receive approximately \$455,000,000 in DAA funding, including approximately \$34,000,000 self-funded by non-state aid districts. DAA is authorized by A.R.S. § 15-961, which establishes DAA funding amounts (if fully funded) of \$450.76 to \$601.24 per pupil depending on the pupil's grade level and the size of their school district.

As in prior years, the budget will continue BRB language requiring non-state aid districts to reduce their budgets by the amount that their state aid would be reduced under continuing DAA suspensions if they did qualify for state aid. The budget, however, discontinues language extending this requirement to CAA reductions for non-state aid districts that have district-sponsored charter schools, since it eliminates district-sponsored charter schools after FY 2016. Non-state aid districts are school districts that are able to fully fund their K-12 formula costs with local property taxes only because of their strong local property tax base.

The FY 2017 K-12 Education BRB also continues to cap total statewide DAA reductions for school districts with fewer than 1,100 students at \$5,000,000 for FY 2017.

Empowerment Scholarship Accounts

The budget includes an increase of \$700,000 from the General Fund in FY 2017 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This assumes that approximately 130 non-special education students who otherwise would

attend private school (primarily incoming Kindergartners who live within the boundaries of a “D or F” school) will receive ESAs in FY 2017 (130 students X \$5,100 estimated average ESA cost for non-disabled pupils ≈ \$700,000). It also assumes that all other categories of new ESA students (such as disabled students who formerly attended school district or charter schools, and non-disabled students, such as from military families, who also qualify for ESAs) collectively would result in minimal net new cost based on formula modeling.

Eligible students can use monies in an ESA to attend private school or fund other educational expenses, such as textbooks and tutoring. ESAs are funded primarily with Basic State Aid monies that a school district or charter school otherwise would have received for a student if they had remained in public school.

The program is open to Arizona resident students who meet at least one of the requirements listed below in addition to being either a full-time Arizona public school student in the prior year, a displaced or disabled School Tuition Organization (STO) scholarship recipient in the prior year, or an incoming kindergartner:

- A child with a disability.
- A child who is a ward of the juvenile court and is residing in prospective permanent placement foster care.
- A child who is a ward of the juvenile court and who achieved permanency through adoption.
- A child who is the sibling of a current ESA recipient.
- A child who attended a failing school in the prior year.
- An incoming Kindergartner who resides within the boundaries of a failing school.
- A child with an active duty military parent.
- A child who resides on an Arizona Indian reservation.
- A child of a parent who is legally blind, deaf or hard of hearing (new for FY 2017 pursuant to Laws 2016, Chapter 353).

(Please see the FY 2015 Appropriations Report for historical information on changes in program eligibility.)

Laws 2013, Chapter 250 caps the number of new ESAs approved by the department each year at 0.5% of total public school enrollment through calendar year 2019, or approximately 5,500 new students annually. Current ESA growth is substantially below this level, as the 2,175 ESAs approved for FY 2016 represent an increase of only 864 net students above the FY 2015 level (see Table 6).

Chapter 250 also amended the funding formula for the ESA program to include “. . . an amount that is equivalent to ninety percent of the sum of the base support level and

additional assistance prescribed in sections 15-185 and 15-943 for that particular student if that student were attending a charter school.”

Since FY 2015 the department has interpreted this language as providing 90% of charter additional assistance to all ESA recipients, including those who did not previously attend charter schools. ADE has estimated that this change causes ESAs to cost about 9% more than apart from this policy, which was approximately \$2,430,000 for FY 2016 (\$27,000,000 estimated ESA cost for FY 2016 [from Table 6] X 9% = \$2,430,000).

Table 6 shows historical and projected data for the ESA program. For FY 2016, ADE estimated as of June 2016 that 2,502 students would receive \$27,000,000 in ESA funding, which represents an increase of 1,191 students. The FY 2017 budget assumes an increase of 864 students for the program based on earlier data. Of the assumed 864 new ESA students for FY 2017, an estimated 130 would increase state costs (primarily incoming non-special education Kindergartners who live within the boundaries of a “D or F” school and would attend private school with or without an ESA).

<u>Fiscal Year</u>	<u>Program Enrollment</u>	<u>Total Awards</u>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014	761	\$10,200,000
FY 2015	1,311	\$17,333,700
FY 2016 (est)	2,175	\$27,100,000
FY 2017 (est)	3,039	\$37,865,900

^{1/} Figures shown for FY 2012 through FY 2016 are from ADE as of November 2015. FY 2017 estimates are from the JLBC Staff based on historical data. “Total Awards” represent estimated ESA allocations rather than the net General Fund impact of the program after related Basic State Aid savings are deducted. The latter amount is unknown because it would depend in part on where individual ESA recipients would have attended school apart from the program, which is unknown. In June 2016 ADE revised its FY 2016 estimates to 2,502 students and a cost of \$27,000,000 and its FY 2017 estimates to 4,000 students and a cost of \$37,000,000.

A.R.S. § 15-2402C authorizes the department to retain for administration up to 5% of the funding designated for each student’s ESA account, of which it is required to transfer one-fifth to the State Treasurer for related administration at the State Treasurer’s office. The retained monies, however, are subject to legislative appropriation and the department’s appropriation of ESA administration for FY 2017 is \$797,900, which is less than the maximum allowed amount of \$1,480,000 (\$37,000,000 from Table 6 X 4% = \$1,480,000). Any “4%” monies that are not appropriated or spent are carried forward in the Department of Education Empowerment Scholarship Account Fund to the next fiscal year. At the

end of FY 2015 the fund had a carry-forward balance of \$842,600.

The \$797,900 amount that is appropriated to ADE from the Department of Education Empowerment Scholarship Account Fund in FY 2017 for program administration includes an increase of \$400,000 from FY 2016 prior to standard changes. The budget also appropriates \$79,700 from the State Treasurer Empowerment Scholarship Account Fund in FY 2017 for ESA program administration, which is unchanged from FY 2016 (*see related narrative in State Treasurer Budget pages*).

Laws 2016, Chapter 112 allows a student with disabilities to continue to receive ESA monies until they reach age 22 if they meet eligibility criteria to be established by the department under the Act. For students who will turn 22 during the FY 2017, the department is to initially determine eligibility (until permanent eligibility criteria are established) based on the student's likelihood of meeting graduation requirements prescribed by the State Board of Education or obtaining a high school equivalency diploma pursuant to A.R.S. § 15-702.

Laws 2016, Chapter 353 makes a child eligible for an ESA if their parent is legally blind, deaf or hard of hearing, if they require instructional materials in a specialized format pursuant to A.R.S. § 15-731, or if they are the sibling of an eligible and newly-enrolled ESA student and the child meets other eligibility requirements, such as being a former public school student. Chapter 353, however, waives the prior public school student requirement for a child who attended a program for preschool students with disabilities.

In addition, Chapter 353 requires the department to accept ESA applications year-round rather than during a period determined by the department under prior law. (For FY 2017, the department accepted ESA applications from January 1, 2016 through April 1, 2016.) It also requires the department to enroll and issue an award letter to eligible ESA applicants within 45 days versus no deadline under prior law and changes other administrative requirements for the program, such as establishing minimum numbers of hours of instruction that Arizona Online Instruction (AOI) students must receive in order to be considered prior public school students for purposes of ESA eligibility and specifying the types of special education services that ESA students with disabilities may purchase with ESA funds.

State Aid Supplement (formerly "Additional Funding")

The budget includes \$50,000,000 from the General Fund in FY 2017 for State Aid Supplement funding. This amount is unchanged from FY 2016.

Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 from the General Fund in FY 2016 for State Aid Supplement funding. It also advance appropriated \$50,000,000 annually for FY 2017 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 for State Aid Supplement funding. The amounts appropriated for all years were contingent on voter approval of Proposition 123, which occurred on May 17, 2016 (*see Other Issues for more information regarding the October Special Session and Proposition 123*).

Chapter 1 included a footnote instructing the department to allocate the State Aid Supplement monies for FY 2016 to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943(2a) and to increase budget limits accordingly. The footnote also stipulates that a school district's weighted student count is to include non-resident students who attend school in the district. It further stipulates that a school district may budget its State Aid Supplement funding in either its Maintenance and Operation (M&O) or Unrestricted Capital Outlay Fund. These footnote provisions also were enacted into law in advance for FY 2017 by Laws 2015, 1st Special Session, Chapter 1, so are continued in the FY 2017 budget. (*See Other Issues below for more information regarding the October Special Session and Proposition 123.*)

The State Aid Supplement amounts for FY 2016 through FY 2025 will not appear in the General Appropriation Acts for those years, since they already were advance appropriated by Chapter 1.

Current-Year Funding Backfill

The budget includes \$31,000,000 in one-time funding from the General Fund in FY 2017 for Current-Year Funding Backfill. This amount funds the following adjustments:

One-Time Backfill

The budget includes an increase of \$31,000,000 from the General Fund in FY 2017 for a one-time backfilling of funding reductions that school districts with declining enrollments otherwise would experience in FY 2017 due to the implementation of current year Base Support Level (BSL) funding.

The \$31,000,000 appropriation for Current-Year Funding Backfill for FY 2017 is based on the estimated \$(31,000,000) savings for current year BSA funding in the department's December 2015 report and is appropriated by Section 141 of the FY 2017 General Appropriation Act. Section 141 stipulates that the department is to allocate the appropriated amount in a manner that backfills the loss of BSL state aid that school districts with declining student counts otherwise would experience in FY 2017 due to the implementation of current-year BSL funding. Section 141 requires the department to make corresponding increases in the budgets of affected school districts that are not eligible for state aid, but those increases will be funded with local Qualifying Tax Rate (QTR) monies rather than state aid.

Section 141 further stipulates that the department shall use monies appropriated for Basic State Aid to make up a shortfall, if any, in Current-Year Funding Backfill monies and shall revert a surplus of those monies, if any, to the General Fund.

(See Eliminate Hold Harmless policy issue under Basic State Aid for more information.)

Former District-Sponsored Charter Schools

The budget includes \$1,148,000 in one-time funding from the General Fund in FY 2017 for Former District-Sponsored Charter Schools. This amount funds the following adjustments:

One-Time Backfill

The budget includes an increase of \$1,148,000 from the General Fund in FY 2017 for Former District-Sponsored Charter Schools to backfill funding reductions that otherwise would occur in FY 2017 due to the elimination of district-sponsored charter schools.

The FY 2017 K-12 Education BRB repeals statutory authority for district-sponsored charter schools after FY 2016, so they will no longer exist in FY 2017. The General Appropriation Act, however, appropriates \$1,148,000 in one-time funding to backfill associated funding losses for affected school districts for FY 2017 only.

The General Appropriation Act stipulates that the department is to allocate monies appropriated to this line item to school districts that are eligible for state aid in FY 2017 on a pro rata basis based on the number of ADM pupils who attended district-sponsored charter schools in those districts in FY 2016 and shall increase their budget limits accordingly. It further stipulates that the department shall increase the budget limits of an affected school district that is not eligible for state aid in FY 2017

by an amount equal to the average BSL increase provided per former district-sponsored charter school pupil under this line item for a school district that qualifies for state aid for FY 2017 multiplied by the number of ADM pupils who attended district-sponsored charter schools in the non-state aid school district for FY 2016.

The budget includes a decrease of \$(1,148,000) from the General Fund in FY 2017 from the elimination of all remaining district-sponsored charter schools (DSCS) in FY 2017. *(Please see Eliminate District Charters policy issue under Basic State Aid for more information.)*

Additional Inflation

The budget includes no funding from the General Fund in FY 2017 for Additional Inflation. This amount is unchanged from FY 2016.

The General Appropriation Act for FY 2016 (Laws 2016, Chapter 8) originally appropriated \$74,394,000 from the General Fund in FY 2016 for additional inflation. A footnote in Chapter 8 required the department to allocate those monies as if they were for an additional increase of \$54.31 in the base level defined in A.R.S. § 15-901B2 for FY 2016 and to increase budget limits accordingly. Laws 2015, 1st Special Session, Chapter 1, however, amended Chapter 8 to incorporate the \$74,394,000 into Basic State Aid for FY 2016 pending voter approval of Proposition 123 in May 2016, which occurred. The amended FY 2016 budget therefore contains no separate funding for this line item.

K-3 Reading

The budget includes no funding from the General Fund in FY 2017 for the K-3 Reading program. These amounts fund the following adjustments:

Fund Program Through Basic State Aid

The budget includes a decrease of \$(39,917,300) and (2) FTE Positions from the General Fund in FY 2017 in order to fund formula costs for the K-3 Reading program through Basic State Aid and fund program administration through the department's operating budget. *(See Basic State Aid and Operating Budget narrative for more information.)*

The program is authorized by A.R.S. § 15-211, which, as amended by Laws 2016, Chapter 245, requires the department to administer a K-3 reading program to improve the reading proficiency of pupils in Grades K-3. Program funding is generated by the K-3 Reading "Group B" weight of 0.040 per student as established by A.R.S. § 15-943. Prior to Chapter 245, A.R.S. § 15-211 required the

State Board of Education to establish the program in collaboration with the department, rather than requiring only the department to administer the program. (See *Transfer K-3 Reading Monies policy issue under Basic State Aid for more information.*)

Special Education Fund

The budget includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2017 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2016.

The Special Education Fund provides funding for special education costs of students from 1) Arizona State Schools for the Deaf and the Blind, 2) Arizona State Hospital (ASH), or 3) programs for the developmentally disabled operated by DES (A.R.S. § 15-1202). It also funds costs of residential education for students who require a private residential special education placement, or who are placed in a residential education facility by a state placing agency.

Other State Aid to Districts

The budget includes \$983,900 from the General Fund in FY 2017 for Other State Aid to Districts. This amount is unchanged from FY 2016.

This amount includes \$880,200 (unchanged) for Certificates of Educational Convenience pursuant to A.R.S. § 15-825 and \$103,700 (unchanged) for Assistance to School Districts for Children of State Employees (ASDCSE) pursuant to A.R.S. § 15-976.

Property Tax Relief

Additional State Aid - Homeowner's Rebate

The budget includes \$391,456,100 from the General Fund in FY 2017 for the Additional State Aid (ASA) - Homeowner's Rebate line item. This amount funds the following adjustments:

New Homes

The budget includes an increase of \$6,023,800 from the General Fund in FY 2017 for increased Homeowner's Rebate costs associated with new home construction. The \$6,023,800 estimate assumes that Class 3 properties (owner occupied homes) will account for about one-fourth of statewide property tax growth from new construction in FY 2017 and that approximately 45.0% of the QTR taxes owed by new homes will be paid by the state through the Homeowner's Rebate.

Property Tax - Statutory Changes

The budget includes an increase of \$5,598,000 from the General Fund in FY 2017 to offset an anticipated increase in Homeowner Rebate costs for FY 2017 due to tax law changes pertaining to commercial property. Laws 2011, 2nd Special Session, Chapter 1 phases down the assessment ratio on commercial property from 20% to 18% over 4 years beginning in FY 2014. It also reduces the assessment ratio on agricultural property from 16% to 15% in FY 2017. These changes will reduce statewide property values for commercial and agricultural property in FY 2017. This will cause the statewide property tax base to be smaller in FY 2017 than it otherwise would be and Truth in Taxation would otherwise require the K-12 QTR to be increased accordingly. The latter change would increase the amount of QTR taxes paid by homeowners, which would increase Homeowner's Rebate costs by an estimated \$5,598,000 in FY 2016.

In addition, Chapter 1 increases the rebate percentage for the Homeowner's Rebate in order to also hold homeowners harmless for increases in tax rates for taxes other than the QTR that otherwise would occur under Chapter 1 to compensate for the lower commercial property assessed value. This could include tax rates for school bonds and overrides and for non-school taxes, such as for cities, counties and community colleges.

In combination, the higher TNT QTR and the rebate percentage change (described separately below) will cost an estimated \$26,128,600 in FY 2017.

Increased Rebate Percentage

The budget includes an increase of \$20,530,600 from the General Fund in FY 2017 for costs associated with an increased Homeowner's Rebate percentage required by Laws 2011, 2nd Special Session, Chapter 1. Chapter 1 requires the Arizona Department of Revenue (DOR) to adjust the Homeowner's Rebate percentages for FY 2014 through FY 2017 in order to offset homeowner tax rate increases that otherwise would occur in those years due to reduced assessment ratios for commercial property. Unlike the \$5,598,000 cost associated with the higher statewide QTR, the \$20,530,600 reflects the cost of the higher rebate percentage associated with keeping homeowner local property taxes from increasing.

For FY 2016, DOR increased the rebate percentage to 45.003% versus 43.559% in FY 2015. The currently estimated cost of the required rebate percentage increase for FY 2017 is \$20,530,600, which would reflect a rebate percentage of roughly 47.5%. DOR is not expected to determine the actual rebate percentage for FY 2017 until the summer of 2016.

Background – The Additional State Aid program authorized by A.R.S. § 15-972 primarily pays a portion of each homeowner’s school district primary property taxes, up to a maximum of \$600 per parcel.

Additional State Aid - 1% Cap

The budget includes \$7,380,300 from the General Fund in FY 2017 for the Additional State Aid - 1% Cap line item. This amount is unchanged from FY 2016.

The General Appropriation Act for FY 2016 appropriated monies for the 1% cap into a separate line item for the first time that year for greater transparency. In addition, the FY 2016 K-12 Education BRB amended A.R.S. § 15-972 in order to cap state costs for the 1% cap at a maximum of \$1,000,000 per county. The FY 2016 K-12 BRB required the Property Tax Oversight Commission (PTOC) established by A.R.S. § 42-17002 to allocate the loss of

state 1% cap funding among local taxing jurisdictions based on its determination of their pro rata shares of the overall 1% cap exceedance.

In March 2016, the PTOC determined that school districts statewide would forgo \$(19,832,900) of state 1% Cap funding for FY 2016 as a result of the new \$1,000,000 limit on state 1% Cap funding per county. This amount included reductions totaling \$(15,804,100) for 7 school districts in Pima County and \$(4,028,800) for 16 school districts in Pinal County (*see Table 7*).

The PTOC further determined that Pima County was required to backfill the entire \$(15,804,100) of foregone 1% Cap funding for FY 2016 for Pima County school districts. For Pinal County the PTOC determined that the County itself, Central Arizona College and 6 cities and towns in Pinal County collectively were required to backfill \$(4,028,800). The latter total included \$1,693,800 from Pinal County, \$1,271,100 from the City of Maricopa, \$974,000 from Central Arizona College and \$89,900 from 5 other cities and towns (*see Table 8*).

Table 7
1% Cap Backfill Required by School District for FY 2016

School District	Required Backfill
Pima County	
Tucson Unified	\$15,716,900
Altar Valley Elementary	53,000
Amphitheater Unified	24,000
Marana Unified	8,900
Sahuarita Unified	900
San Fernando Elementary	200
Vail Unified	200
Subtotal	\$15,804,100
Pinal County	
Maricopa Unified	\$2,946,700
Florence Unified	428,300
Coolidge Unified	163,800
Casa Grande Union	150,500
Casa Grande Elementary	100,500
Superior Unified	86,700
Toltec Unified	67,400
Mammoth Unified	50,200
Eloy Elementary	9,900
Apache Junction Unified	9,400
Santa Cruz Valley Union	9,300
Ray Unified	4,700
Stanfield Unified	700
J O Combs Unified	300
Red Rock Elementary	300
Picacho Elementary	100
Subtotal	\$ 4,028,800
Grand Total ^{1/}	\$19,832,900

^{1/} Excludes 8 Maricopa County school districts that collectively would have required \$639,400 of backfill funding for FY 2016. That amount was not backfilled because none of the overlapping taxing jurisdictions for those school districts (county, community college, city or town) had “above average” tax rates for FY 2016, so the latter were not required to provide backfill funding to the 8 affected school districts.

Table 8
Required Transfers for FY 2016 By Taxing Jurisdiction

Taxing Jurisdiction	Required Transfer
Pima County	
Pima County	\$15,804,100
Pinal County	
Pinal County	\$1,693,800
City of Maricopa	1,271,100
Central Arizona College	974,000
Town of Superior	46,400
City of Coolidge	29,200
Town of Mammoth	7,000
Town of Queen Creek	6,100
Town of Kearny	1,200
Subtotal	\$4,028,800
Grand Total	\$19,832,900

Pima County sued the state in June 2015 contending that the funding transfers required by the new 1% cap policy are not permissible for a number of reasons. On May 23, 2016 a Superior Court judge granted the plaintiff’s Motion for Summary Judgment in the case and indicated that it hoped to issue a signed judgment in the case by June 30, 2017. That judgment was not yet released at the time of this writing.

Background – The Additional State Aid program funds the Homeowner’s Rebate and any portion of a homeowner’s primary property taxes for all taxing jurisdictions combined (not just schools) that exceeds 1% of the full cash value of their home. This second feature is referred to as the “1% cap” and pertains to Article IX, Section 18 of the State Constitution, which caps Class 3 primary

property taxes at no more than 1% of a home’s full cash value and was added to the State Constitution in 1980. It applies any time a homeowner’s net combined primary property tax rate for all taxing jurisdictions combined exceeds \$10 per \$100 of NAV even after the Homeowner’s Rebate is applied.

In practice, the 1% cap historically has been implemented by having the state backfill any primary property tax costs for homeowners that exceed the 1% cap, rather than by requiring all taxing jurisdictions in an area (such as cities, counties, school districts and community colleges) to coordinate their respective primary property tax rates in order to keep their combined primary rate below \$10 per \$100 of NAV. The related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap.

Beginning in FY 2016, A.R.S. § 15-972K required all taxing jurisdictions that contribute to an exceedance of the 1% cap, as determined by the Property Tax Oversight Commission (PTOC), to share in the excess cost after the state pays a maximum of \$1,000,000 in 1% cap funding per county. (See the FY 2016 Appropriations Report for more information.)

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$16,420,800 and 2 FTE Positions in FY 2017 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,420,800
Proposition 301 Fund	7,000,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,600) from the General Fund in FY 2017 for statewide adjustments.

Background – “AzMERIT” tests were administered to Arizona public school students for the first time during the spring of 2015. The State Board of Education awarded the initial contract for this new test in November 2014. ADE reports that it cost \$19,599,600 to administer AzMERIT in FY 2015 and that it will cost \$18,555,700 and \$18,439,200 to administer it in FY 2016 and FY 2017, respectively.

The Achievement Testing program, however, also includes components other than AzMERIT testing. It includes AIMS Science Tests, alternative exams for special needs

students, test security costs, information technology support and program administration. ADE estimates that the cost of all of these other functions and AzMERIT combined at \$26,092,000 in FY 2017 (see Table 9). This excludes costs for administering the AZELLA test for English Learners, which is funded separately through the English Learner Administration line item. (See English Learner Administration line item for more information.)

Table 9
Estimated Achievement Testing Costs and Available Funding
(ADE estimates) (\$ in Millions)

	<u>FY 2016</u>	<u>FY 2017</u>
Estimated Costs ^{1/}		
AzMERIT	\$19.0	\$18.4
AIMS Science Testing	2.8	2.8
Alternative Special Needs Exam	0.5	0.7
Test Security	1.0	0.7
Information Technology Support	0.7	0.8
Staff and Administration	2.2	2.7
Total	\$26.2	\$26.1
Estimated Available Funding ^{1/}		
General Fund	\$9.4	\$9.4
Proposition 301 - School Accountability ^{2/}	9.2	5.5
Federal Funds	7.6	7.5
Total	\$26.2	\$22.4

^{1/} ADE estimates for FY 2017 are preliminary. Estimates for both years exclude monies for funding the AZELLA test for English Learners, as it is funded separately through the English Learner Administration line item.

^{2/} Includes carry-forward monies in FY 2016. Up to \$7.0 million potentially could be devoted to Achievement Testing in FY 2017.

The budget continues an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs.

This line item funds costs of developing, administering and scoring achievement tests required by A.R.S. § 15-741. The Proposition 301 amount of \$7,000,000 for Achievement Testing is from the “up to \$7 million” allowable appropriation for School Accountability in A.R.S. § 42-5029E7.

Laws 2015, Chapter 76, prohibited the department from assigning letter grades to schools for FY 2015 and FY 2016 based on achievement testing scores. It also prohibited using a pupil’s achievement testing scores as a factor in determining their letter grade in any course in school years 2014-2015 and 2015-2016.

Laws 2016, Chapter 226 revises how the department is to compute achievement profiles for school districts and charter schools, which serve as the basis for assigning letter grades to them. It requires multiple measures of academic performance to be used, deletes the current definition for each letter grade (A through F) and

stipulates that the replacement definitions, which must be adopted by the State Board of Education, are to have a letter grade of A reflect an excellent level of performance and a letter grade of F reflect a failing level of performance.

Laws 2016, Chapter 10 requires the State Board of Education to adopt a menu of locally procured achievement assessments to measure pupil achievement of the state academic standards. It allows each school district or charter school to administer a test from that menu, rather than administering the test selected by the State Board of Education, for purposes of testing high school students starting in FY 2018 and for purposes of testing students in Grades 3 - 8 starting in FY 2019.

(See Other Issues in FY 2016 Appropriations Report for more information regarding AzMERIT testing.)

Adult Education

The budget includes \$4,498,200 and 2 FTE Positions from the General Fund in FY 2017 for Adult Education. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,800) from the General Fund in FY 2017 for statewide adjustments.

The program provides instruction in the following areas to adult learners who are at least 16 years of age: 1) English Language Acquisition; 2) Adult Basic Education, including GED preparation; 3) Adult Secondary Education; 4) Civics; and 5) Basic computer literacy skills. Program monies are distributed through a competitive grant process. In FY 2016, 24 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$9,359,800 in federal funding in FY 2016. Its federal monies are subject to non-supplanting and maintenance-of-effort requirements stipulated in federal law.

Alternative Teacher Development Program

The budget includes \$500,000 from the General Fund in FY 2017 for an Alternative Teacher Development Program. This amount is unchanged from FY 2016.

The program is authorized by A.R.S. § 15-552, which requires the establishment of an alternative teacher development program for accelerating the placement of highly qualified individuals into low income schools.

Monies in the line item are distributed to the Teach for America program.

Arizona Structured English Immersion Fund

The budget includes \$4,960,400 from the General Fund in FY 2017 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2016.

The Arizona Structured English Immersion Fund was established by Laws 2006, Chapter 4 (A.R.S. § 15-756.04). Monies in the fund are distributed to school districts and charter schools based on amounts that they request pursuant to A.R.S. § 15-756.04C. The department distributed \$3,140,200 to public schools from the fund in FY 2015.

Code Writers Initiative Pilot Program

The FY 2017 K-12 Education BRB appropriates \$500,000 in one-time non-lapsing funding from the State Web Portal Fund in FY 2017 for a Code Writers Initiative Pilot Program.

Chapter 124 requires the department to allocate program funding on a competitive grant basis with input from the American Indian advisory council to participants who will leverage state monies by also securing non-state funding for the program. Program monies are to be used to introduce computer code writing curriculum for Native American students in grades 9–12.

English Learner Administration

The budget includes \$6,495,000 and 15.5 FTE Positions from the General Fund in FY 2017 for English Learner Programs. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(12,900) from the General Fund in FY 2017 for statewide adjustments.

The program is responsible for administering the Arizona English Language Learner Assessment (“AZELLA”) test, which is used to determine whether a student should be classified as an “English Language Learner” (ELL) as defined in A.R.S. § 15-901B9. Students who are classified as ELLs are required to enroll in English language education programs prescribed by A.R.S. §§ 15-751, 15-752 and 15-753 and qualify for ELL weight funding authorized in A.R.S. § 15-943. Approximately 125,500 students were expected to take the AzELLA in FY 2016,

including 47,500 for initial testing and 78,000 for retesting to see if they should continue to be classified as ELLs.

The department estimates that it will spend approximately \$1,000,000 in FY 2017 in order to replace existing AZELLA test questions. The current placement test questions have remained unchanged since FY 2013 for Kindergarten and since FY 2014 for Grades 1-12. The department indicates that AZELLA test questions need to be refreshed periodically so that they do not become overexposed and threaten the validity of test scores. The department plans to update questions during FY 2017 in preparation for FY 2018 testing.

The English Learner Administration program was originally authorized by Laws 2006, Chapter 4 in order to address the *Flores v. State of Arizona* litigation. The lawsuit was filed in federal court in 1992 by parents of children enrolled in the Nogales Unified School District. Litigation in the case continued until March 2013, when a federal judge dismissed it. Plaintiffs appealed the federal judge's ruling, but in June 2015 the federal appellate court upheld the earlier dismissal. In June 2015 the plaintiff attorneys asked for a rehearing in the case. (See FY 2011 Appropriations Report for additional history on this issue.)

The line item funds costs associated with implementing the English Language Education requirements in A.R.S. § 15-751 through 15-757. Those requirements pertain primarily to additional testing, teacher training and instructional services prescribed for English Learners.

Geographic Literacy

The budget includes \$100,000 in one-time funding from the General Fund in FY 2017 for Geographic Literacy. These amounts fund the following adjustments:

One-Time Funding

The budget includes an increase of \$100,000 from the General Fund in FY 2017 for Geographic Literacy. A General Appropriation Act footnote requires the department to use the appropriated amount to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in this state and makes the appropriation non-lapsing.

JTED Soft Capital and Equipment

The budget includes \$1,000,000 from the General Fund in FY 2017 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2016.

A footnote in the General Appropriation Act for FY 2017 requires the department to distribute the appropriated

amount to JTEDs with fewer than 2,000 ADM pupils on a pro rate basis for soft capital and equipment expenses.

School Safety Program

The budget includes \$3,645,600 and 1.2 FTE Positions from the General Fund in FY 2017 for the School Safety program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(900) from the General Fund in FY 2017 for statewide adjustments.

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. (See the FY 2015 Appropriations Report for program history.)

The FY 2017 K-12 Education BRB continues to require \$100,000 of the program's appropriation to be used for a pilot program on school emergency readiness. The FY 2017 K-12 Education BRB also requires the department to submit a report that summarizes the results of the FY 2017 program by November 1, 2017.

The FY 2015 K-12 Education BRB required the department to submit a report that summarizes the results of the FY 2015 program by November 1, 2015. That report indicated that the 3 school districts that participated in the pilot program in FY 2015 (Sunnyside Unified, Prescott Unified and Payson Unified) accomplished the following: 1) improved emergency management functions and aspects of school emergency response plans, 2) enhanced coordination and collaboration of internal district emergency planning team with community response partners, 3) trained staff on emergency operations plans, supported by exercises and drills, and 4) provided the Arizona Critical Terrorism Information Center (ACTIC) with relevant school infrastructure information.

All available state General Fund and Proposition 301 funding for the program is allocated annually by the School Safety Program Oversight Committee pursuant to A.R.S. § 15-153C. Monies are awarded on a competitive grant basis on a 3-year cycle. FY 2015 was the first year of the current cycle.

Program funding is used primarily to pay officer salaries and benefits. Law enforcement agencies typically cover associated costs for police cars, uniforms and equipment. School districts and charter schools typically pay costs for related overhead, supervision and supplies.

State Block Grant for Vocational Education

The budget includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2017 for the State Block Grant for Vocational Education. These amounts fund the following adjustments:

Technical Adjustment

The budget includes an increase of 0.7 FTE Positions from the General Fund in FY 2017 as a technical adjustment requested by the department in order to comply with federal maintenance-of-effort requirements for the program. A corresponding decrease of (0.7) FTE Positions is included in the agency's operating budget for FY 2017 resulting in no net change in total authorized FTE Positions for the agency for this issue for FY 2017.

Statewide Adjustments

The budget includes an increase of \$15,400 from the General Fund in FY 2017 for statewide adjustments. The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. CTE programs also currently receive approximately \$25,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006. Those monies are subject to a federal maintenance-of-effort (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

Teacher Certification

The budget includes \$1,828,100 and 21.1 FTE Positions from the Teacher Certification Fund in FY 2017 for Teacher Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(6,400) from the Teacher Certification Fund in FY 2017 for statewide adjustments.

Laws 2016, Chapter 138 transfers \$611,000 and 7 FTE Positions to the department from the State Board of Education budget in FY 2017 to reflect transfers of responsibility from the SBE to the department under that law. *(See the agency operating budget narrative, State Board of Education line item narrative and the Additional Legislation section for more information.)*

The program processes applications for teacher and administrator certification, including certification renewal. It is funded through fees paid by certification applicants pursuant to A.R.S. § 15-531.

Technology-Based Language Development and Literacy Intervention Pilot Program

The budget includes no funding from the Technology-Based Language Development and Literacy Intervention Fund in FY 2017 for the Technology-Based Language Development and Literacy Intervention Pilot Program. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(246,800) from the Technology-Based Language Development and Literacy Intervention Fund in FY 2017 in order to remove one-time funding for the program. The FY 2017 K-12 Education BRB, however, makes an unspent \$300,000 appropriation for the program for FY 2015 non-lapsing through FY 2017, which would make \$300,000 available to the program in FY 2017. It also makes the program's \$246,800 appropriation for FY 2016 non-lapsing through FY 2018, making those monies available to fund program costs in FY 2018. In addition, the FY 2017 K-12 Education BRB changed reporting dates for this pilot program in A.R.S. § 15-217G to reflect the extended schedule.

The FY 2015 K-12 Education BRB (Laws 2014, Chapter 17) established a 2-year pilot program on Technology-Based Language Development and Literacy Intervention to be funded through a new Technology-Based Language Development and Literacy Intervention Fund authorized by A.R.S. § 15-217H. The pilot program was to take place in FY 2015 and FY 2016, but ADE indicates that it did not begin in FY 2015 because the State Board of Education did not award the vendor contract for it until August 2015. As a result, program monies that were appropriated for FY 2015 went unused.

In addition, ADE now plans to start the program in FY 2017, so the program's FY 2016 appropriation of \$246,800 also will go unused. The FY 2017 K-12 Education BRB therefore amends Chapter 17 in order to extend the program through FY 2018 by making the original \$300,000 appropriation for FY 2015 non-lapsing through FY 2017 and the \$246,800 appropriation for FY 2016 non-lapsing through FY 2018, as described above.

Chapter 17 required the Commission for Postsecondary Education to transfer \$546,800 from the Commission for Postsecondary Education IGA/ISA Fund into the new fund by August 1, 2014 in order to help fund the pilot program. The \$546,800 amount consisted of unused funding from the now-eliminated Early Graduation Scholarship Program (formerly established by A.R.S. § 15-105).

As originally enacted, Chapter 17 also required the Department of Education to transfer \$53,200 in state

General Fund funding from its Accountability and Achievement Testing program to the Technology-Based Language Development and Literacy Intervention Fund by August 1, 2014, which would have provided \$600,000 in total funding for the 2-year pilot. In 2014, the Governor, however, vetoed the latter provision. As a result, the program has \$(53,200) less in funding available over 2 years than was originally intended.

The program seeks to promote English language development and literacy for public school pupils in Grades K-6.

Tribal College Dual Enrollment Program Fund

The budget includes \$250,000 from the Tribal College Dual Enrollment Program Fund in FY 2017 for the Tribal College Dual Enrollment Program Fund program. This amount funds the following adjustments:

Program Expansion

The budget includes an increase of \$90,000 from the Tribal College Dual Enrollment Program Fund in FY 2017 to enable the Tribal College Dual Enrollment Program Fund program to serve more students.

The FY 2016 Higher Education BRB (Laws 2015, Chapter 16) established the Tribal College Dual Enrollment Program Fund to be administered by the Department of Education (A.R.S. § 15-244.01). The fund compensates tribal colleges for tuition and fees that they waive for high school students who are dual enrolled in tribal college classes. Chapter 16 authorized the fund to annually receive 15% of unclaimed lottery prize monies up to \$160,000, subject to legislative appropriation, pursuant to A.R.S. § 5-568, plus any other appropriations, gifts, grants, devices and other contributions.

The FY 2017 K-12 BRB amends A.R.S. § 5-568 to allow the Tribal College Dual Enrollment Program Fund to annually receive 15% (unchanged) of unclaimed lottery prize monies up to \$250,000 (\$90,000 higher) of unclaimed lottery monies annually. Unclaimed lottery prize fund collections have totaled at least \$7,900,000 each year since FY 2005, so 15% of unclaimed monies would have equaled at least \$1,185,000 in each of those years.

The original FY 2016 budget did not appropriate any monies from the fund for FY 2016. The FY 2017 General Appropriation Act (Laws 2016, Chapter 117), however, appropriates \$160,000 in supplemental funding from it for the program for FY 2016.

(See Arizona State Lottery Commission narrative for more information on lottery funding.)

State Board of Education

State Board of Education

The budget includes no funding for FY 2017 for the State Board of Education, as the Board is now budgeted as a separate state agency. *(See the FY 2016 Appropriations Report for more information.)*

Laws 2016, Chapter 138 transfers \$611,000 and 7 FTE Positions from the Board to the department to reflect the clarification of roles and responsibilities of the department and Board *(see Operating Budget section and the Additional Legislation section for more information).*

Other Issues

This section includes information on the following topics:

General Issues

- FY 2016 Supplemental
- Long-Term Budget Impacts

Ballot Proposition

- October 2015 Special Session and Proposition 123
- Endowment Earnings

Basic State Aid

- Basic State Aid Formula Description

Non-Formula Programs

- Education Learning and Accountability System

Non-General Fund Programs

- Proposition 301
- Budget Overrides

Information on these various issues is as follows:

FY 2016 Supplemental

The budget includes \$2,700,000 in supplemental funding from the Department of Education Professional Development Revolving Fund in FY 2016 to fund professional development courses. *(See the department's operating budget narrative for more information.)*

The budget also includes \$160,000 in supplemental funding from the Tribal College Dual Enrollment Program Fund in FY 2016 to fund professional development courses. *(See the Tribal College Dual Enrollment Program Fund line item narrative for more information.)*

The budget also includes a General Appropriation Act footnote authorizing the department to use a portion of its FY 2017 state General Fund appropriations for Basic State Aid (BSA) and Additional State Aid (ASA) to fund a shortfall in funding for BSA or ASA, if any, that occurred in FY 2016 after review by the Joint Legislative Budget Committee (JLBC).

Pursuant to this footnote, the JLBC favorably reviewed at its June 16, 2016 meeting a department request to use an estimated \$17,872,300 of its FY 2017 state General Fund appropriations for BSA or ASA, if necessary, to fund potential shortfalls in BSA or ASA for FY 2016.

The favorable review by the JLBC for this issue included the following provisions: 1) it required the department to report on the actual amount of FY 2017 funding used, if any, to fund FY 2016 shortfalls by September 1, 2016, 2) it required the department to spend down all available FY 2016 monies before using FY 2017 monies to address a FY 2016 shortfall, if any, and 3) it allowed the department to use more than \$17,872,300 of FY 2017 monies to address a FY 2016 BSA shortfall, if any, upon consultation with the JLBC chairman.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$86,389,600 in FY 2018 above FY 2017 and \$127,823,300 in FY 2019 above FY 2018. These estimates are based on:

- 1.4% ADM growth for both fiscal years.
- 9,000 new charter ADM and 3,000 new special education weighted ADM for both fiscal years.
- GDP inflators of 1.43% for FY 2018 and 1.84% for FY 2019.
- New construction NAV growth of 2.0% for FY 2018 and 2.1% for FY 2019.
- An \$(11.1) million decrease in FY 2018 to eliminate small school weight funding for most multi-site charter schools in FY 2018 (the final year of a 3-year phase out) (\$8.9 million of assumed \$20.0 million already accounted for).
- A \$(31.0) million decrease in FY 2018 in order to eliminate a one-time backfill for current year Base Support Level funding.
- A \$(1.8) million decrease in FY 2018 to eliminate remaining state JTED funding for high school graduates (only partially eliminated for FY 2017).
- An \$(1.1) million decrease in FY 2018 to eliminate a one-time backfill for former district-sponsored charter schools.
- GF decreases of \$(17.5) million in FY 2018 and \$(16.1) million in FY 2019 due to growing Land Trust monies

from Proposition 123 under assumed 1.4% ADM growth and 1.6% inflation for both years (assumptions used in the October 2015 Special Session).

- A GF decrease of \$(23.5) million in FY 2019 due to the elimination of debt service payments on School Facilities Board Land Trust Bonds authorized by Proposition 301 due to final payoff of those bonds in FY 2018, which frees up land trust monies for Basic State Aid in FY 2019.

October 2015 Special Session and Proposition 123

Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001 (the October 2015 Special Session legislation) make the changes described below. Changes made by Chapter 1 and HCR 2001 required voter approval of Proposition 123, which was received on May 17, 2016.

- Increase the per pupil "Base Level" in the Basic State Aid formula beginning in FY 2016 (Chapter 1).
- Fund part of the cost of that increase through higher land trust distributions through FY 2025 (HCR 2001).
- Appropriate monies for "Additional Funding" (now called "State Aid Supplement") through FY 2025 (Chapter 1).
- Authorized the special election for Proposition 123 that occurred on May 17, 2016 and appropriated \$9.3 million to the Secretary of State to conduct the election (Chapter 2).

The related funding increases for FY 2016 included an estimated \$248.8 million in state aid for the Base Level increase and \$50.0 million for the State Aid Supplement for an estimated state aid total of \$298.8 million.

Chapter 1 increased the Base Level from \$3,427 to \$3,600 per student in FY 2016 and will continue to further increase it by the lesser of inflation or 2% in subsequent years (unchanged from prior law). It also advanced appropriated \$50.0 million in State Aid Supplement funding annually from the General Fund in FY 2016 through FY 2020 and \$75.0 million annually from the General Fund in FY 2021 through FY 2025.

Proposition 123 and Chapter 1 provide additional state funding to schools by increasing the State Land Trust distribution rate from 2.5% to 6.9% per year through FY 2025, incorporating \$74.4 million of formerly separate "Additional Inflation" monies into Basic State Aid, and appropriating additional General Fund monies.

The increased Land Trust distribution rate will yield approximately \$170 million - \$250 million in additional K-12 distributions each year through FY 2025. Currently,

the K-12 State Land Trust Permanent Fund balance is approximately \$4.8 billion. Under Proposition 123, the balance is projected to equal approximately \$6.2 billion in FY 2025 versus \$9.0 billion in FY 2020 without Proposition 123.

Proposition 123 allows the Legislature to temporarily suspend future inflation increases during periods of economic slowdown, in which both sales tax revenue and employment grew less than 2% but more than 1% in the prior year. It requires this suspension if sales tax revenue and employment both grew less than 1% in the prior year.

Under Proposition 123, the Legislature also may reduce the land trust distribution rate to as low as 2.5% if the 5-year average Land Trust balance declines relative to the previous 5 years.

Beginning in FY 2026, the Proposition allows the suspension of the annual inflation adjustment and a reduction in K-12 funding for the next fiscal year equal to the current year inflation adjustment if K-12 spending surpasses 49% of the total state General Fund appropriations. If K-12 spending surpasses 50%, the state can temporarily suspend the annual inflation adjustment and reduce K-12 funding for the next fiscal year by twice the current year inflation amount. Currently, K-12 spending constitutes approximately 42% of total state General Fund appropriations.

On a related note, the FY 2017 Government Budget Reconciliation Bill (Laws 2016, Chapter 121) requires the State Board of Investment and the State Treasurer to take all actions necessary for the distributions of monies from the State Land Trust Permanent Fund to recipient funds as outlined in the Arizona Constitution and statute. If either the State Board of Investment or the State Treasurer fails to make these distributions, Chapter 121 authorizes the Governor, Speaker of the House or Senate President to file an action with the Supreme Court to obtain a writ of mandamus or other appropriate action to compel them to make the distributions. Chapter 121 also includes language stating that it is the intent of the Legislature that the State Treasurer fully implement Proposition 123 if approved by voters.

Chapter 121 requires the State Board of Investment and the State Treasurer to make land trust distribution on the fifteenth business day of each month. Laws 2016, Chapter 340, however, notwithstanding this requirement for FY 2017 and FY 2018 and requires land trust distributions for those years to instead be made on the last business day of each month. *(Please see the State*

Treasurer and State Land Department sections for more information.)

Twelve state land trust beneficiaries other than public schools also will receive additional land trust funding under Proposition 123 because of the higher (6.9%) land trust distribution percentage. *(Please see the State Land Department budget for more information.)*

The passage of Proposition 123 resolves the Cave Creek litigation and satisfies all outstanding inflation adjustment claims brought forth in that case.

(See the 0.99% Inflation Adjustment and State Aid Supplement policy issues above for more information.)

Endowment Earnings

In FY 2015, endowment earnings from state trust lands funded approximately \$129.2 million of Basic State Aid, School Facilities Board bond debt service and K-12 Classroom Site Fund costs.

Endowment earnings originate from the sale or lease of lands that the federal government deeded to Arizona in the Enabling Act in 1910 in order to provide support for public functions such as education. Approximately 9.2 million of the original 11.0 million acres of state trust lands remain, of which approximately 87% (8.1 million acres) are for the benefit of public schools, with the rest being designated mostly for the benefit of universities and corrections. K-12 education therefore is by far the largest beneficiary of earnings generated from state trust lands.

The State Land Department and State Treasurer both generate endowment earnings from state trust lands. The State Land Department generates endowment earnings primarily by selling or leasing state trust lands and natural products from trust lands. The State Treasurer generates endowment earnings by investing monies received from the State Land Department from the sale of state trust lands and related natural products in stocks, bonds and other income-earning investments.

State trust land earnings are considered either "permanent" or "expendable" depending on whether they are one-time in nature. Only expendable monies are distributed to beneficiaries, as permanent monies are considered to be part of the original endowment and must be reinvested rather than distributed to beneficiaries. Permanent monies include one-time proceeds from the sale of state trust lands and natural products from state trust lands.

Expendable monies include ongoing income that the State Land Department generates from leases, permits and interest from sales contracts and a portion of investment returns generated by the State Treasurer.

The portion of Treasurer land trust earnings that is considered expendable is determined by a formula prescribed in the State Constitution, since the value of invested land trust monies fluctuates daily. Prior to voter approval of Proposition 123 in May 2016, the State Constitution required the State Treasurer to distribute annually to each beneficiary (such as public schools) a flat 2.5% of the average monthly market value of the beneficiary's permanent fund for the immediately preceding 5 calendar years.

The 2.5% factor was enacted into law by Proposition 118 in November 2012 and would have been in effect through calendar year 2021, but has now been superseded through FY 2025 by a new 6.9% factor required by Proposition 123. After FY 2025, Proposition 123 reestablishes the 2.5% factor on a permanent basis. *(Please see the October 2015 Special Session and Proposition 123 section for more information.)*

Prior to both Proposition 118 and Proposition 123 the formula in the State Constitution for computing expendable Treasurer land trust earnings was based on inflation adjusted rates of investment return observed for invested land trust proceeds over the preceding 5 calendar years. Those rates of return fluctuated substantially from year to year depending on market conditions *(see Treasurer's earnings in Table 10)*.

In FY 2015, public schools received \$129.2 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$53.2 million from the Land Department and \$76.0 million from the State Treasurer *(see Table 10)*.

Table 10

**Source of K-12 Endowment Earnings By Fiscal Year
(\$ in Millions)**

Source	2006	2010	2015	2016 est	2017 est ^{1/}
Land Department	67.6	38.1	53.2	43.9	43.9
Treasurer	31.4	0.0	76.0	259.3	270.4
Total	99.0	38.1	129.2	303.2	314.3

^{1/} Assumes no change in trust land lease revenues for FY 2017.

Table 10 shows that K-12 endowment earnings increased from \$99.0 million in FY 2006 to \$129.2 million in FY 2015 after dropping temporarily to \$38.1 million during the Great Recession. Under Proposition 123 they are

estimated to increase to \$303.2 million in FY 2016 and \$314.3 million in FY 2017.

Under the prior 2.5% distribution rate, the State Treasurer distribution of K-12 endowment earnings would have been \$87.2 million for FY 2016 based on land trust market values through calendar year 2014 only (prior 5 calendar years). Under the 6.9% distribution rate established by Proposition 123, the State Treasurer's distribution of K-12 endowment earnings instead was approximately \$259.3 million.

The State Land Department distributed an estimated \$43.9 million in K-12 endowment earnings for FY 2016 based on partial year data. The actual State Land Department distribution of K-12 endowment earnings for FY 2016 will not be known until after the close of the fiscal year.

Of the \$129.2 million in K-12 expendable earnings generated for FY 2015 \$47.3 million was used to help fund Basic State Aid pursuant to A.R.S. § 37-521B3 and \$25.0 million was used to help fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 *(see Table 11)*. The remaining \$56.9 million was deposited into the Classroom Site Fund (A.R.S. § 15-977) pursuant to A.R.S. § 37-521B4. The latter law dedicates to the Classroom Site Fund all growth in K-12 expendable endowment earnings above the FY 2001 level, which was \$72.3 million.

Table 11

**Use of K-12 Endowment Earnings By Fiscal Year
(\$ in Millions)**

Source	2006	2010	2015	2016 ^{1/}	2017 ^{1/}
Basic State Aid	46.9	13.9	47.3	219.4	219.8
SFB Debt Service	25.4	24.2	25.0	24.9	24.9
Classroom Site Fund	26.7	0.0	56.9	58.9	69.6
Total	99.0	38.1	129.2	303.2	314.3

^{1/} Estimated

Basic State Aid Formula Description

Basic State Aid funding is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula "equalizes" formula funding among school districts, enabling them all to spend approximately the same amount of formula money per pupil from state and local sources combined. (Non-formula funding, such as from bonds and overrides, is not equalized.) Districts with a very strong local property tax base are able to generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require "Basic State Aid" monies in order to receive full formula funding.

The equalization formula for school districts consists of 3 components: the Base Support Level (BSL), Transportation Support Level (TSL), and District Additional Assistance (DAA). BSL and DAA funding are computed by multiplying specific dollar amounts in statute by a school district's student count, adjusted for various weights. The TSL instead is computed by multiplying specific dollar amounts per route mile in statute by a district's pupil transportation route miles. The sum of the 3 formula components equals what is referred to as a school district's "equalization base," which is its total funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, its net assessed property value (NAV) is multiplied by the statutory "Qualifying Tax Rate" (QTR) (A.R.S. § 15-971B) in order to determine the portion of its formula funding that is assumed to come from QTR taxes. This amount, plus the district's share of State Equalization Tax Rate (SETR) revenues (A.R.S. § 15-994), if any, are then subtracted from its equalization base. If the district's combined QTR and SETR revenues exceed its equalization base, the district is not entitled to Basic State Aid. If, however, its "local share" funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local property tax rate for schools may be lower than the QTR (such as if the QTR would raise more than the district's formula funding entitlement), or higher if the district is allowed to budget for items outside of its "Revenue Control Limit" (RCL) pursuant to A.R.S. § 15-910.

Basic State Aid is also provided to charter schools, which are schools that do not have geographic boundaries, operate under terms specified in a "charter," and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools does not include DAA or separate transportation funding and instead consists only of BSL and CAA funding. BSL funding for charter schools is determined under the same formula prescribed for traditional public schools in A.R.S. § 15-943. CAA funding amounts are established separately in A.R.S. § 15-185B4 and for FY 2017 (as modified by the FY 2017 K-12 Education BRB) equal \$1,752.10 per pupil for Grades K-8 and \$2,042.04 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

Education Learning and Accountability System

Laws 2011, Chapter 29 authorized development of the Education Learning and Accountability System (ELAS), in order to "collect, compile, maintain and report student

level data for students attending public educational institutions that provide instruction to pupils in preschool programs, kindergarten programs, grades 1 through 12 and postsecondary educational programs in this state" (A.R.S. § 15-249A).

Since FY 2015, ELAS funding has been appropriated to the Arizona Department of Administration Automation Projects Fund (APF) rather than ADE. As a result, ELAS funding no longer appears in the ADE budget. For FY 2017 ADE is receiving \$7,300,000 in General Fund funding through the APF for continued ELAS development.

ADE indicates that other states have expressed interest in the system capabilities developed as part of the ELAS project and believes it may be able to recoup project development expenses and/or provide support for the ongoing operational costs through the sale or lease agreements with other states. Accordingly, Laws 2016, Chapter 317 establishes the Department of Education Intellectual Property Fund and allows ADE to deposit and retain 40% of the profits generated by the sale or lease of software, computer systems, or intellectual property that it develops. The remaining 60% shall be deposited into the General Fund.

Chapter 317 prohibits ADE from using monies in the Intellectual Property Fund for marketing purposes. Monies in the fund, if any, are subject to appropriation. The FY 2017 budget does not appropriate any monies from the fund.

(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)

Proposition 301

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 in order to increase the state Transaction Privilege Tax (TPT) ("sales tax") rate on most purchases from 5% to 5.6% through FY 2021 in order to generate more funding for public education. It also amended A.R.S. § 42-5029 in order to prescribe how the new sales tax revenues would be allocated (*see Table 12*).

As shown in *Table 12*, Proposition 301 revenues are earmarked for the following items:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction.
- Universities (12% of the remainder after SFB debt service).
- Community colleges (3% of the remainder).
- Tribal Colleges (same formula as community colleges).

Table 12

**Proposition 301 Monies
(FY 2015 Actual)
(\$ In Millions)**

<u>Recipient</u>	<u>Amount</u>	<u>Comment</u>
School Facilities Board	\$64.1	For debt service on \$794.7 million of bonds authorized by Proposition 301 for school repairs and updates.
Universities	67.1	Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	16.8	Receive 3% of monies after SFB debt service.
Tribal Colleges	0.8	Same formula as for community colleges.
Income Tax Credit	<u>25.0</u>	For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non-ADE Programs	\$173.8	
Additional School Days	\$86.3	To add 5 days to K-12 school year (180 days total).
School Safety and Character Education	8.0	\$7.8 million for School Safety (A.R.S. § 15-154) and \$0.2 million for Character Education (A.R.S. § 15-154.01).
School Accountability	7.0	For school accountability pursuant to A.R.S. § 15-241 and § 15-1041.
Failing Schools	1.5	To Failing Schools Tutoring Fund (A.R.S. § 15-241CC).
Classroom Site Fund	<u>347.3</u>	Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	\$450.1	
Grand Total	\$623.9	

- Income tax credit for sales tax paid by low income households (to offset the additional 0.6¢ sales tax rate).
- Additional School Days.
- School Safety and Character Education.
- School Accountability.
- Failing Schools.
- Classroom Site Fund (A.R.S. § 15-977).

Proposition 301 dedicates to the Classroom Site Fund all 0.6¢ sales tax monies remaining after all other distributions are made. Its share equaled \$347.3 million (55.7%) of the \$623.9 million collected for FY 2015 (see *Table 12*). The Proposition 301 sales tax expires after FY 2021.

Classroom Site Fund

Proposition 301 amended A.R.S. § 37-521B4 in order to dedicate to the Classroom Site Fund all growth in K-12 expendable land trust earnings above the amount generated by the State Treasurer and State Land Department combined for FY 2001 (the last year before Proposition 301 took effect), which equaled \$72.3 million. In FY 2015, the Classroom Site Fund received approximately \$50.7 million from K-12 endowment earnings, which resulted in total deposits of \$398.0 million (\$347.3 million from the 0.6¢ sales tax + \$50.7 million from endowment earnings = \$398.0 million).

Proposition 123 from the October 2015 Special Session further amends A.R.S. § 37-521B4 in order to dedicate all growth in state land trust revenues from the voter-approved 4.4% increase in the trust distribution percentage (from 2.5% currently to 6.9% through FY 2025)

to Basic State Aid, rather than to the Classroom Site Fund. The latter, however, will continue to receive all growth in the original 2.5% distribution after FY 2001 to the extent that those earnings plus related earnings from the State Land Department exceeded \$72.3 million. (*See October 2015 Special Session and Proposition 123 narrative above for more information.*)

The \$347.3 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2015 does not include approximately \$102.8 million in school-related costs also funded by Proposition 301 for items such as Additional School Days that appear in *Table 12*. Those 2 amounts combined equaled \$450.1 million for FY 2015.

ADE distributed \$295 per pupil from the Classroom Site Fund in FY 2015. Those monies were in addition to funds allocated through the Basic State Aid formula. School districts and charter schools may use Classroom Site Fund monies for any purpose listed in A.R.S. § 15-977H, which includes items such as class size reductions and teacher compensation.

The Classroom Site Fund is expected to distribute \$332 per pupil for FY 2017, which would be \$5 per pupil higher than the \$327 per pupil amount estimated for FY 2016 pursuant to A.R.S. § 15-977G1.

Budget Overrides

Current law permits school districts to exceed statutory budget limits through “budget override” elections. This includes Maintenance and Operation (M&O) overrides (A.R.S. § 15-481E&F), Special Program overrides (A.R.S. §

15-482) and District Additional Assistance overrides (called Capital Overrides prior to FY 2014) (A.R.S. § 15-481L&M).

M&O and Special Program overrides together are capped at 15% of a district’s Revenue Control Limit (RCL). (“RCL” essentially equals a district’s total funding under the Basic State Aid formula minus its District Additional Assistance funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district’s RCL.

M&O and Special Program overrides provide additional funding for school district operating expenses, such as teacher salaries. District Additional Assistance overrides instead must be used for the capital improvements listed in the publicity pamphlet for the override, except that up to 10% of the override proceeds may be used for general capital expenses, including cost overruns of proposed capital improvements, pursuant to A.R.S. § 15-481X.

Overrides are funded with additional local property taxes. All 3 types of overrides may be authorized for up to 7 years. M&O and Special Program overrides are phased down over the last 2 years of authorization unless re-approved by voters.

For FY 2016, 91 districts statewide have M&O overrides pursuant to A.R.S. § 15-481, 5 have “Special Program” overrides pursuant to A.R.S. § 15-482, and 23 have District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2016 include \$401.0 million for M&O overrides, \$1.2 million for Special Program overrides and \$61.0 million for District Additional Assistance overrides. Grand total override funding for FY 2016 therefore equals \$463.2 million, which is \$(5.2) million below the \$468.4 million amount budgeted for all overrides collectively in FY 2015 (see Table 13). (See the School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.)

Table 13

K-12 Budget Overrides
(\$ in Millions)

<u>Type of Override</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>Change</u>
M&O	387.3	401.0	13.7
Special Program	6.9	1.2	(5.7)
Additional Assistance	74.2	61.0	(13.2)
Total	468.4	463.2	(5.2)

A.R.S. § 15-249.04 requires ADE to report by November 30 of each year the amount budgeted for school district budget overrides by district and type of override for the current fiscal year. The data cited in Table 13 are from the related ADE reports for FY 2015 and FY 2016.

Additional Legislation

Clarification of Duties

Laws 2016, Chapter 138 clarifies the duties and powers of the department and Superintendent of Public Instruction (SPI) versus the State Board of Education (SBE). In 2015, the SPI filed suit against the SBE over the authority to hire and dismiss SBE staff. In 2015 also, the SBE filed suit against the SPI seeking remote access to data housed at the department for the SBE’s teacher investigation unit. The unit’s staff, funded by an appropriation to SBE from the Teacher Certification Fund, could access required files in the Online Arizona Certification Information System (OACIS) only through terminals located at the Department of Education building.

The SPI and the SBE have agreed to settle all ongoing litigation between them as a result of provisions enacted in Chapter 138. The legislation clarifies that the SBE shall employ and direct its own staff without the recommendation of the SPI, who shall execute SBE policies and provide information to the SBE related to its statutory powers and duties.

Chapter 138 also requires the SPI, rather than the SBE, to direct the work of all investigations related to immoral or unprofessional conduct and requires the department and the SBE to submit a transition plan by August 1, 2016 to the Executive and Legislature related to the transfer of investigative unit personnel from the SBE to the department.

In conjunction with the clarification and transfer of responsibilities between the 2 entities, Chapter 138 transfers 7 FTE Positions and \$611,000 from the SBE to the department. Of this amount, \$231,200 and 2 FTE Positions are transferred from the SBE’s General Fund appropriation, and \$379,800 and 5 FTE Positions are transferred from its Teacher Certification Fund appropriation.

The SBE’s 4 remaining FTE Positions equal the number of non-investigative staff that were appropriated to the SBE line item in the department’s budget prior to the 2 entities’ separation.

Chapter 138 also requires the Department of Administration, rather than the SPI, to approve travel expenses and reimbursements for SBE board members, increases the statutorily-authorized number of board members by 2 to conform to the Arizona Constitution, and allows SBE to collect fees for the evaluation of certificates, name changes, duplicates or changes of coding to existing files or certificates.

Foster Care Children – Enrollment Preferences

Laws 2016, Chapter 248 allows school districts and charter schools to give enrollment preferences to children in foster care so that those children can have faster access to schools with waiting lists. It also establishes a foster youth education program in the Office of the Governor for the purpose of improving the educational outcomes of children in the Arizona foster care system. *(Please see sections for the Office of the Governor and the Department of Child Safety for more information.)*

Primary Property Tax Rates

Laws 2016, Chapter 364 removes the requirement that school districts adjust their primary property tax rates annually to reflect cash balances carried forward from the prior fiscal year. It also eliminates the current 4% cap on the amount of spending authority that a school district can carry forward each year. As a result, Chapter 364 will allow a school district to spend its cash in whichever fiscal year it chooses, as has historically been the case for charter schools. It does not modify existing statutory budget limits, however, so will not affect the amount of cash that a school district can generate each fiscal year under those budget limits.

Chapter 364 also makes a school district eligible for Supplemental State Aid pursuant to A.R.S. § 15-980 if its county treasurer certifies to a school district after January 1 that in the treasurer's reasonable belief more than 10% (versus 20% under prior law) of its primary property tax revenues will not be remitted due to property tax delinquencies or a decrease in assessed valuation due to a natural disaster such as a fire or flood.

School Property Sales and Leases

Laws 2016, Chapter 242 gives school districts greater flexibility on how they use the proceeds from property sales and leases that occur after June 30, 2016, but with relatively more flexibility being given to "low debt" than "high debt" school districts. It allows both to use sale or lease proceeds not exceeding \$100,000 for any maintenance and operation (M&O) or capital purpose, but does not allow either to use any proceeds above \$100,000 on M&O. Prior law instead allowed both to spend a portion of sale or lease proceeds on M&O expenditures with a lower proportion being allowed for "high debt" districts and with the allowable amount for both being based on a percentage of their Revenue Control Limit (RCL) and with no separate provision being made for the proceeds up to and beyond \$100,000.

Chapter 242 requires "high debt" districts to use at least 38% of sale or lease proceeds that exceed \$100,000 to pay off existing debt and permits them to use the

remainder for capital outlay. Prior law did not require "high debt" districts to use any proceeds to pay off debt.

Public School Tax Credit; CPR Instruction

Laws 2016, Chapter 216 requires public schools to provide their high school pupils with one or more training sessions in cardiopulmonary resuscitation (CPR). It also expands the Public School Tax Credit program authorized by A.R.S. § 43-1089.01 to allow an individual income tax filer to claim a state tax credit for fees paid or contributions made to a public school in support of public school CPR instruction.

Public School Tax Credit; Extracurricular Fees

Laws 2016, Chapter 331 changes the definition of "extracurricular activities" for purposes of the Public School Tax Credit program to mean school-sponsored activities that a school "may require" enrolled students to pay a fee in order to participate. Prior law allowed a tax credit for contributions in support of school-sponsored activities only if students had to pay fee in order to participate in them.

Community College Sponsorship of Charter Schools

Laws 2016, Chapter 331 removes the statutory requirement that a community college or group of community colleges must enroll at least 15,000 full-time equivalent students (FTSE) in order to sponsor a charter school.

Foreign Exchange Students

Laws 2016, Chapter 331 allows a school district or charter school to enroll without charging tuition as many non-resident foreign exchange students as is equal to the number of resident students enrolled in the school district or charter school who are participating in a foreign exchange program.

Concurrent Enrollment

Laws 2016, Chapter 331 allows a school district or charter school to include concurrently enrolled students in their ADM counts if it has received approval from the State Board of Education or its sponsor to offer concurrent enrollment courses, retroactive to July 1, 2010. Concurrent enrollment exists when a high school student enrolls in a community college class at a community college while they are still in high school.

Qualifying courses must meet for at least 40 hours per semester, award academic credit for high school graduation purposes, be taught at a higher level than the course taught at the school district or charter school in Grades 9-12. Participating students also must attend at least one course offered at the school district or charter school.

Chapter 331 includes session law language prohibiting the State Board of Education or the sponsor of a charter school from approving a school district or charter school to offer concurrent enrollment courses for FY 2017, but permits a school district or charter school that already had such approval prior to January 1, 2016 to continue to offer concurrent enrollment courses.

Department of Emergency and Military Affairs

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
PROGRAM BUDGET			
Administration	4,118,500	1,909,200	1,908,000
Emergency Management	3,815,900	7,654,100	7,690,500
Military Affairs	1,663,400	2,286,100	3,021,000
AGENCY TOTAL	9,597,800	11,849,400	12,619,500
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	68.6	69.6	69.6 ^{1/2/}
Personal Services	1,453,300	1,492,000	1,492,000
Employee Related Expenditures	553,600	557,600	546,500
Professional and Outside Services	94,000	20,000	20,000
Travel - In State	83,300	84,900	84,900
Travel - Out of State	25,500	40,300	40,300
Other Operating Expenditures	1,748,500	2,557,600	3,300,300
Equipment	117,000	80,200	80,200
OPERATING SUBTOTAL	4,075,200	4,832,600	5,564,200
SPECIAL LINE ITEMS			
Governor's Emergency Fund	1,592,700	3,700,000	4,000,000 ^{3/}
Emergency Management Assistance Compact Revolving Fund Deposit	0	300,000	0
Emergency Management Matching Funds	0	1,540,900	1,540,900
Nuclear Emergency Management Fund	1,373,600	1,385,900	1,424,400 ^{4/5/}
Military Airport Planning	2,556,300	90,000	90,000 ^{6/}
AGENCY TOTAL	9,597,800	11,849,400	12,619,500 ^{7/8/}
FUND SOURCES			
General Fund	9,469,300	11,849,400	12,619,500
<u>Other Appropriated Funds</u>			
Emergency Response Fund	128,500	0	0
SUBTOTAL - Other Appropriated Funds	128,500	0	0
SUBTOTAL - Appropriated Funds	9,597,800	11,849,400	12,619,500
<u>Other Non-Appropriated Funds</u>			
Other Non-Appropriated Funds	226,100	110,000	110,000
Federal Funds	58,684,700	68,381,800	52,436,300
TOTAL - ALL SOURCES	68,508,600	80,341,200	65,165,800

1/ Includes 5.5 FTE Positions in FY 2017 appropriated by Laws 2015, Chapter 132 and 1 FTE Position appropriated by A.R.S. § 26-263.

2/ Includes 6.5 GF FTE Positions funded from Special Line Items in FY 2017.

3/ Includes expenditures authorized by A.R.S. § 35-192, which states that up to \$4,000,000 may be spent on disaster prevention and mitigation. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

4/ Laws 2015, Chapter 132 appropriated \$1,385,913 and 5.5 FTE Positions in FY 2016 and \$1,424,377 and 5.5 FTE Positions in FY 2017 for the Nuclear Emergency Management Fund.

5/ Pursuant to A.R.S. § 26-306.02, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriation; any unexpended monies, however, shall be used to reduce the assessment and appropriation in future years.

6/ A.R.S. § 26-263 annually appropriates \$90,000 and 1 FTE Position from the General Fund for the administration of the Military Installation Fund. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

7/ The Department of Emergency and Military Affairs appropriation includes \$1,700,000 for service contracts. This amount is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2017 monies remaining unexpended and unencumbered on December 31, 2017 revert to the state General Fund. (General Appropriation Act footnote)

8/ General Appropriation Act funds are appropriated as a Lump Sum by Program with Special Line Items by Agency.

AGENCY DESCRIPTION — The department's Emergency Management Program prepares and coordinates emergency response plans for the state. The Military Affairs Program operates the Arizona National Guard and the Military Installation Fund Program.

Operating Budget

The budget includes \$5,564,200 and 63.1 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

State Match Increase

The budget includes an increase of \$738,300 from the General Fund in FY 2017 for a state match appropriation. In addition, the budget included \$746,700 from the General Fund for a FY 2016 supplemental. As a result, total state match funding in FY 2017 increased by \$1,485,000 above the original FY 2016 appropriation of \$215,000. These monies provide the state's share of cooperative agreements with the federal government for maintenance of National Guard facilities. The state share of these maintenance costs is between 25% and 50%. *(Please see the Other Issues section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(6,700) from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Governor's Emergency Fund

The budget includes \$4,000,000 from the General Fund in FY 2017 for the Governor's Emergency Fund. This amount funds the following adjustments:

Authorization Increase

The budget includes an increase of \$300,000 from the General Fund in FY 2017 for an increase in the Governor's Emergency Fund authorization. The FY 2017 Government Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 121) created the Emergency Management Assistance Compact (EMAC) Revolving Fund with a one-time \$300,000 General Fund deposit in FY 2016. In order to have no net impact on the General Fund, the Governor's Emergency Fund authorization was reduced by a commensurate \$(300,000) in FY 2016. Since this reduction was one-time in nature, the budget increased the FY 2017 authorization to the \$4,000,000 statutory level. *(Please see the EMAC Revolving Fund line item for more information.)*

Under A.R.S. § 35-192, the Governor may, through emergency declarations, authorize up to \$4,000,000 annually from the General Fund for disaster prevention and mitigation without specific appropriation authority.

Monies in this line item, therefore, are not included in the General Appropriation Act.

Emergency Management Assistance Compact Revolving Fund Deposit

The budget includes no funding in FY 2017 for the EMAC Revolving Fund deposit. This amount funds the following adjustments:

Elimination of One-Time Funding

The budget includes a decrease of \$(300,000) from the General Fund in FY 2017 for the elimination of a one-time deposit into the EMAC Revolving Fund.

The FY 2017 Government BRB created the EMAC Revolving Fund with a one-time FY 2016 General Fund deposit of \$300,000, matched by a commensurate decrease in the FY 2016 General Fund Governor's Emergency Fund authorization.

Monies in the fund will provide funding for DEMA's emergency assistance efforts in other states, thus allowing DEMA to avoid having to reallocate other operating monies to this purpose. Per the EMAC, the state receiving assistance will reimburse DEMA for the costs the department incurs while providing assistance in the state. These monies will be deposited into the EMAC Revolving Fund to backfill any expenditures from the fund. *(Please see the Governor's Emergency Fund line item for more information.)*

Emergency Management Matching Funds

The budget includes \$1,540,900 from the General Fund in FY 2017 for matching funds. This amount is unchanged from FY 2016.

Monies in this line item provide funding for the required 1:1 match for the Federal Emergency Management Performance Grant (EMPG) not covered with existing DEMA resources. EMPG monies are allocated to DEMA who then either expends them or passes monies on to other state, county, and municipal agencies to help provide planning, training, and other preparation for natural hazards and emergencies. In FY 2016, DEMA received \$7,004,500 in EMPG funds.

DEMA utilized the \$1,540,900 General Fund appropriation from this line item, \$633,200 in General Fund monies

from the Nuclear Emergency Management Fund line item, \$727,300 in General Fund monies from the operating budget, and \$600,000 in in-kind assistance that was provided to the Radiation Regulatory Agency and the Department of Agriculture or a total of \$3,501,400, as a match towards their share of the EMPG. As a result, DEMA will retain \$3,501,400 in EMPG monies for DEMA-specific expenditures.

The remaining \$3,503,100 in federal EMPG monies were awarded to counties, tribes, and municipalities for their emergency preparedness programs. These funds required a match from local fund sources prior to expenditure.

Nuclear Emergency Management Fund

The budget includes \$1,424,377 and 5.5 FTE Positions from the General Fund in FY 2017 for the Nuclear Emergency Management Fund (NEMF). These amounts fund the following adjustments:

NEMF Increase

The budget includes an increase of \$38,500 from the General Fund in FY 2017 for the NEMF Special Line Item.

Laws 2015, Chapter 132 appropriated \$1,385,913 and 5.5 FTE Positions from the General Fund in FY 2016 for the NEMF Special Line Item and \$1,424,377 and 5.5 FTE Positions in FY 2017. As a result, these monies do not appear in the FY 2017 General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Department of Agriculture receive monies from this bill. *(Please see the Department of Agriculture and Radiation Regulatory Agency narratives for more information.)*

The Legislature is required to biennially assess a fee against each group of public service and municipal corporations operating the Palo Verde Nuclear Generating Station. The fee is set at a level to offset the General Fund appropriation to the NEMF.

Monies in the NEMF are used for the development and maintenance of a state plan for off-site responses to an emergency caused by an accident at a commercial nuclear generating station. NEMF monies are also used to provide for the equipment, personnel, facilities, training, and testing necessary to comply with federally prescribed criteria.

Monies appropriated to the NEMF are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that monies left unexpended or unencumbered at the end of the fiscal year shall be used to offset the next year's assessment and appropriation.

Military Airport Planning

The budget includes \$90,000 and 1 FTE Position from the General Fund in FY 2017 for Military Airport Planning. These amounts are unchanged from FY 2016.

Prior to receiving a one-time deposit of \$2,500,000 in FY 2015, the Military Installation Fund had received no General Fund appropriation since FY 2011. The FY 2012 General Government BRB eliminated the annual \$4,825,000 General Fund deposit into the Military Installation Fund in statute. A.R.S. § 26-263 retained the annual \$90,000 and 1 FTE Position administrative appropriation to the department and an annual \$85,000 appropriation to the Attorney General. Since these monies are appropriated in statute, they do not appear in the General Appropriation Act.

As of May 17, 2016, the Military Installation Fund had an estimated FY 2016 year-end fund balance of \$3,363,400. If DEMA's total expenditure plan is eventually favorably reviewed, it will result in the expenditure of most of remaining monies in the fund.

At the June 16, 2016 meeting of the Joint Committee on Capital Review, DEMA received a favorable review for \$1,442,400 of their \$2,817,400 proposed expenditure plan from the Military Installation Fund to purchase lands near Luke Air Force Base Auxiliary Air Field and Gila Bend Auxiliary Air Field. The Committee requested further information for review at a future meeting on the remaining \$1,375,000 that the expenditure plan allocated to a 9-acre land purchase near Davis-Monthan Air Force Base and a 300-acre land easement near Fort Huachuca. In addition to the \$2,817,400 proposed plan, DEMA is also allocating \$500,000 to Pima County and Flagstaff for military preservation projects which were not included in the proposed expenditure plan.

Of the monies deposited into the Military Installation Fund, DEMA is required to award 80% to acquire private property, real estate, property rights, and related infrastructure. The remaining 20% is awarded to cities, towns, and counties. The purchasing entity — whether it is the state or a local government — owns the property and state properties are managed by DEMA. Currently, DEMA only awards funding for preservation and enhancement projects, and not land acquisition, to local governments.

Other Issues

FY 2016 Supplemental

The budget includes a supplemental appropriation of \$746,700 from the General Fund in FY 2016 to provide an increased state match appropriation. *(Please see the Operating Budget section for more information.)*

National Guard State Match

The state provides funding to DEMA that serves as a match to federal grants for the operational and maintenance costs associated with National Guard facilities. The grants have a matching requirement of between 5% and 50%. In FY 2015, DEMA received \$4,257,300 that required an average match of 23.8% match, or \$1,328,800. To meet this matching requirement in FY 2015, DEMA utilized \$686,500 of their \$1,215,000 General Fund state match appropriation which is included in the Military Affairs appropriation, \$426,600 in additional General Fund monies from the Military Affairs appropriation, and \$215,700 from the General Fund Administration appropriation.

The FY 2016 budget included an Executive proposal to shift \$1,000,000 of the \$1,215,000 state match from the General Fund to the non-appropriated Camp Navajo Fund for DEMA's National Guard state match appropriation. Camp Navajo Fund revenues are derived from fees that DEMA assesses on federal and federally-sponsored entities that store munitions and supplies at the Camp Navajo National Guard installation. In FY 2016, entities that stored materials at Camp Navajo included the U.S. Air Force, U.S. Navy, Royal Air Force (United Kingdom), Singapore Peace Vanguard, and other Department of Defense sponsored entities.

Subsequent to the passing of the budget, DEMA reported that Camp Navajo Fund monies were not an allowable source of matching monies due to the revenues deposited into the fund being federal monies. As a result, the direct General Fund appropriation of \$215,000 was not sufficient to meet all of DEMA's state match need.

DEMA estimated that their FY 2016 match need was \$1,720,000. DEMA utilized \$528,300 from their FY 2015 state match appropriation in addition to the \$215,000 FY 2016 state match appropriation and \$230,000 in one-time

vacancy savings from the Military Affairs appropriation for total available resources of \$973,300. As a result of the inability of DEMA to utilize Camp Navajo Fund monies as a match and having only \$973,300 to provide as a match, the budget provided a FY 2016 supplemental of \$746,700 in General Fund monies to meet the full FY 2016 state match need of \$1,720,000.

DEMA estimated a FY 2017 need of \$1,700,000 for their state match appropriation. To meet that amount, DEMA will use \$746,700 in the FY 2016 base from the supplemental base appropriation plus an added \$738,300 in new FY 2017 monies for a total of \$1,485,000. When combined with the \$215,000 in the original base, DEMA will have a total of \$1,700,000 for state match purposes in FY 2017.

Department of Environmental Quality

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	322.0	322.0	322.0
Personal Services	13,139,900	16,917,000	16,917,000
Employee Related Expenditures	5,358,800	7,148,100	7,046,800
Professional and Outside Services	1,242,400	6,368,100	6,368,100
Travel - In State	399,400	635,700	635,700
Travel - Out of State	27,800	131,500	131,500
Other Operating Expenditures	11,170,200	15,050,100	15,088,000
Equipment	77,300	103,300	103,300
OPERATING SUBTOTAL	31,415,800	46,353,800	46,290,400
SPECIAL LINE ITEMS			
Emissions Control Contractor Payment	21,707,700	21,119,500	21,119,500
Safe Drinking Water Program	1,367,700	1,800,000	1,800,000 ^{1/}
WQARF Priority Site Remediation	7,000,000	7,000,000	9,948,600 ^{2/3/4/}
AGENCY TOTAL	61,491,200	76,273,300	79,158,500 ^{5/}
FUND SOURCES			
General Fund	7,000,000	7,000,000	2,823,600
<u>Other Appropriated Funds</u>			
Air Quality Fund	2,795,100	5,369,300	8,236,400
Emergency Response Fund	0	132,800	132,800
Emissions Inspection Fund	25,896,500	28,381,700	32,620,500
Hazardous Waste Management Fund	1,000,900	1,738,800	1,734,600
Indirect Cost Recovery Fund	12,772,000	13,373,700	13,375,200 ^{6/}
Permit Administration Fund	4,848,700	7,129,700	7,114,100 ^{7/}
Recycling Fund	787,800	1,356,300	1,352,900
Solid Waste Fee Fund	591,800	1,241,000	1,239,000
Underground Storage Tank Revolving Fund	0	22,000	22,000
Water Quality Fee Fund	5,798,400	10,528,000	10,507,400
SUBTOTAL - Other Appropriated Funds	54,491,200	69,273,300	76,334,900
SUBTOTAL - Appropriated Funds	61,491,200	76,273,300	79,158,500
Other Non-Appropriated Funds	30,031,400	38,037,000	60,037,000
Federal Funds	13,984,100	17,451,700	17,451,700
TOTAL - ALL SOURCES	105,506,700	131,762,000	156,647,200

- ^{1/} Before the expenditure of any monies from the Safe Drinking Water Program line item, the Department of Environmental Quality shall submit an expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- ^{2/} A.R.S. § 49-282 requires an annual \$15,000,000 transfer from the Corporate Income Tax to the Water Quality Assurance Revolving Fund. Although the transfer is not included in the annual General Appropriation Act, it would be shown here as a General Fund expenditure. Laws 2016, Chapter 120 reduced this transfer to \$2,823,600 in FY 2017, but utilizes balances of \$2,875,000 from the Air Quality Fund and \$4,250,000 from the Emissions Inspection Fund to increase total WQARF funding to \$9,948,600.
- ^{3/} The Department of Environmental Quality shall report annually on the progress of WQARF activities, including emergency response, priority site remediation, cost recovery activity, revenue and expenditure activity and other WQARF-funded program activity. The department shall submit the FY 2017 report to the Joint Legislative Budget Committee on or before September 1, 2016. This report shall also include a budget for the WQARF program that is developed in consultation with the WQARF Advisory Board. This budget shall specify the monies budgeted for each listed site during FY 2017. In addition, the department and the advisory board shall prepare and submit to the Joint Legislative Budget Committee, on or before October 1, 2016, a report in a table format summarizing the current progress on remediation of each listed site on the WQARF registry. The table shall include the stage of remediation for each site at the end of FY 2016, indicate whether the current stage of remediation is anticipated to be completed in FY 2017 and indicate the anticipated stage of remediation at each listed site at the end of FY 2017, assuming FY 2017 funding levels. The department and advisory board may include other relevant information about the listed sites in the table. (General Appropriation Act footnote)
- ^{4/} Pursuant to A.R.S. § 49-282, the Department of Environmental Quality shall submit a FY 2018 budget for the Water Quality Assurance Revolving Fund before September 1, 2016, for review by the Senate and House of Representatives Appropriations Committees. (General Appropriation Act footnote)

AGENCY DESCRIPTION — The Department of Environmental Quality (ADEQ) enforces air, water, and land quality standards. The department’s Office of Air Quality issues permits to regulate industrial air pollution sources, regulates vehicle emissions, monitors and assesses the ambient air, and develops air quality improvement strategies. The Office of Waste Programs implements programs to minimize waste generation, identifies and corrects improper waste management practices, and oversees the clean up (remediation) of hazardous waste sites. The Office of Water Quality regulates drinking water and waste water systems, monitors and assesses waters of the state, and provides hydrologic analysis to support hazardous site remediation.

Operating Budget

The budget includes \$46,290,400 and 322 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
Air Quality Fund	\$5,361,400
Emergency Response Commission	132,800
Emissions Inspection Fund	5,451,000
Hazardous Waste Management Fund	1,734,600
Indirect Cost Recovery Fund	13,375,200
Permit Administration Fund	7,114,100
Recycling Fund	1,352,900
Solid Waste Fee Fund	1,239,000
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,507,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(63,400) in FY 2017 for statewide adjustments. This amount consists of:

Air Quality Fund	(7,900)
Emissions Inspection Fund	(11,200)
Hazardous Waste Management Fund	(4,200)
Indirect Cost Recovery Fund	1,500
Permit Administration Fund	(15,600)
Recycling Fund	(3,400)
Solid Waste Fee Fund	(2,000)
Water Quality Fee Fund	(20,600)

(Please see the Agency Detail and Allocations section.)

The FY 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) continues to allow the department to utilize up to \$6,531,000 from the

Underground Storage Tank Revolving Fund in FY 2017 for department administrative expenses.

Emissions Control Contractor Payment

The budget includes \$21,119,500 from the Emissions Inspection Fund in FY 2017 for the Emissions Control Contractor Payment. This amount is unchanged from FY 2016.

Monies appropriated to this line item are used to pay the Emissions Control Program contractor. Under the contract, the contractor remits the entire amount of the fee to ADEQ for deposit in the Emissions Inspection Fund. ADEQ then determines the amount due to the contractor, based on the number of vehicles inspected, and makes payments to the contractor on a regular basis.

The Emissions Control Program is operated by an independent contractor in the Phoenix Metropolitan Area and the Tucson Metropolitan Area with the purpose of identifying and repairing polluting motor vehicles. The program is funded through test fees that are charged to motorists at the time of inspection. Statute does not specify a fee level. The Director of ADEQ has the statutory authority to specify the fees required to pay for the full cost of the Vehicle Emissions Inspection Program. The FY 2017 Environment BRB reduces emissions inspection fees by \$3.00 in Area A, which refers to the Phoenix Metropolitan Area and includes Maricopa County as well as portions of Pinal and Yavapai Counties. *(Please see Other Issues for more information.)*

Safe Drinking Water Program

The budget includes \$1,800,000 from the Emissions Inspection Fund in FY 2017 for the Safe Drinking Water Program. This amount is unchanged from FY 2016.

- 5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 6/ All Indirect Cost Recovery Fund monies received by the Department of Environmental Quality in excess of \$13,375,200 in FY 2017 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund monies in excess of \$13,375,200 in FY 2017, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations).
- 7/ All Permit Administration monies received by the Department of Environmental Quality in excess of \$7,114,100 in FY 2017 are appropriated to the department. Before the expenditure of Permit Administration monies in excess of \$7,114,100 in FY 2017, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations).

The FY 2017 Environment BRB continues to allow the department to use up to \$1,800,000 from the Emissions Inspection Fund for the Safe Drinking Water Program. Before any monies in the line item were expended in FY 2016, the department was required to submit an expenditure plan to the Joint Legislative Budget Committee (JLBC) for its review. The JLBC favorably reviewed the FY 2016 Safe Drinking Water Expenditure Plan at its September 2015 meeting. ADEQ's expenditures for the Safe Drinking Water Program appear in *Table 1*.

<u>Position or Function</u>	<u>Actual FY 2015</u>	<u>Estimated FY 2016</u>
Direct Personnel	\$ 999,800	\$1,121,700
Indirect Cost Fund	336,600	501,900
Contracting	0	50,000
Travel	18,000	48,400
Other	13,300	78,000
Total	\$1,367,700	\$1,800,000

WQARF Priority Site Remediation

The budget includes \$9,948,600 in FY 2017 for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount consists of:

General Fund	2,823,600
Air Quality Fund	2,875,000
Emissions Inspection Fund	4,250,000

These amounts fund the following adjustments:

WQARF Fund Shift

The budget includes an increase of \$2,948,600 in FY 2017 for WQARF Priority Site Remediation. This amount consists of:

General Fund	(4,176,400)
Air Quality Fund	2,875,000
Emissions Inspection Fund	4,250,000

WQARF is funded in part from an annual \$15,000,000 transfer from the Corporate Income Tax (CIT), as stipulated in A.R.S. § 49-282. Funding for this program, therefore, does not appear in the General Appropriation Act. In addition, WQARF generates other revenue from various license and registration fees. A.R.S. § 49-282 directs the State Treasurer to adjust the \$15,000,000 CIT transfer so that, when combined with the WQARF fee-generated revenue, the program receives \$18,000,000 annually.

The FY 2017 Environment BRB continues to notwithstanding these statutory provisions. *Table 2* describes program activity for FY 2015 and FY 2016. In FY 2015 and FY 2016, the General Fund allocation was reduced from the statutory amount to \$7,000,000. The budget further reduces this General Fund allocation to \$2,823,600 in FY 2017 but utilizes balances of \$2,875,000 from the Air Quality Fund and \$4,250,000 from the Emissions Inspection Fund to increase total WQARF funding to \$9,948,600.

The WQARF program is similar to the federal Superfund program in that it is designed to monitor and remediate contaminated groundwater at specified sites. Program expenditures include searching for responsible polluters, conducting risk assessments and remediation feasibility studies, and contracting for remediation services.

	<u>Actual FY 2015</u>	<u>Estimated FY 2016</u>
Balance Forward	\$ 5,629,600	\$ 5,682,100
General Fund	7,000,000	7,000,000
Other Revenue	<u>4,462,900</u>	<u>4,235,700</u>
Total Funds Available	\$17,092,500	\$16,917,800
General Fund Expenditures	\$ 7,000,000	\$ 7,000,000
Other Funds Expended	4,110,400	8,405,900
<u>Funds Transferred</u>		
Dept. of Water Resources	\$ <u>(300,000)</u>	\$ <u>(130,000)</u>
Year-End Fund Balance	\$ 5,682,100	\$ 1,381,900

Other Issues

Vehicle Emissions Inspection Fees

The FY 2013 Environment BRB (Laws 2012, Chapter 303) required the State Agency Fee Commission to recommend reductions to Vehicle Emissions Inspection (VEI) fees by December 31, 2012, along with any proposed changes to the statutory use of monies from the Emissions Inspection Fund. The Fee Commission recommended that the current fee structure remain unchanged and that the Legislature set a statutory cap of 140% of Emissions Control Contractor Payment. A statutory fee cap has not been implemented.

In response to the report, ADEQ decreased the primary VEI fee in Maricopa County by 27% on July 1, 2014. The fee for Phoenix Metropolitan area residents who have 1981 and newer cars and light duty trucks (onboard diagnostic test) was reduced from \$27.25 to \$20.00.

Despite this fee reduction, VEI fees continued to generate a structural surplus. As shown in *Table 3*, ADEQ estimated the VEI Program generated more in fees than administration of the program in FY 2015 and FY 2016.

	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
Revenues			
Balance Forward	\$20,016,500	\$17,318,000	\$14,217,000
Fees	<u>30,359,300</u>	<u>30,280,700</u>	<u>26,585,500</u>
Total Revenues	\$50,375,800	\$47,598,700	\$40,802,500
Expenditures			
Inspections	24,890,000	26,581,700	25,731,300
SDWP	1,367,700	1,800,000	1,800,000
APF	6,800,000	5,000,000	0
WQARF	0	0	4,250,000
Total Expenditures	\$33,057,700	\$33,381,700	\$31,781,300
Total Balance	\$17,318,100	\$14,217,000	\$9,021,200

In recent years, the resulting balances have been utilized for other programs. Between FY 2014 and FY 2016, \$16.8 million in excess revenues (\$5.0 million in FY 2014, \$6.8 million in FY 2015, and \$5.0 million in FY 2016) have been transferred to the Arizona Department of Administration (ADOA) to fund a new ADEQ e-licensing system through the Automation Projects Fund (APF). The budget does not include FY 2017 transfers for this purpose. In FY 2017, ADEQ plans to use carry-over balances in the APF for the e-licensing project. *(Please see the ADOA - Automation Projects Fund section for more information.)* Since FY 2013, the appropriations from the Emissions Inspection Fund for the Safe Drinking Water Program (SDWP) have totaled \$7.2 million.

The Auditor General's October 2015 Performance Audit and Sunset Review of ADEQ's VEI Program recommended that ADEQ restructure testing fees to more closely reflect the true cost of administering the tests. They also noted that fees are inconsistent across testing locations. Fees charged in the Phoenix area are often higher than comparable fees in the Tucson area:

- Vehicle owners in the Phoenix area paid \$20.00 for the onboard diagnostic test, while those in the Tucson area pay \$12.25 for the same test. Regardless of location, ADEQ pays its contractor \$13.85 for each diagnostic test. As a result, ADEQ ran a \$6.15 surplus in the Phoenix area and a \$(1.60) deficit in the Tucson area per test.
- Owners of heavy-duty diesel trucks in the Phoenix area paid \$28.00 for each test, while those in the Tucson area pay \$12.25 for each test. Regardless of

location, ADEQ pays its contractor \$23.50 for each heavy-duty diesel test. As a result, ADEQ ran a \$4.50 surplus in the Phoenix area and an \$(11.25) deficit in the Tucson area per test.

The FY 2017 Environment BRB reduces emissions inspection fees by \$3.00 in Area A, which refers to the Phoenix Metropolitan Area and includes Maricopa County as well as portions of Pinal and Yavapai Counties. This does not affect Area B, which refers to the Tucson Metropolitan Area. Area A's onboard diagnostic test fee is reduced from \$20.00 to \$17.00, its steady state and idle test fee is reduced from \$19.00 to \$16.00, and its heavy-duty diesel test fee is reduced from \$28.00 to \$25.00. This is estimated to reduce fees on over 1.2 million tests conducted annually and reduce Emissions Inspection Fund revenues by approximately \$3.7 million annually. *Table 3* shows the estimated revenues and expenditures of the Emissions Inspection Fund in FY 2017 after fee reductions and the additional utilization of the fund for WQARF Priority Site Remediation.

Additional Legislation

Underground Storage Tank Statutory Changes

The FY 2017 Environment BRB revises FY 2015 Underground Storage Tank statutory changes to allow the Underground Storage Tank Revolving Fund to continue to retain its interest earnings rather than deposit them into the General Fund.

Operator Certification Fees

Laws 2016, Chapter 192 requires fees collected for wastewater and drinking water operator certification to be deposited in the Water Quality Fee Fund instead of the General Fund. DEQ estimates that there are 6,500 certified operators holding 13,500 certificates. DEQ estimates that annual revenues for operator certification fees will be approximately \$357,000 to \$502,000 annually.

Transfer to Hazardous Waste Management Fund

Laws 2016, Chapter 352 eliminates the requirement for assayers and drug laboratory site remediation firms to be professionally registered with the Board of Technical Registration. Chapter 352 also transfers all unexpended and unencumbered monies attributable to drug laboratory site remediation firm registration fees from the Technical Registration Fund to the Hazardous Waste Management Fund. Revenue from fees relating to drug laboratory site remediation firm registration totaled \$93,500 in FY 2015.

Oil and Gas Commission Transfer

The FY 2017 Agency Consolidation BRB (Laws 2016, Chapter 128) transfers the Oil and Gas Conservation Commission (Commission), which was administered by the Geological Survey, to ADEQ. All unexpended and unencumbered monies appropriated to support the commission are transferred to the Permit Administration Fund established by A.R.S. § 49-455. The Permit Administration Fund will now receive fees and interest of less than \$1,000 annually collected pursuant to A.R.S. § 27-515.

Governor's Office of Equal Opportunity

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	125,400	125,500	125,500
Employee Related Expenditures	50,900	50,900	50,900
Professional and Outside Services	5,000	5,000	5,000
Travel - In State	0	1,200	1,200
Other Operating Expenditures	4,600	4,400	4,500
Equipment	2,400	2,000	2,000
AGENCY TOTAL	188,300	189,000	189,100^{1/}
FUND SOURCES			
General Fund	188,300	189,000	189,100
SUBTOTAL - Appropriated Funds	188,300	189,000	189,100
Federal Funds	200	0	0
TOTAL - ALL SOURCES	188,500	189,000	189,100

AGENCY DESCRIPTION — The agency monitors equal opportunity plans submitted annually by each state agency and assists agencies in equal employment opportunity training and evaluation.

Operating Budget

The budget includes \$189,100 and 4 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$100 from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Equalization

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	7.0	7.0	7.0
Personal Services	275,200	361,400	361,400
Employee Related Expenditures	66,500	80,000	80,000
Professional and Outside Services	21,100	30,000	30,000
Travel - In State	14,000	21,000	21,000
Travel - Out of State	0	6,000	6,000
Other Operating Expenditures	124,400	144,400	144,600
AGENCY TOTAL	501,200	642,800	643,000^{1/}
FUND SOURCES			
General Fund	501,200	642,800	643,000
SUBTOTAL - Appropriated Funds	501,200	642,800	643,000
TOTAL - ALL SOURCES	501,200	642,800	643,000

AGENCY DESCRIPTION — The State Board of Equalization consists of 33 members. The board hears property tax appeals for Maricopa and Pima Counties. Property tax appeals in other counties continue to be heard by the respective County Boards of Equalization. Of the 33 members, the 13 gubernatorial appointments also hear appeals of centrally-valued properties and equalization orders by the Department of Revenue.

Operating Budget

The budget includes \$643,000 and 7 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Board of Executive Clemency

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	430,300	518,600	518,600
Employee Related Expenditures	186,200	186,200	182,600
Professional and Outside Services	40,400	40,800	41,000
Travel - In State	100	1,000	1,000
Other Operating Expenditures	174,700	170,000	170,000
Equipment	58,100	39,400	39,400
AGENCY TOTAL	889,800	956,000	952,600^{1/2/}
FUND SOURCES			
General Fund	889,800	956,000	952,600
SUBTOTAL - Appropriated Funds	889,800	956,000	952,600
Federal Funds	21,000	41,200	41,200
TOTAL - ALL SOURCES	910,800	997,200	993,800

AGENCY DESCRIPTION — The board consists of 1 full-time chairman and 4 full-time members. The board conducts home arrest, parole, or work furlough release hearings at all adult prison institutions for prisoners convicted prior to January 1, 1994. The board considers executive clemency actions such as pardons, commutations, and absolute discharges for all prisoners convicted on or after January 1, 1994.

Operating Budget

The budget includes \$952,600 and 14 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(3,400) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Caseload Data

A footnote in the FY 2016 General Appropriation Act required the board to report on FY 2015 caseload by November 1, 2015. In FY 2015, the board heard 2,988 cases, as described below:

- **Phases 1 and 2 Commutation (222):** After reviewing an inmate's request to have their sentence commuted, the board can decide to deny the request

or allow the request to move to a Phase 2 Commutation hearing.

- **Pardon (21):** The board may recommend that the Governor pardon an offender.
- **Absolute Discharge (7):** The board can discharge a person from imprisonment or parole supervision prior to the sentence expiration date or prior to the expiration of parole.
- **Modification (0):** The board can recommend to the Governor that an inmate's sentence be modified or commuted.
- **Reprieve (1):** The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate's punishment.
- **Parole (390):** These hearings only apply to offenders sentenced prior to 1994. The board may place these offenders on parole or deny their application for parole and return them to the Department of Corrections.
- **Violator (2,347):** These hearings are conducted when an offender has violated the terms of community supervision.

^{1/} The Board of Executive Clemency shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before November 1, 2016 on the total number and types of cases the board reviewed in FY 2016. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Additional Legislation

Board Salaries

Board members currently work 40 hours a week to prepare for and conduct hearings. They receive all state employee benefits except for paid leave, and contribute to the Arizona State Retirement System. Laws 2016, Chapter 143 shifts the board members from hourly compensation to full-time employment with full state employee benefits, which includes paid leave. The fiscal impact is expected to be minimal.

Arizona Exposition and State Fair Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.0	184.0	184.0
Personal Services	3,461,500	3,591,800	3,591,800
Employee Related Expenditures	981,800	988,800	983,100
Professional and Outside Services	3,850,600	3,851,000	3,851,000
Travel - In State	900	5,000	5,000
Travel - Out of State	6,200	7,000	7,000
Other Operating Expenditures	3,061,600	3,172,500	3,175,400
Equipment	143,100	0	0
AGENCY TOTAL	11,505,700	11,616,100	11,613,300^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Exposition and State Fair Fund	11,505,700	11,616,100	11,613,300
SUBTOTAL - Other Appropriated Funds	11,505,700	11,616,100	11,613,300
SUBTOTAL - Appropriated Funds	11,505,700	11,616,100	11,613,300
TOTAL - ALL SOURCES	11,505,700	11,616,100	11,613,300

AGENCY DESCRIPTION — The Arizona Exposition and State Fair Board is custodian of the 96-acre State Fairgrounds and Memorial Coliseum properties. The board directs and conducts the annual Arizona State Fair and leases the coliseum and fairgrounds facilities for special events, including the annual Arizona National Livestock Show.

Operating Budget

The budget includes \$11,613,300 and 184 FTE Positions from the Arizona Exposition and State Fair Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,800) from the Arizona Exposition and State Fair Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Financial Institutions

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	60.1	69.1	69.1 ^{1/}
Personal Services	2,486,800	2,607,200	2,599,200
Employee Related Expenditures	1,019,700	1,103,200	1,075,900
Professional and Outside Services	123,800	110,400	110,400
Travel - In State	4,500	4,000	4,000
Travel - Out of State	6,300	3,000	3,000
Other Operating Expenditures	452,800	517,900	518,700
Equipment	44,800	120,000	120,000
OPERATING SUBTOTAL	4,138,700	4,465,700	4,431,200
SPECIAL LINE ITEMS			
Real Estate Appraisal	0	821,400	815,100 ^{2/}
AGENCY TOTAL	4,138,700	5,287,100	5,246,300 ^{3/4/}
FUND SOURCES			
General Fund	3,004,600	3,008,000	2,978,200
<u>Other Appropriated Funds</u>			
Board of Appraisal Fund	0	821,400	815,100
Financial Services Fund	1,134,100	1,457,700	1,453,000
SUBTOTAL - Other Appropriated Funds	1,134,100	2,279,100	2,268,100
SUBTOTAL - Appropriated Funds	4,138,700	5,287,100	5,246,300
Other Non-Appropriated Funds	1,214,700	1,806,400	927,000
TOTAL - ALL SOURCES	5,353,400	7,093,500	6,173,300

AGENCY DESCRIPTION — The department regulates state-chartered financial entities. The regulated entities include money transmitters, motor vehicle dealers, holding companies, trust companies, sales finance companies, collection agencies, escrow agents, debt management companies, consumer lenders, mortgage bankers, mortgage brokers, premium finance companies, credit unions and banks. Beginning in FY 2016, the department also regulates real estate appraisal entities which were previously overseen by the State Board of Appraisal.

Operating Budget

The budget includes \$4,431,200 and 60.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$2,978,200
Financial Services Fund	1,453,000

These amounts fund the following adjustments:

- 1/ Includes 9 OF FTE Positions funded from Special Line Items in FY 2017.
- 2/ Of the amount appropriated from the state General Fund, the sum of \$815,100 reverts to the state General Fund and the sum of \$815,100 is appropriated from the Board of Appraisal Fund established by A.R.S. § 32-3608 if the Board of Appraisal Fund is not repealed in the Fifty-Second Legislature, Second Regular Session. (General Appropriation Act footnote, as adjusted for statewide allocations) The Board of Appraisal Fund was not repealed in the 52nd Legislature, 2nd Regular Session.
- 3/ The Department of Financial Institutions shall assess and set fees to ensure that monies deposited in the state General Fund will equal or exceed the department's expenditure from the state General Fund. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Agency Consolidation

The budget includes a decrease of \$(12,600) from the General Fund in FY 2017 for consolidation savings. Laws 2015, Chapter 19 merged the State Board of Appraisal into the Department of Financial Institutions. The Executive currently estimates operating savings from this consolidation to be \$(12,600) from the General Fund. (Please see the Real Estate Appraisal section for more information.)

Statewide Adjustments

The budget includes a decrease of \$(21,900) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(17,200)
Financial Services Fund	(4,700)

(Please see the Agency Detail and Allocations section.)

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) continues to allow the agency to use the Financial Services Fund in FY 2017 for general operating expenditures.

Real Estate Appraisal

The budget includes \$815,100 and 9 FTE Positions from the Board of Appraisal Fund in FY 2017 for Real Estate Appraisal. These amounts fund the following adjustments:

Agency Consolidation

The budget includes a decrease of \$(4,200) from the Board of Appraisal Fund in FY 2017 for consolidation savings.

The FY 2016 Agency Consolidation BRB (Laws 2015, Chapter 19) merged the State Board of Appraisal into the Department of Financial Institutions and gives the authority, powers, duties, and responsibilities of the board to the Superintendent of Financial Institutions.

Statewide Adjustments

The budget includes a decrease of \$(2,100) from the Board of Appraisal Fund in FY 2017 for statewide adjustments.

The FY 2017 General Appropriation Act originally appropriated monies in this line item from the General Fund, but also included a footnote that replaced monies from the General Fund with the same amount of monies from the Board of Appraisal Fund if the Board of Appraisal Fund was not repealed during the 52nd Legislature, 2nd Regular Session. The legislative session ended without repealing the Board of Appraisal Fund. As such, monies for this line item are appropriated from the Board of Appraisal Fund, rather than the General Fund.

Other Issues

Additional Legislation

Department Receivership Revolving Fund

The FY 2017 Revenue BRB extends department spending authority from the Receivership Revolving Fund for the purchase of the electronic licensing system permitted by the FY 2014 Revenue BRB (Laws 2013, 1st Special Session, Chapter 9) through FY 2017. Total expenditures for the purchase of the system in FY 2014, FY 2015, FY 2016, and FY 2017 may not exceed a total of \$850,000.

Department of Fire, Building and Life Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	48.0	48.0	0.0
Personal Services	937,100	1,130,000	0
Employee Related Expenditures	414,800	505,600	0
Professional and Outside Services	19,200	10,100	0
Travel - In State	132,300	82,600	0
Travel - Out of State	300	0	0
Other Operating Expenditures	287,500	279,300	0
Equipment	25,700	21,700	0
OPERATING SUBTOTAL	1,816,900	2,029,300	0
SPECIAL LINE ITEMS			
State Fire School	100,000	172,700	0
AGENCY TOTAL	1,916,900	2,202,000	0
FUND SOURCES			
General Fund	1,916,900	2,202,000	0
SUBTOTAL - Appropriated Funds	1,916,900	2,202,000	0
Other Non-Appropriated Funds	364,100	437,400	0
Federal Funds	325,000	266,300	0
TOTAL - ALL SOURCES	2,606,000	2,905,700	0

AGENCY DESCRIPTION — The agency enforced safety standards for manufactured homes, mobile homes, and factory-built buildings. The agency also included the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona. Beginning in FY 2017, the responsibilities of the Department of Fire, Building, and Life Safety are transferred to the Arizona Department of Forestry and Fire Management, the Arizona Department of Housing, and the State Real Estate Department.

Operating Budget

The budget includes no funding in FY 2017 for the operating budget. This amount funds the following adjustments:

Agency Elimination

The budget includes a decrease of \$(2,029,300) and (47) FTE Positions from the General Fund in FY 2017 for the elimination of the Department of Fire, Building and Life Safety. (See *Other Issues* for additional information.)

State Fire School

The budget includes no funding in FY 2017 for the State Fire School. This amount funds the following adjustments:

Transfer to the Arizona Department of Forestry and Fire Management

The budget includes a decrease of \$(172,700) and (1) FTE Position from the General Fund in FY 2017 to transfer the State Fire School to the Arizona Department of Forestry and Fire Management, effective July 1, 2016. (See *Other Issues* for additional information.)

Other Issues

Additional Legislation

Fire, Building and Life Safety Agency Elimination

The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) transfers the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Management, the Arizona Department of Housing, and the State Real Estate Department, effective July 1, 2016.

All authority, powers, duties and responsibilities previously granted to offices within the Department of Fire, Building and Life Safety are transferred to the following recipient agencies:

- The Office of the State Fire Marshal is transferred to the Arizona Department of Forestry and Fire Management. The Office of the State Fire Marshal enforces the state fire codes and provides training and education for fire personnel and the general public. The Office of the State Fire Marshal also operates the State Fire School.
- The Office of Manufactured Housing is transferred to the Arizona Department of Housing. The Office of Manufactured Housing maintains standards for the safety and quality of all manufactured homes, factory built buildings and accessory structures.

- Responsibilities relating to the dispute resolution process for condominium and planned community associations are transferred to the State Real Estate Department. The Office of Administration within the Department of Fire, Building and Life Safety assisted the Office of Administrative Hearings in conducting hearings concerning disputes between owners and condominium or community associations.

The Fire Building and Life Safety agency elimination resulted in \$(448,400) in General Fund operating savings and \$(75,000) in Other Fund operation savings. (See Table 1 for more information on appropriated monies transferred during the Fire, Building and Life Safety agency elimination.)

Agency	Fire, Building and Life Safety Appropriations					
	General Fund			Other Funds		
	FY 2016	FY 2017	Difference	FY 2016	FY 2017	Difference
Fire, Building and Life Safety	\$2,202,000	\$0	\$(2,202,000)	\$703,700	\$0	\$(703,700)
Forestry and Fire Management	0	920,000	920,000	0	86,900	86,900
Housing	0	814,800	814,800	0	522,800	522,800
Real Estate	0	18,800	18,800	0	19,000	19,000
Total	\$2,202,000	\$1,753,600	\$ (448,400)	\$703,700	\$628,700	\$ (75,000)

Arizona Department of Forestry and Fire Management

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	55.0	55.0	67.0 ^{1/}
Personal Services	1,541,100	1,568,000	1,568,000
Employee Related Expenditures	657,800	643,500	625,800
Professional and Outside Services	143,600	143,600	143,600
Travel - In State	42,800	94,900	94,900
Other Operating Expenditures	271,300	418,000	422,100
Equipment	52,100	0	0
OPERATING SUBTOTAL	2,708,700	2,868,000	2,854,400
SPECIAL LINE ITEMS			
Environmental County Grants	275,000	250,000	250,000
Fire Suppression	4,000,000	4,000,000	4,085,000 ^{2/}
Hazardous Vegetation Removal	996,600	1,350,000	1,350,000
Inmate Fire Crews	683,200	691,000	686,200
One-time Equipment	0	0	302,500
State Fire Marshal	0	0	742,600
State Fire School	0	0	172,100
AGENCY TOTAL	8,663,500	9,159,000	10,442,800 ^{3/}
FUND SOURCES			
General Fund	8,663,500	9,159,000	10,442,800
SUBTOTAL - Appropriated Funds	8,663,500	9,159,000	10,442,800
Other Non-Appropriated Funds	25,655,900	25,270,500	25,577,400
TOTAL - ALL SOURCES	34,319,400	34,429,500	36,020,200

AGENCY DESCRIPTION — The Arizona Department of Forestry and Fire Management is responsible for the prevention and suppression of forest fires on State Trust Land and private land outside incorporated municipalities (about 22 million acres total). Beginning in FY 2017, the department also includes the Office of the State Fire Marshal, which enforces the state fire codes and provides training and education for fire personnel and the general public. All training provided by the department must comply with safety standards prescribed by the National Fire Protection Association and the Occupational Safety and Health Administration of Arizona.

Operating Budget

The budget includes \$2,854,400 and 42 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Risk Management Premium

The budget continues funding for the increased Risk Management premium as a result of the Yarnell Hill Fire lawsuit settlements. The budget includes an FY 2016 supplemental of \$146,700 from the General Fund. This

same funding is continued in FY 2017. (Please see the *Other Issues* section.)

Statewide Adjustments

The budget includes a decrease of \$(13,600) from the General Fund in FY 2017 for statewide adjustments. (Please see the *Agency Detail and Allocations* section.)

^{1/} Includes 25 GF FTE Positions funded from Special Line Items in FY 2017.

^{2/} A.R.S. § 37-623.02 annually appropriates \$3,000,000 from the General Fund to the Fire Suppression Revolving Fund. Because this authorization is in permanent statute, \$3,000,000 of the \$4,085,000 appropriation is not included in the General Appropriation Act.

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Environmental County Grants

The budget includes \$250,000 from the General Fund in FY 2017 for Environmental County Grants. This amount is unchanged from FY 2016.

Monies in this line item have been used by Greenlee, Graham, Gila, Navajo, and Apache Counties for environmental projects that impact economic development in those counties. The Arizona Department of Forestry and Fire Management must approve any project prior to expenditure of the monies.

In FY 2015, this funding supported the following 9 projects:

- \$31,500 for the Four Forest Restoration Initiative, which is a plan to implement effective large scale forest restoration, and for the development and implementation of a successor strategy to the White Mountain Stewardship Contract, which allowed for restoration treatments and round wood and residual biomass supply projects in the White Mountains.
- \$46,500 to address threatened and endangered species issues, with a focus on the Mexican Gray Wolf recovery and experimental population programs and to conduct a National Environmental Policy Act analyses of other species listing, habitat designation, or recovery programs in eastern Arizona.
- \$56,500 to address watershed restoration issues, with a particular focus on the development and implementation of the Black River Stewardship Agreement project and the restoration of the C.C. Craigin reservoir watershed.
- \$21,000 for the protection, development, and management of Eastern Arizona electrical generation, water collection, and transportation infrastructures.
- \$21,000 to support the retention of existing motorized recreation; the development of an Arizona back county off-highway vehicle connected trails system along the Mogollon Rim; and new recreation opportunities, facilities and recreation-based economic development.
- \$21,000 to support development and implementation of renewable energy production facilities, convert eastern Arizona coal power plants at end of life to natural gas, and other energy-based economic retention and development projects.
- \$21,000 for participation in the development and implementation of comprehensive Natural Resources Management Plans.
- \$46,000 for participation in the development and implementation of an ecologically and economically sustainable management plan for public lands in Arizona and the West.

- \$10,500 for the development and implementation of an effective planning and execution strategy for emerging issues.

In FY 2016, this funding continued support for the 9 programs from FY 2015 and added an additional program:

- \$25,000 for participation in the development and implementation of long term, sustainable overall Arizona water balance, conservation and augmentation measures, and the preservation of rural and agricultural Arizona interests and economies in the implementation of water rights, conservation measures, and potential shortages.

Fire Suppression

The budget includes \$4,085,000 from the General Fund in FY 2017 for Fire Suppression. This amount funds the following adjustments:

Fire Management Software

The budget includes an increase of \$85,000 from the General Fund in FY 2017 for the purchase of Fire Management software. Of this amount, \$65,000 is ongoing and \$20,000 is one-time. The software will allow the department to better manage fires, reduce the risk to firefighters, and enhance wildfire response statewide, especially with early stage fires and small fires with limited command staff available to respond.

This line item funds fire suppression on state trust land and rural private land. A.R.S. § 37-623.02 provides an annual appropriation of up to \$3,000,000 from the General Fund for fire suppression. Because this authorization is in permanent statute, \$3,000,000 of the \$4,085,000 is not included in the General Appropriation Act.

Hazardous Vegetation Removal

The budget includes \$1,350,000 from the General Fund in FY 2017 for a Hazardous Vegetation Removal Program. This amount is unchanged from FY 2016.

This line item funds hazardous material removal programs that treat state and private lands through prescribed burning or thinning of flammable vegetation. This work can be conducted by Arizona Department of Forestry and Fire Management crews or through fuel reduction grants to contractors.

Inmate Fire Crews

The budget includes \$686,200 and 13 FTE Positions from the General Fund in FY 2017 for Inmate Fire Crews. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,800) from the General Fund in FY 2017 for statewide adjustments.

These monies provide fire-fighting training for 12 inmate fire crews. The crews act as first responders and are used for fuel treatment and fire suppression.

One-time Equipment

The budget includes \$302,500 from the General Fund in FY 2017 for one-time equipment purchases. This amount funds the following adjustments:

Wildland Fire Engine

The budget includes an increase of \$112,500 from the General Fund in FY 2017 for the one-time purchase of a new wildland fire engine. Wildland fire engines are capable of traveling over more rugged terrain than other fire suppression vehicles and are used to patrol for fires and perform initial attacks when a fire is reported.

Inmate Crew Carrier

The budget includes an increase of \$190,000 from the General Fund in FY 2017 for the one-time purchase of a new inmate fire crew carrier vehicle to replace an existing vehicle.

State Fire Marshal

The budget includes \$742,600 and 11 FTE Positions from the General Fund in FY 2017 for the State Fire Marshal. These amounts fund the following adjustments:

Transfer to the Department of Forestry and Fire Management

The budget includes an increase of \$747,300 and 11 FTE Positions from the General Fund in FY 2017 for the Fire Marshal. The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transfers the State Fire Marshal's Office from the Department of Fire, Building and Life Safety operating budget to the Arizona Department of Forestry and Fire Safety. *(Please see the Fire, Building and Life Safety narrative for additional information.)*

Statewide Adjustments

The budget includes a decrease of \$(4,700) from the General Fund in FY 2017 for statewide adjustments. The Office of the State Fire Marshal enforces the state fire codes and provides training and education for fire personnel and the general public.

State Fire School

The budget includes \$172,100 and 1 FTE Position from the General Fund in FY 2017 for the State Fire School. These amounts fund the following adjustments:

Transfer to the Department of Forestry and Fire Management

The budget includes an increase of \$172,700 and 1 FTE Position from the General Fund in FY 2017 for the State Fire School. The FY 2017 Agency Consolidation BRB transfers this line item from the Department of Fire, Building and Life Safety to the Arizona Department of Forestry and Fire Safety. *(Please see the Fire, Building and Life Safety narrative for additional information.)*

Statewide Adjustments

The budget includes a decrease of \$(600) from the General Fund in FY 2017 for statewide adjustments.

Monies in this line item mainly go to help subsidize smaller rural volunteer fire departments attending Arizona State Fire School workshops which provide firefighting education. Generally, fire departments pay for tuition, but the firefighters pay for their room and board to attend the 4-day Fire School. The Arizona State Fire Training Committee, a non-profit organization, coordinates and manages the Fire School. The majority of Fire School workshops take place at the Mesa Convention Center in downtown Mesa with the exception of a few workshops that must be held at designated off-site locations.

Besides \$100,000 for subsidizing these costs, the remaining \$72,100 and 1 FTE Position is used for liaison work with the Arizona State Fire Training Committee and other firefighter training activities.

Other Issues

FY 2016 Supplemental

The budget includes an FY 2016 supplemental appropriation of \$146,700 from the General Fund for the increased Risk Management premium as a result of the Yarnell Hill Fire lawsuit settlements.

Additional Legislation

Agency Name Change

Laws 2016, Chapter 145 renames the State Forester to the Arizona Department of Forestry and Fire Management and modifies the duties of the State Forester. The duties of the State Forester include performing all management and administrative functions assigned or delegated to Arizona by the federal government relating to forestry; monitoring information related to forest management, forestry projects and wildfire activities; and conducting education and outreach in forest communities about the wildfire threat to private property, among other duties.

Chapter 145 also makes the State Forester the head of the Arizona Department of Forestry and Fire Management and allows the State Forester to provide technical advice on land management matters, adopt rules necessary to discharge duties, and to assist in the development of the forestry products industry.

BSF Wildland Fire Reimbursement

Laws 2016, Chapter 219 authorizes Budget Stabilization Fund (BSF) monies to be used to pay for valid claims for federal reimbursement by the State Forester and states that those monies are to be continuously appropriated. Chapter 219 also includes claims for personnel hours, used supplies and reasonable and negotiated costs of damage to equipment that exceeds normal wear and tear to items that must be paid for by the State Forester if a claim for reimbursement is processed. The State Forester is required to certify that a claim is not yet reimbursed by a federal agency; the State Treasurer must then pay the claim from the fund. The State Forester must reimburse the Treasurer within 45 days if a federal agency makes payment on a claim. The Treasurer will deposit reimbursed monies back into the BSF. Chapter 219 caps the amount permitted to be outstanding from the BSF at any time for the purposes of reimbursing valid claims related to wildland fire suppression services at \$10 million.

Public Building Fire Codes

Laws 2016, Chapter 234 allows the Arizona State Fire Marshal to authorize Intergovernmental Agreements (IGAs) for cities to allow a local fire code to apply to public buildings. Chapter 234 could reduce the department's deposits to the General Fund by \$(100,000) to \$(150,000) beginning in FY 2017 assuming only the City of Phoenix enters into an IGA with the State Fire Marshal. Such IGAs could also reduce the department's General Fund expenditures. The General Fund revenue and expenditure impact could be greater if additional cities enter into an IGA.

State Board of Funeral Directors and Embalmers

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	190,100	194,200	194,200
Employee Related Expenditures	76,100	77,000	73,700
Professional and Outside Services	400	10,000	34,000
Travel - In State	3,800	4,500	4,500
Other Operating Expenditures	53,000	66,500	66,900
Equipment	2,900	0	0
AGENCY TOTAL	326,300	352,200	373,300 ^{1/2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Funeral Directors' and Embalmers' Fund	326,300	352,200	373,300
SUBTOTAL - Other Appropriated Funds	326,300	352,200	373,300
SUBTOTAL - Appropriated Funds	326,300	352,200	373,300
TOTAL - ALL SOURCES	326,300	352,200	373,300

AGENCY DESCRIPTION — The board licenses, registers, and regulates embalmers, prearranged funeral salespersons, crematories, and funeral homes. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$373,300 and 4 FTE Positions from the Board of Funeral Directors' and Embalmers' Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Data System Update and On-Line Renewals

The budget includes an increase of \$24,000 from the Board of Funeral Directors' and Embalmers' Fund in FY 2017 for an update to the current license database system and implementation of a portal for online license renewals. (Please see General Appropriation Act footnote.)

Statewide Adjustments

The budget includes a decrease of \$(2,900) from the Board of Funeral Directors' and Embalmers' Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} The appropriation includes \$24,000 for data system updates and online renewals. Before the expenditure of these monies, the State Board of Funeral Directors and Embalmers shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Game and Fish Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	273.5	273.5	273.5
Personal Services	13,675,000	14,116,900	14,494,500
Employee Related Expenditures	8,694,100	11,904,900	10,460,600
Professional and Outside Services	725,400	1,712,100	1,712,100
Travel - In State	238,800	275,500	275,500
Travel - Out of State	125,200	114,000	114,000
Other Operating Expenditures	6,680,600	14,053,300	13,515,200
Equipment	907,600	420,700	666,700
OPERATING SUBTOTAL	31,046,700	42,597,400	41,238,600^{1/}
SPECIAL LINE ITEMS			
Pittman-Robertson/Dingell-Johnson Act	3,058,000	0	0
Lower Colorado Multispecies Conservation	350,000	0	0
Watercraft Grants	0	1,000,000	1,000,000
Watercraft Safety Education Program	243,700	0	0
AGENCY TOTAL	34,698,400	43,597,400^{2/}	42,238,600^{3/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Capital Improvement Fund	999,700	1,000,900	1,001,200
Game and Fish Fund	30,477,700	37,099,700	35,687,600
Game, Non-Game, Fish and Endangered Species Fund	154,000	346,500	345,800
Watercraft Licensing Fund	3,067,000	5,134,100	5,187,800
Wildlife Endowment Fund	0	16,200	16,200
SUBTOTAL - Other Appropriated Funds	34,698,400	43,597,400	42,238,600
SUBTOTAL - Appropriated Funds	34,698,400	43,597,400	42,238,600
Other Non-Appropriated Funds	28,119,100	30,967,800	30,967,800
Federal Funds	40,896,200	36,041,200	36,041,200
TOTAL - ALL SOURCES	103,713,700	110,606,400	109,247,600

AGENCY DESCRIPTION — The Arizona Game and Fish Department (AGFD) manages Arizona wildlife populations through the operation of hunting and fishing license programs, enforcement actions for the unlawful taking of game, and wildlife habitat protection and development. A 5-member commission appointed by the Governor oversees department operations.

Operating Budget	FY 2017
The budget includes \$41,238,600 and 273.5 FTE Positions in FY 2017 for the operating budget. These amounts consist of:	Capital Improvement Fund \$1,001,200
	Game and Fish Fund 35,687,600
	Game, Non-Game, Fish and Endangered Species Fund 345,800
	Watercraft Licensing Fund 4,187,800
	Wildlife Endowment Fund 16,200

^{1/} The operating lump sum appropriation of \$41,238,600 includes \$795,000 from the Game and Fish Fund established by A.R.S. § 17-261 to increase the minimum salary for the Wildlife Manager, Wildlife Manager 2, Wildlife Manager 3, Wildlife Manager Field Supervisor, Law Enforcement Specialist 2, Law Enforcement Specialist 3, and Law Enforcement Program Manager positions for a full year by at least \$8,700. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{2/} Of this amount, \$1,752,000 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations until June 30, 2017. (General Appropriation Act footnote)

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

These amounts fund the following adjustments:

Aquatic Invasive Species

The budget includes a one-time increase of \$375,000 from the Watercraft Licensing Fund in FY 2017 for programs and equipment that curtail the spread of aquatic invasive species. This amount includes \$125,000 to purchase 3 new mobile decontamination units and a transport truck and \$250,000 for research with state universities to discover if there are biological, chemical, or other factors that preclude the presence of aquatic invasive species.

Watercraft Law Enforcement Resources

The budget includes a one-time increase of \$246,000 from the Watercraft Licensing Fund in FY 2017 to replace the 2 oldest, highest meter-hour boats in the department’s watercraft law enforcement fleet.

Wildlife Ranger Salary Increase

The budget includes an increase of \$795,000 from the Game and Fish Fund in FY 2017 to increase the minimum salary for the Wildlife Manager, Wildlife Manager 2, Wildlife Manager 3, Wildlife Manager Field Supervisor, Law Enforcement Specialist 2, Law Enforcement Specialist 3, and Law Enforcement Program Manager positions for a full year by at least \$8,700.

Remove One-Time Funding

The budget includes a decrease of \$(936,200) in FY 2017 for the elimination of one-time equipment. The FY 2016 budget included one-time funding for the purchase of 7 Wildlife Manager vehicles, 5 boats, 4 mobile decontamination units, and body armor; refurbishment of 1 boat; construction of covered storage for 6 patrol boats; and the purchase of 210 replacement regulatory markers and navigation aids to provide to the State Parks Board in accordance with interagency agreements. This amount consists of:

Game and Fish Fund	(373,700)
Watercraft Licensing Fund	(562,500)

Remove One-Time PSPRS Funding

The budget includes a decrease of \$(1,752,000) from the Game and Fish Fund in FY 2017 for the elimination of one-time PSPRS funding. Laws 2016, Chapter 117, Section 120 included an FY 2016 supplemental appropriation for the increased retirement contribution rate for public safety personnel.

Statewide Adjustments

The budget includes a decrease of \$(86,600) in FY 2017 for statewide adjustments. This amount consists of:

Capital Improvement Fund	300
Game and Fish Fund	(81,400)
Game, Non-Game, Fish and Endangered Species Fund	(700)
Watercraft Licensing Fund	(4,800)

(Please see the Agency Detail and Allocations section.)

Watercraft Grants

The budget includes \$1,000,000 from the Watercraft Licensing Fund in FY 2017 for the Watercraft Grants line item. This amount is unchanged from FY 2016.

The program awards grants through a competitive grant process to Arizona watercraft enforcement agencies. These grants are used by agencies to expand Operation Under the Influence enforcement efforts, such as purchasing equipment, paying officers’ overtime, or funding prevention and education programs.

Other Issues

FY 2016 Supplemental

The budget includes an FY 2016 supplemental appropriation of \$1,752,000 from the Game and Fish Fund for the increased contribution rate that the department must pay to the Public Safety Personnel Retirement System. This amount is available for use through the end of FY 2017.

Additional Legislation

Capital Projects

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) included \$5,047,900 in FY 2017 for various Game and Fish Department capital projects. This amount included \$306,000 for radio tower replacement and \$3,867,000 for general capital projects from the Game and Fish Fund, along with \$874,900 for watercraft law enforcement boat structure construction from the Watercraft Licensing Fund.

The FY 2017 Capital Outlay Bill also appropriated \$530,000 in FY 2017 from the Game and Fish Fund for building renewal projects, which are used for major repair and maintenance of state-owned buildings. This amount is available for use through the end of FY 2018. *(Please see the Capital Outlay ADOA Building System section for more information.)*

Heritage Fund

Laws 2016, Chapter 224 allows the Game and Fish Commission to use a portion of the non-appropriated Heritage Fund monies on operations and maintenance of properties acquired to support endangered, threatened, and sensitive wildlife species. The Heritage Fund was created in 1990 by voters to support wildlife and habitat by directing up to \$10 million each year from lottery ticket sales.

The department must use a portion of it to acquire properties that further its mission to protect and recover native wildlife species and their habitats, but did not have access to any Heritage Fund monies for operations and maintenance until Chapter 224. Operations and maintenance costs include preservation of structural assets, refurbishing agricultural wells, septic system replacement, stabilization of wetlands to reduce permeability, construction of flood control levees, replacement of culverts, removal of exotic vegetation, and control of dangerous fire fuels.

Department of Gaming

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	115.3	155.8	155.8 ^{1/}
Personal Services	4,273,100	4,326,000	4,326,000
Employee Related Expenditures	1,742,200	1,876,200	1,876,200
Professional and Outside Services	394,600	465,900	465,900
Travel - In State	247,000	250,600	250,600
Travel - Out of State	38,700	40,200	40,200
Other Operating Expenditures	1,024,700	987,800	987,800
Equipment	280,000	348,800	348,800
OPERATING SUBTOTAL	8,000,300	8,295,500	8,295,500
SPECIAL LINE ITEMS			
Additional Operating Expenses	0	800,400	768,400 ^{2/}
Arizona Breeders' Award	0	0	200,000
Casino Operations Certification	1,726,400	2,089,900	2,081,800
County Fairs Livestock and Agriculture Promotion	0	1,779,500	1,779,500 ^{3/}
Division of Racing	0	2,894,200	2,886,000
Problem Gambling	1,747,700	2,287,000	2,287,000
AGENCY TOTAL	11,474,400	18,146,500	18,298,200 ^{4/}
FUND SOURCES			
General Fund	0	1,779,500	1,979,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	9,448,000	11,082,900	11,050,900
Racing Regulation Fund	0	2,894,200	2,886,000
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,726,400	2,089,900	2,081,800
SUBTOTAL - Other Appropriated Funds	11,474,400	16,367,000	16,318,700
SUBTOTAL - Appropriated Funds	11,474,400	18,146,500	18,298,200
Other Non-Appropriated Funds	0	1,370,000	1,370,000
TOTAL - ALL SOURCES	11,474,400	19,516,500	19,668,200

AGENCY DESCRIPTION — The Department of Gaming regulates tribal gaming activities as authorized by the Arizona Tribal-State Gaming Compacts. The agency is funded by the Arizona Benefits Fund, which receives a portion of tribal gaming revenues to pay for regulation of tribal gaming and prevention of problem gambling. The agency is also responsible for certifying casino employees and vendors working with casinos. The department receives monies from the Tribal-State Compact Fund through casino employee and vendor certification application fees. Beginning in FY 2016, the responsibilities of the Department of Racing are transferred to the Department of Gaming.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) established the Division of Racing within the Department of Gaming as of July 3, 2015. While the FY 2016 General Appropriation Act

appropriated a separate budget for the Department of Racing, Chapter 19 transferred all appropriated monies of the Department of Racing to the Department of Gaming. The FY 2017 General Appropriation Act appropriated

^{1/} Includes 73.5 OF FTE Positions funded from Special Line Items in FY 2017.

^{2/} The Department of Gaming shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before December 1, 2016 on the expected amount and purpose of expenditures from the Additional Operating Expenses line item for FY 2017. The report shall include the projected line item detail. (General Appropriation Act footnote)

^{3/} The amount appropriated to the County Fairs Livestock and Agriculture Promotion line item is for deposit in the County Fairs Livestock and Agriculture Promotion Fund established by A.R.S. § 5-113, and to be administered by the Office of the Governor. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

monies to the Division of Racing in a Special Line Item within the Department of Gaming. *(See the Division of Racing line item for more information.)*

Administrative Expenses

The budget includes \$9,063,900 in FY 2017 for administration expenses, which consists of \$8,295,500 for operating budget expenditures and \$768,400 in a separate line item for additional operating budget expenditures.

The department's actual spending level will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative (A.R.S. § 5-601.02) and the Tribal-State Gaming Compacts, the department's administration expenses from the Arizona Benefits Fund, excluding Problem Gambling, are limited to the greater of \$8,000,000, or 9% of state tribal gaming revenues.

In FY 2017, 9% of tribal gaming revenues are forecasted to be \$8,382,400. The budget includes \$8,382,400 in FY 2017, as 9% of projected revenue is greater than \$8,000,000. Of this amount, \$8,295,500 is for operating budget expenditures and \$86,900 is part of the separate line item.

The budget provides added flexibility should the Department of Gaming exceed forecasted tribal gaming revenues. The budget includes an added \$768,400 in a separate line item if revenues exceed projections, which incorporates the \$86,900 noted above.

Problem Gambling

The budget includes \$2,287,000 for Problem Gambling, which consists of \$1,987,000 from the Arizona Benefits Fund and \$300,000 from the State Lottery Fund.

The department's actual spending level for Problem Gambling from the Arizona Benefits Fund will be determined by the level of gaming revenues. Pursuant to the Gaming ballot initiative and the Tribal-State Gaming Compacts, the department's Problem Gambling expenses from the Arizona Benefits Fund are limited to 2% of revenues.

In FY 2017, 2% of tribal gaming revenues are projected to be \$1,862,800. In that circumstance, the department would not be able to expend its appropriation of \$1,987,000 for Problem Gambling from the Arizona Benefits Fund. If gaming revenues are higher than the forecast, the department would be able to expend more of the FY 2017 amount up to \$1,987,000.

Gaming Revenues

From FY 2014 to FY 2015, state gaming revenues grew 2.0% to \$88,424,800. Gaming revenues are expected to grow by 3.26% from FY 2015 to FY 2016 to a level of \$91,311,200. From FY 2016 to FY 2017, revenues are forecasted to grow by 2.0% to \$93,137,400. *(See Table 1 for more information on projected state revenues and department allocations.)*

Operating Budget

The budget includes \$8,295,500 and 82.3 FTE Positions from the Arizona Benefits Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Additional Operating Expenses

The budget includes \$768,400 from the Arizona Benefits Fund in FY 2017 for additional operating expenses. The department would be required to report on any new administrative spending. This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(32,000) from the Arizona Benefits Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Monies in this line item are used to align spending with the 9% of projected tribal contributions. The agency may use this additional appropriation for administrative cost of regulating gaming. In FY 2017, these resources will be allocated to the appropriate operating budget line items. *(See footnote on additional operating expenses reporting.)*

Arizona Breeders' Award

The budget includes \$200,000 from the General Fund in FY 2017 for the Arizona Breeders' Award. This amount funds the following adjustments:

Restore Arizona Breeders' Award

Laws 2016, Chapter 342 appropriates \$200,000 from the General Fund in FY 2017 to restore funding to the Arizona Breeders' Award. The Arizona Breeders' Award was last funded in FY 2015 through a \$250,000 General Fund appropriation to the Department of Racing.

Monies in this line item are deposited in the non-appropriated Arizona Breeders' Award Fund. The fund awards the breeder of every winning horse foaled in this state.

Casino Operations Certification

The budget includes \$2,081,800 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2017 for Casino Operations Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(8,100) from the Tribal-State Compact Fund in FY 2017 for statewide adjustments.

The department has the responsibility for investigating and certifying all vendors that provide over \$10,000 per month of goods and services to tribal gaming facilities and all tribal gaming employees, excluding food and beverage personnel who are certified by the relevant tribal gaming office. Certification application fees provide funding for the Casino Operations Certification Special Line Item.

County Fairs Livestock and Agriculture Promotion

The budget includes \$1,779,500 from the General Fund in FY 2017 for County Fairs Livestock and Agriculture Promotion. This amount is unchanged from FY 2016.

Monies in this line item are deposited in the County Fairs Livestock and Agriculture Promotion Fund in the Office of the Governor. The fund is used to promote Arizona's livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center.

Division of Racing

The budget includes \$2,886,000 and 40.5 FTE Positions from the Racing Regulation Fund in FY 2017 for operating costs previously included in the budget for the Department of Racing. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(8,200) from the Racing Regulation Fund in FY 2017 for statewide adjustments.

The Division of Racing regulates the pari-mutuel horse and greyhound racing industries through the supervision of race meetings, screening of license applicants, collection of taxes and fees, and assessment of fines or other penalties. The Division of Racing also oversees the Arizona Boxing and Mixed Martial Arts Commission.

The commission is responsible for licensing, investigating, and regulating professional boxing, Toughman, and nontraditional fighting contests within Arizona.

Problem Gambling

The budget includes \$2,287,000 and 5 FTE Positions in FY 2017 for Problem Gambling. These amounts consist of:

	FY 2017
Arizona Benefits Fund	\$1,987,000
State Lottery Fund	300,000

These amounts are unchanged from FY 2016.

Pursuant to A.R.S. § 5-601.02 and the Tribal-State Gaming Compacts, 2% of tribal revenues received by the state shall be appropriated from the Arizona Benefits Fund to the department to provide problem gambling prevention, treatment, and education programs. The budget includes \$1,987,000 for FY 2017 from the Arizona Benefits Fund. (See Table 1 for more information on projected state revenues and department allocations.)

Other Issues

Additional Legislation

Elimination of Live Dog Racing

Laws 2016, Chapter 246 prohibits live dog racing in Arizona effective January 1, 2017. Although Chapter 246 allows for dog racing until the end of 2016, the Arizona Racing Commission has granted approval for dog racing tracks to end live dog racing as early as July 2016.

Elimination of Hardship Credit

Laws 2016, Chapter 247 eliminates the hardship tax credit which is used to offset the amount of pari-mutuel tax owed by greyhound and horse racing tracks. Credits awarded prior to Chapter 247 may still be used by horse racing tracks to offset pari-mutuel tax in future years. Greyhound tracks will be unable to use previously accrued credits due to the elimination of live dog racing by Laws 2016, Chapter 246.

Table 1

Tribal Gaming Distributions Pursuant to Proposition 202 ^{1/}

Recipient	Proposition 202 Formula	FY 2014 Actual ^{1/}	FY 2015 Actual ^{1/}	FY 2016 Projected ^{2/}	FY 2017 Projected ^{2/}
State Government Distribution	88% of total	\$ 86,728,500	\$ 88,424,800	\$ 91,311,200	\$ 93,137,400
Local Government Distribution ^{3/}	12% of total	<u>11,826,600</u>	<u>12,057,900</u>	<u>12,451,500</u>	<u>12,700,600</u>
Total	100% of total	\$ 98,555,100	\$100,482,700	\$ 103,762,700	\$ 105,838,000
Allocation of State Government's Share					
Department of Gaming Regulation	\$8 million, or 9%, whichever is greater	\$ 8,000,000	\$ 8,000,000	\$ 8,218,000 ^{4/}	\$ 8,382,400 ^{4/}
Department of Gaming Problem Gambling	2%	<u>1,734,600</u>	<u>1,768,500</u>	<u>1,826,200</u> ^{5/}	<u>1,862,800</u> ^{5/}
Subtotal-Department of Gaming		\$ 9,734,600	\$ 9,768,500	\$ 10,044,200	\$ 10,245,200
Instructional Improvement Fund (Department of Education)	56% of remainder	43,116,600	44,047,600	45,509,400	46,419,600
Trauma and Emergency Services Fund (Arizona Health Care Cost Containment System)	28% of remainder	21,558,300	22,023,800	22,754,800	23,209,800
Arizona Wildlife Conservation Fund	8% of remainder	6,159,500	6,292,500	6,501,400	6,631,400
Tourism Fund	8% of remainder	<u>6,159,500</u>	<u>6,292,500</u>	<u>6,501,400</u>	<u>6,631,400</u>
Total		\$ 86,728,500	\$ 88,424,900	\$ 91,311,200	\$ 93,137,400

^{1/} The numbers displayed herein represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

^{2/} The budget projects 3.26% growth in FY 2016 for tribal contributions to the Arizona Benefits Fund and 2.0% growth in FY 2017.

^{3/} Local distributions may not proportionally match state distributions due to timing issues associated with different fiscal years.

^{4/} While the FY 2016 appropriation and FY 2017 appropriation include \$9,063,900, A.R.S. § 5-601.02H3 requires 9% of state gaming revenues or \$8,000,000, whichever is greater, to be used for the department's operating budget. This provision is expected to allow the department to expend \$8,218,000 for operating expenditures in FY 2016 and \$8,382,400 in FY 2017, as 9% of projected revenue is greater than \$8,000,000.

^{5/} While the FY 2016 appropriation and FY 2017 appropriation include \$1,987,000, A.R.S. § 5-601.02H3 requires 2% of state gaming revenues to be used for problem gambling prevention. This provision is expected to allow the department to only expend \$1,826,200 for problem gambling expenditures in FY 2016 and \$1,826,800 in FY 2017.

Arizona Geological Survey

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	10.3	10.3	0.0
Personal Services	483,000	507,300	0
Employee Related Expenditures	195,500	190,900	0
Professional and Outside Services	6,400	0	0
Other Operating Expenditures	219,900	212,800	0
Equipment	36,900	30,000	0
AGENCY TOTAL	941,700	941,000	0
FUND SOURCES			
General Fund	941,700	941,000	0
SUBTOTAL - Appropriated Funds	941,700	941,000	0
Other Non-Appropriated Funds	1,284,600	1,380,600	0
Federal Funds	3,276,000	2,781,500	0
TOTAL - ALL SOURCES	5,502,300	5,103,100	0

AGENCY DESCRIPTION — The Geological Survey investigates Arizona’s geology and provides technical advice and assistance to state and local government agencies, industry and other members of the public concerning the geologic environment and the development and use of mineral resources in Arizona. The Survey also provides staffing to the Arizona Oil and Gas Conservation Commission, which regulates the drilling and production of oil, gas and other energy resources. Beginning in FY 2017, the Arizona Geological Survey is transferred to the University of Arizona and the staffing for the Arizona Oil and Gas Conservation Commission is transferred to the Department of Environmental Quality.

Operating Budget

The budget includes no funding from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Transfer to the University of Arizona

The budget includes a decrease of \$(941,000) and (10.3) FTE Positions from the General Fund in FY 2017 for the Geological Survey operating budget. The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transfers the Geological Survey to the University of Arizona. *(Please see Other Issues section for additional information on the University of Arizona agency transfer.)*

Other Issues

Additional Legislation

University of Arizona Transfer

The FY 2017 Agency Consolidation BRB transfers the statutory responsibilities of the Arizona Geological Survey to the University of Arizona effective July 1, 2016. The

Agency Consolidation BRB also transfers the administrative and staff support for the Oil and Gas Conservation Commission, which was previously supplied by the Geological Survey, to the Department of Environmental Quality instead of the University of Arizona. *(Please see the University of Arizona – Main Campus Other Issues section for additional information.)*

The FY 2017 Agency Consolidation BRB also transfers the authority over the State Geologist and the Geological Survey from the Governor to the Arizona Board of Regents and states that it is the intent of the Legislature that the Geological Survey maintains the current level of service and approximately 15 full-time employees.

Mining, Mineral and Natural Resources Education Museum

The FY 2017 Agency Consolidation BRB renames the Arizona Experience Museum the Mining, Mineral and Natural Resources Educational Museum and transfers the authority to operate and maintain the museum from the Arizona Historical Society to the Geological Survey. If sufficient monies are not raised by July 1, 2018 to sufficiently refurbish and open the museum, then the museum will revert back to the Arizona Historical Society

in FY 2019. *(Please see the University of Arizona - Main Campus Other Issues section for additional information.)*

The FY 2017 Agency Consolidation BRB also requires the Arizona Historical Society to fulfill all existing museum obligations and provide the Geological Survey with a list of inventory and assist in the transfer of the inventory. The BRB also requires the State Geologist to submit a report of museum operations, General Fund needs, benefits of expanded building use, and excess inventory recommendations to the Governor, Secretary of State, President of the Senate and Speaker of the House of Representatives before 2019.

The FY 2017 Agency Consolidation BRB also transfers to the Geological Survey all unspent and unencumbered funds received by the Arizona Historical Society for museum operations and establishes the Mining, Mineral and Natural Resources Educational Museum Account within the Geological Survey Fund to be used exclusively for the maintenance operations of the museum. The BRB also transfers all unencumbered balances and future revenues of the Centennial Special Plate Fund from the Arizona Historical Society to the Geological Survey retroactive to May 1, 2016.

Office of the Governor

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	9,687,900	6,889,000	6,849,900
AGENCY TOTAL	9,687,900	6,889,000	6,849,900 ^{1/2/3/}
FUND SOURCES			
General Fund	9,687,900	6,889,000	6,849,900
SUBTOTAL - Appropriated Funds	9,687,900	6,889,000	6,849,900
Other Non-Appropriated Funds	2,441,200	3,163,000	3,163,000
Federal Funds	17,320,200	14,278,100	14,278,100
TOTAL - ALL SOURCES	29,449,300	24,330,100	24,291,000

AGENCY DESCRIPTION — The Governor is the state’s Chief Executive Officer and responsible for the execution of state laws. The Office of the Governor includes the Office for Children, Youth and Families, Office on Aging, Office of Constituent Services, Arizona-Mexico Commission, Northern Office, and Tucson Office.

Operating Budget

The budget includes \$6,849,900 from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(39,100) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Foster Youth Education Success Program

Laws 2016, Chapter 248, establishes the Foster Youth Education Success Program and the Foster Youth Education Success Fund in the Office of the Governor to improve the educational outcomes of children in Arizona’s foster care system. Monies in the fund are continuously appropriated and do not revert to the General Fund.

Chapter 248 appropriates \$1,000,000 from the General Fund in FY 2018 to the Office of the Governor for deposit in the Youth Education Success Fund. Chapter 248 also appropriates an additional \$500,000 from the General

Fund in FY 2018 to the Office of the Governor for deposit in the Youth Education Success Fund to be spent when matching amounts, of less than \$500,000 from other public monies, gifts, grants and donations, are collected by the Office of the Governor and deposited in the fund.

Monies from public sources other than this state, gifts, grants and donations may be spent by the Office of the Governor as they are collected, but an accounting shall be made by the Office of the Governor to the Joint Legislative Budget Committee to determine qualification for the state match. Both appropriations are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

The Office of the Governor shall establish policies and procedures, selection criteria and minimum performance standards for service providers. A service provider that is selected to participate in the program shall:

1. Contract with an organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and that provides the following programmatic components:
 - (a) A partnership with local education agencies, child welfare agencies and judicial agencies to implement a continuous cycle of data-driven interventions for children in foster care.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.
^{3/} Included in the Lump Sum appropriation of \$6,849,900 for FY 2017 is \$10,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)

- (b) Identification and support of an education champion for children in foster care who is informed of rights and responsibilities and paired with an education coach to increase capacity to support educational success for children in foster care.
 - (c) Development and monitoring of an education team, which may include education liaisons, students, social workers, school staff, caregivers, court-appointed special advocates, coaches, mentors or other community members.
 - (d) A customized education plan for each child in foster care that is based on individual strengths and needs and that uses a research-based tool.
2. Submit an annual report on or before December 15 to the Governor, the President of the Senate and the Speaker of the House of Representatives that includes an evaluation of the effectiveness of the program, including demographic information and academic outcomes. The service provider shall provide a copy of this report to the Secretary of State.

Governor's Office of Strategic Planning and Budgeting

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	22.0	22.0	22.0
Personal Services	1,225,200	1,330,900	1,330,900
Employee Related Expenditures	420,100	361,500	361,500
Professional and Outside Services	109,400	92,500	92,500
Travel - In State	900	100	100
Travel - Out of State	4,200	0	0
Other Operating Expenditures	232,500	207,200	207,200
Equipment	11,500	1,800	1,800
AGENCY TOTAL	2,003,800	1,994,000	1,994,000^{1/2/}
FUND SOURCES			
General Fund	2,003,800	1,994,000	1,994,000
SUBTOTAL - Appropriated Funds	2,003,800	1,994,000	1,994,000
TOTAL - ALL SOURCES	2,003,800	1,994,000	1,994,000

AGENCY DESCRIPTION — The Governor's Office of Strategic Planning and Budgeting advises the Governor in the preparation of the Executive budget and provides the Executive Branch a central resource for the compilation, analysis, and investigation of state fiscal matters. It facilitates a strategic planning process and assists agencies in preparation and execution of their budgets.

Operating Budget

The budget includes \$1,994,000 and 22 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

1/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

2/ General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Health Services

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,047.7	1,176.7	1,065.5 ^{1/}
Personal Services	21,373,600	28,235,900	19,144,900
Employee Related Expenditures	8,922,300	12,034,000	7,951,300
Professional and Outside Services	1,452,800	1,534,300	1,032,800
Travel - In State	363,400	355,400	336,800
Travel - Out of State	80,500	74,700	71,500
Other Operating Expenditures	28,298,100	20,609,600	18,261,200
Equipment	360,200	2,833,800	2,254,700
OPERATING SUBTOTAL	60,850,900	65,677,700	49,053,200
SPECIAL LINE ITEMS			
Behavioral Health			
Medicaid Behavioral Health - Traditional Services	847,628,600	918,223,800	0
Medicaid Behavioral Health - Proposition 204 Services	529,432,900	579,201,100	0
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	175,012,100	185,855,600	0
Medicaid Behavioral Health - Adult Expansion Services	38,478,000	70,549,600	0
Proposition 204 Administration	5,622,500	6,446,700	0
Medicare Clawback Payments	14,100,700	14,228,600	0
Medicaid Insurance Premium Payments	34,505,300	33,167,700	0
Non-Medicaid Seriously Mentally Ill Services	74,241,300	78,846,900	0
Supported Housing	5,194,500	5,324,800	0
Crisis Services	16,308,500	16,391,100	0
Mental Health First Aid	184,100	0	0
Arizona State Hospital			
ASH-Operating	56,518,300	59,268,700	60,715,700 ^{2/}
ASH-Restoration to Competency	900,100	900,000	900,000 ^{3/}
ASH-Sexually Violent Persons	9,361,700	9,684,900	9,639,100 ^{4/}
One-Time Electronic Medical Records Start-Up	2,688,100	0	0
Public Health/Family Health			
Adult Cystic Fibrosis Care	105,200	105,200	105,200
AIDS Reporting and Surveillance	993,600	1,000,000	1,000,000
Alzheimer's Disease Research	2,375,000	1,125,000	2,125,000 ^{5/}
Biomedical Research Support	997,500	2,000,000	2,000,000 ^{6/}
Pediatric Autoimmune Neurological Disorders Research	0	0	250,000 ^{7/}
Breast and Cervical Cancer and Bone Density Screening	914,000	1,369,400	1,369,400
County Tuberculosis Provider Care and Control	485,900	590,700	590,700
Emergency Medical Services Local Allocation	0	442,000	442,000
Folic Acid Program	396,300	400,000	400,000
High Risk Perinatal Services	1,736,400	2,543,400	2,543,400
Newborn Screening Program	5,371,300	6,297,300	6,697,300
Nursing Care Special Projects	45,100	100,000	100,000
Poison Control Centers Funding	656,800	990,000	990,000
Nonrenal Disease Management	89,200	198,000	198,000 ^{8/}
Renal Dental Care and Nutrition Supplements	225,000	300,000	300,000
School-Based Prevention Education	17,800	0	0
AGENCY TOTAL	1,885,436,700	2,061,228,200	139,419,000^{9/10/}
FUND SOURCES			
General Fund	611,180,000	602,738,500	86,551,700
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	10,308,700	9,575,300	9,562,000

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
ASH Land Earnings Fund	585,100	650,000	880,100
Capital Outlay Stabilization Fund	1,559,800	1,559,900	1,559,900
Child Fatality Review Fund	91,700	95,000	94,700
Disease Control Research Fund	0	0	250,000
Emergency Medical Services Operating Fund	4,556,200	5,369,700	5,357,900
Environmental Laboratory Licensure Revolving Fund	720,500	926,400	924,200
Federal Child Care and Development Fund Block Grant	879,400	876,100	872,300
TTHCF - Health Research Account	1,997,500	3,000,000	4,000,000
Health Services Licensing Fund	8,789,300	9,264,200	9,232,300
Indirect Cost Fund	9,451,900	8,559,800	8,546,100
Newborn Screening Program Fund	5,774,500	6,738,500	7,130,100
Nursing Care Institution Resident Protection Revolving Fund	45,100	138,200	138,200
Prescription Drug Rebate Fund - State	0	8,824,500 ^{11/}	0
Substance Abuse Services Fund	2,250,000	2,250,200	0
TTHCF - Medically Needy Account	35,388,300	44,702,300	700,000
Vital Records Electronic Systems Fund	2,075,000	3,629,000	3,619,500
SUBTOTAL - Other Appropriated Funds	84,473,000	106,159,100	52,867,300
SUBTOTAL - Appropriated Funds	695,653,000	708,897,800	139,419,000
Expenditure Authority Funds			
Federal Medicaid Services	1,189,783,700	0	0
ISA Behavioral Health Services Fund	0	1,352,330,400	0
SUBTOTAL - Expenditure Authority Funds	1,189,783,700	1,352,330,400	0
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,885,436,700	2,061,228,200	139,419,000
Other Non-Appropriated Funds	123,538,600	128,130,700	65,534,300
Federal Funds	295,902,400	291,116,300	249,596,000
TOTAL - ALL SOURCES	2,304,877,700	2,480,475,200	454,549,300

- 1/ Includes 694 GF and 60.1 OF FTE Positions funded from Special Line Items in FY 2017.
- 2/ In addition to the appropriation for the Department of Health Services, earnings on state lands and interest on the investment of the Permanent State Land Funds are appropriated to the Arizona State Hospital in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)
- 3/ The Arizona State Hospital - Restoration to Competency line item includes monies for direct costs associated with the Restoration to Competency program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 4/ The Arizona State Hospital - Sexually Violent Persons line item includes monies for direct costs associated with the Sexually Violent Person program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 5/ Of the \$1,125,000 for Alzheimer's Disease Research, \$1,000,000 is from the Tobacco Tax and Health Care Fund - Health Research Account established by A.R.S. § 36-773. (General Appropriation Act footnote)
- 6/ Laws 2014, Chapter 18, Section 128 appropriated \$2,000,000 annually from the Health Research Fund established by A.R.S. § 36-275 from FY 2015 through FY 2019 to the Department of Health Services for allocation to a nonprofit medical research institute headquartered in this state that meets certain criteria. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Please see the Biomedical Research Support line item for more information.)
- 7/ Laws 2016, Chapter 207 appropriates \$250,000 from the Disease Control Research Fund in FY 2017 for Pediatric Autoimmune Neurological Disorders Research.
- 8/ The Department of Health Services may use up to 4% of the amounts appropriated for Nonrenal Disease Management for the administrative costs to implement the program. (General Appropriation Act footnote)
- 9/ The Department of Health Services shall electronically forward to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, and the Director of the Joint Legislative Budget Committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential federal and other monies, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriation Act footnote)
- 10/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 11/ Laws 2016, Chapter 117 provides a one-time appropriation \$8,824,500 from the Prescription Drug Rebate Fund - State to DHS in FY 2016 for higher-than-anticipated behavioral health caseload growth in FY 2016.

AGENCY DESCRIPTION — The Department of Health Services (DHS) is responsible for the provision of most public health programs not administered by AHCCCS, the Arizona State Hospital (ASH), emergency medical services, state laboratory support, vital records maintenance, disease control, and epidemiological monitoring.

Summary

DHS' FY 2017 General Fund spending decreases by \$(516,186,800), or (85.6)% from FY 2016.

The budget includes the transfer of behavioral health services from DHS to AHCCCS pursuant to Laws 2015, Chapters 19 and 195. Of the \$(517,304,700) being transferred, \$(418,991,900) is for Medicaid-funded behavioral health services and \$(98,312,800) is for non-Medicaid behavioral health services.

Net of the behavioral health transfer, DHS' General Fund spending increases by \$1,117,900 in FY 2017, including \$1,512,800 for increased staffing at the Arizona State Hospital, \$(394,700) for statewide adjustments, and \$(200) to remove one-time named claimants funding from FY 2016.

Behavioral Health Transfer

Laws 2015, Chapters 19 and 195 transfer administration of Medicaid-funded and non-Medicaid funded behavioral health services from DHS to AHCCCS effective July 1, 2016. DHS will continue to operate the Arizona State Hospital.

The budget includes an increase of \$517,304,700 from the General Fund, \$1,351,394,000 from Federal Medicaid Authority, and \$141,057,100 from other appropriated and non-appropriated funds in AHCCCS in FY 2017 for the transfer, and includes a corresponding decrease from each of these fund sources in DHS.

As part of the transfer, the budget removes one-time non-General Fund expenditures for higher-than anticipated behavioral health caseload growth in FY 2016 and backfills these expenditures with General Fund monies. As a result, the behavioral health resources transferred to AHCCCS is increased in FY 2017 by an additional \$18,059,800 from the General Fund. *(Please see FY 2016 Supplemental section for additional information.)*

The budget also includes \$(1,064,200) in General Fund savings and \$(2,041,100) in Federal Medicaid Authority savings in FY 2017 for reduced administrative costs of behavioral health services. These savings are primarily the result of a net decrease of (28.2) FTE Positions across AHCCCS and DHS in FY 2017 for behavioral health administrative positions currently in DHS that are not

transferring to AHCCCS. That amount includes a decrease of (140.2) FTE Positions in DHS in FY 2017 as requested by DHS, as well as an increase of 112 FTE Positions in AHCCCS in FY 2017.

Table 1	
Behavioral Health Transfer	
General Fund	\$534,300,300
TTHCF - Medically Needy Account	34,767,000
Substance Abuse Services Fund	2,250,200
Federal Medicaid Authority	<u>1,349,352,900</u>
<i>Subtotal</i>	<i>\$1,920,670,400</i>
Non-Appropriated Funds	<u>104,039,900</u>
Total Funds	\$2,024,710,300

Table 1 shows the total resources that the budget transfers to AHCCCS for behavioral health services, net of the administrative savings. AHCCCS has an increase of \$2,024,710,300 in total fund spending, including \$534,300,300 from the General Fund, \$1,349,352,900 from Federal Medicaid Authority, and \$141,057,100 from other funds.

The behavioral health transfer is an outgrowth of prior integration efforts. AHCCCS and DHS currently integrate acute care services and behavioral health services for Medicaid-eligible adults with a serious mental illness (SMI). In April 2014, AHCCCS and DHS entered into an agreement to integrate acute care services and behavioral health services for Medicaid-eligible SMI adults in Maricopa County. The budget assumes that integrated services will be provided to approximately 21,500 SMI clients in Maricopa County by June 2017.

DHS expanded integrated services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa Regional Behavioral Health Authority (RBHA) contracts on October 1, 2015. The Non-Maricopa RBHAs serve clients in 2 Geographic Service Areas (GSAs) outside of Maricopa County. The North GSA includes Apache, Coconino, Gila, Mohave, Navajo, and Yavapai Counties, as well as a small portion of Graham County. The South GSA includes Cochise, Graham, Greenlee, La Paz, Pima, Pinal, Santa Cruz, and Yuma Counties. The budget assumes that the Non-Maricopa RBHAs will provide integrated services to 20,800 clients by June 2017.

This integrated program, unlike services provided to most Medicaid-eligible populations, uses an integrated capitation rate paid to one contractor (i.e., the acute care and behavioral health costs are combined into 1 rate as

opposed to having 2 separate rates paid to 2 separate contractors by 2 separate agencies). The average capitation rate paid to the RBHAs in FY 2017 for integrated SMI services is approximately \$1,900 per member per month, or approximately \$550 for acute care services and \$1,350 for behavioral health services. The acute care portion of the rate is included in the acute care line items, and the behavioral health portion of the rate is included in the behavioral health line items. *(Please see SMI Funding in the AHCCCS Other Issues for more information on the costs associated with the SMI population.)*

AHCCCS has also pursued integration of behavioral health and acute care with other populations. The Children’s Rehabilitative Services (CRS) contractor provides all acute care, behavioral health, and CRS services for most children enrolled in CRS. AHCCCS acute care contractors also began providing integrated acute care and behavioral health services to AHCCCS beneficiaries that have Medicare coverage and utilize general mental health services and/or substance abuse services on October 1, 2015.

Operating Budget

The budget includes \$49,053,200 and 311.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$19,267,300
Capital Outlay Stabilization Fund	1,559,900
Child Fatality Review Fund	94,700
Emergency Medical Services (EMS) Operating Fund	4,465,900
Environmental Laboratory Licensure Revolving Fund	924,200
Federal Child Care and Development Fund (CCDF) Block Grant	872,300
Health Services Licensing Fund	9,232,300
Indirect Cost Fund	8,546,100
Newborn Screening Program Fund	432,800
Nursing Care Institution Resident Protection Revolving Fund	38,200
Vital Records Electronic Systems Fund	3,619,500

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(15,539,800) and (140.2) FTE Positions in FY 2017 from the operating budget to shift operating expenses for behavioral health services from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(4,602,400)
Substance Abuse Services Fund	(200)
Federal Medicaid Authority	(10,937,200)

(See Behavioral Health Transfer section for additional information.)

Licensing Decrease

The budget includes a decrease of \$(936,400) in Federal Medicaid Authority in FY 2017 from the operating budget as requested by the agency to eliminate Medicaid funding for DHS licensing operations. DHS receives Federal Medicaid Authority funds to license long term care facilities used by AHCCCS enrollees pursuant to an interagency service agreement (ISA) with AHCCCS. DHS continues to license these facilities, but this ISA is no longer in effect.

One-Time Named Claimants Funding

The budget includes a decrease of \$(1,292.19) in FY 2017 for the elimination of one-time funding of prior year unpaid claims. This amount consists of:

General Fund	(157.00)
EMS Operating Fund	(908.04)
Newborn Screening Program Fund	(227.15)

(Please see the Named Claimants discussion in ADOA Other Issues.)

Statewide Adjustments

The budget includes a decrease of \$(146,800) in FY 2017 from the operating budget for statewide adjustments. This amount consists of:

General Fund	(66,300)
Child Fatality Review Fund	(300)
EMS Operating Fund	(10,900)
Environmental Laboratory Licensure Revolving Fund	(2,200)
Federal CCDF Block Grant	(3,800)
Health Services Licensing Fund	(31,900)
Indirect Cost Fund	(13,700)
Newborn Screening Program Fund	(8,200)
Vital Records Electronic Systems Fund	(9,500)

(Please see the Agency Detail and Allocations section.)

Behavioral Health

Through FY 2016, these line items funded 4 types of services: 1) Serious Mental Illness (SMI), 2) Children’s Behavioral Health (CBH), 3) General Mental Health and Substance Abuse (GMH/SA) and 4) Comprehensive Medical and Dental Program (CMDP).

Medicaid Behavioral Health - Traditional Services

The budget includes no funding in FY 2017 for Medicaid Behavioral Health - Traditional Services. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(918,223,800) in FY 2017 to shift the Medicaid Behavioral Health - Traditional Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(233,735,000)
Tobacco Tax and Health Care Fund - Medically Needy Account	(44,002,300)
Federal Medicaid Authority	(640,486,500)

Background – This line item provided behavioral health treatment to Medicaid eligible adults and children. DHS currently administers Traditional behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See *Behavioral Health Transfer section for additional detail.*)

Medicaid Behavioral Health - Proposition 204 Services

The budget includes no funding in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(579,201,100) in FY 2017 to shift the Medicaid Behavioral Health - Proposition 204 Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(101,389,500)
Prescription Drug Rebate Fund - State	(5,475,100)
Federal Medicaid Authority	(472,336,500)

Background – This line item provided behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. DHS currently administers Proposition 204 behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See *Behavioral Health Transfer section for additional detail.*)

Medicaid Behavioral Health - Comprehensive Medical and Dental Program

The budget includes no funding in FY 2017 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(185,855,600) in FY 2017 to shift the Medicaid Behavioral Health - CMDP line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(54,355,600)
Prescription Drug Rebate Fund - State	(3,349,400)
Federal Medicaid Authority	(128,150,600)

Background – This line item provided behavioral health treatment to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. DCS currently administers the acute care services for this population. DHS currently administers CMDP behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See *Behavioral Health Transfer section for additional detail.*)

Medicaid Behavioral Health - Adult Expansion Services

The budget includes no funding in FY 2017 for Medicaid Behavioral Health - Adult Expansion Services. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(70,549,600) in FY 2017 to shift the Medicaid Behavioral Health - Adult Expansion Services line item from the DHS budget to the AHCCCS budget.

The Adult Expansion provided behavioral health treatment for adults from 100%-133% FPL who were not eligible for another Medicaid program. DHS currently administers Adult Expansion behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See *Behavioral Health Transfer section for additional detail.*)

Proposition 204 Administration

The budget includes no funding in FY 2017 for Proposition 204 Administration. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(6,446,700) in FY 2017 to shift the Proposition 204 Administration line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(2,011,000)
Federal Medicaid Authority	(4,435,700)

This line item provided funding for the administrative component of the Proposition 204 population. DHS currently administers Proposition 204 behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See Behavioral Health Transfer section for additional detail.)*

Medicare Clawback Payments

The budget includes no funding in FY 2017 for Medicare Clawback Payments. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(14,228,600) from the General Fund in FY 2017 to shift funding for Medicare Clawback Payments from the DHS budget to the AHCCCS budget.

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, DHS was not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DHS was required to make "Clawback" payments to Medicare based on a certain percent (75.0% in 2016) of the estimated drug costs. DHS currently makes behavioral health Clawback payments to the federal government, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See Behavioral Health Transfer section for additional detail.)*

Medicaid Insurance Premium Payments

The budget includes no funding in FY 2017 for Medicaid Insurance Premium Payments. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(33,167,700) in FY 2017 to shift Medicaid Insurance Premium Payments from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(8,669,800)
Federal Medicaid Authority	(24,497,900)

This line item provided funding necessary for insurance premium tax payments by DHS. The department was required to pay a 2% tax on the capitation payments it paid to RBHAs. DHS currently pays Medicaid insurance premium taxes for the RBHAs, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See Behavioral Health Transfer section for additional detail.)*

Non-Medicaid Seriously Mentally Ill Services

The budget includes no funding in FY 2017 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(78,846,900) from the General Fund in FY 2017 to shift the Non-Medicaid Seriously Mentally Ill Services line item from the DHS budget to the AHCCCS budget.

Background – This line item provided funding for Non-Medicaid SMI clients. The state had been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the SMI population. An exit agreement from the litigation requires the state to provide assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness. DHS is currently responsible for providing these services, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See the Behavioral Health Transfer section for additional detail.)*

Supported Housing

The budget includes no funding in FY 2017 for Supported Housing. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(5,324,800) from the General Fund in FY 2017 to shift the Supported Housing line item from the DHS budget to the AHCCCS budget.

Background – This line item funded housing services that enabled individuals to live in the community. These funds served Medicaid and 100% state funded recipients. DHS currently funds supported housing for SMI clients, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See the Behavioral Health Transfer section for additional detail.)*

Crisis Services

The budget includes no funding in FY 2017 for Crisis Services. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes a decrease of \$(16,391,100) in FY 2017 to shift the Crisis Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(14,141,100)
Substance Abuse Services Fund	(2,250,000)

Background – This line item provided funding for persons in need of emergency behavioral health assistance. These included 24-hour crisis telephone lines, crisis mobile teams, and facility based crisis services and served 100% state funded recipients. DHS currently funds crisis services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See the Behavioral Health Transfer section for additional detail.)

Arizona State Hospital

ASH - Operating

The budget includes \$60,715,700 and 616.5 FTE Positions in FY 2017 for the ASH operating budget. These amounts consist of:

General Fund	54,169,200
ASH Fund	5,666,400
ASH Land Earnings Fund	880,100

These amounts fund the following adjustments:

ASH Staffing Increase

The budget includes an increase of \$1,512,800 and 29 FTE Positions from the General Fund in FY 2017 for 14 additional nurses and 15 additional campus security officers at ASH. (Please see Other Issues for more information.)

One-Time ASH Equipment Purchases

The budget includes an increase of \$230,100 from the ASH Land Earnings Fund in FY 2017 for one-time purchases of new camera and recording equipment to improve monitoring of patients at ASH. (Please see Other Issues for more information.)

Statewide Adjustments

The budget includes a decrease of \$(295,900) from the General Fund in FY 2017 for statewide adjustments.

This line item provides funding for inpatient psychiatric hospitalization services for adult SMI residents. ASH residents that are subject to court-ordered treatment are treated in ASH’s civil hospital and residents charged with or serving a sentence for committing a crime are treated in ASH’s forensic hospital. In FY 2015, ASH had an average monthly census of 109 patients in its civil commitment unit, 121 patients in its forensic unit, and 92 Sexually Violent Persons (SVP), for a total of 322 patients.

ASH - Restoration to Competency

The budget includes \$900,000 from the ASH Fund in FY 2017 for ASH - Restoration to Competency. This amount is unchanged from FY 2016.

The FY 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 122) continues to require counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH.

Background – ASH provides treatment to restore to competency individuals who are found incompetent to stand trial. Prior to 1997, counties paid 100% of the cost of restoring patients to competency. In FY 1997, the state assumed the full cost of RTC treatment. In FY 2002, the state began requiring cities and counties to pay 86% of the costs of the program. The state continued to vary the required reimbursement rate over the next several years. Beginning in FY 2010, budget-related session laws have required all counties to pay 100% of the daily cost of care for RTC patients treated at ASH. In FY 2015, there was an average monthly census of 4 RTC patients treated at ASH. RTC patients are treated in ASH’s forensic unit.

ASH - Sexually Violent Persons

The budget includes \$9,639,100 and 112.5 FTE Positions in FY 2017 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,643,500
ASH Fund	2,995,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(45,800) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(32,500)
ASH Fund	(13,300)

After serving their prison sentence, some persons convicted of sexually violent crimes may be remanded by the courts for further confinement and treatment. These individuals are housed at the Arizona State Hospital. In FY 2015, ASH had an average monthly census of 92 Sexually Violent Persons (SVPs).

Since FY 2010, counties that have sent SVPs to ASH are responsible for a portion of the daily cost of care. The FY 2017 Health BRB continues to require counties to pay 31% of their total SVP costs in FY 2017. Of the total amount appropriated for SVP care in FY 2017, counties would pay

\$2,988,100. The BRB provision also clarifies that counties must pay their share of SVP costs throughout the entire commitment process, including pre-adjudication proceedings.

Public Health/Family Health

Adult Cystic Fibrosis Care

The budget includes \$105,200 from the General Fund in FY 2017 for Adult Cystic Fibrosis Care. This amount is unchanged from FY 2016.

This line item provides contracted care and treatment services through Phoenix Children’s Hospital for 20 individuals with cystic fibrosis.

AIDS Reporting and Surveillance

The budget includes \$1,000,000 from the General Fund in FY 2017 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2016.

The line item provides \$100,000 for a database system administered by Maricopa and Pima Counties to track the incidence of Acquired Immune Deficiency Syndrome (AIDS) and AIDS-related conditions. The program also receives \$850,000 to provide medications under the Arizona AIDS Drug Assistance Program (ADAP), which also receives Federal Funds for the medications. The ADAP program served approximately 1,451 clients in FY 2015.

Alzheimer’s Disease Research

The budget includes \$2,125,000 in FY 2017 for Alzheimer’s Disease Research. This amount consists of:

General Fund	125,000
TTHCF - Health Research Account	2,000,000

These amounts fund the following adjustments:

One-Time Alzheimer’s Research Funding Increase

The budget includes an increase of \$1,000,000 from the TTHCF - Health Research Account in FY 2017 for a one-time increase in Alzheimer’s research funding.

Background – DHS distributes funding in the line item to the Arizona Alzheimer’s Consortium (AAC). The AAC provides dollar-for-dollar matching grants to universities, hospitals, and research centers for research on the causes of Alzheimer’s disease.

The FY 2017 Health BRB continues to permit the department to use TTHCF - Health Research Account monies for Alzheimer’s disease research.

Biomedical Research Support

The budget includes \$2,000,000 from the TTHCF - Health Research Account in FY 2017 for Biomedical Research Support. This amount is unchanged from FY 2016.

This line item is funded by Section 128 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). Section 128 appropriates \$2,000,000 annually in FY 2015 through FY 2019 from the TTHCF - Health Research Account. As a result of the Chapter 18 funding, these monies do not appear in subsequent year General Appropriation Acts.

This line item is to provide funding to a nonprofit medical research institute headquartered in Arizona that specializes in biomedical research, conducts molecular epidemiological analyses to assist with disease outbreak investigations, and collaborates with universities, hospitals, and other public and private bioscience and related industries in this state. Section 128 requires the recipient of monies in this line item to submit an annual audit of expenditures of these monies to DHS by February 1 of each year.

DHS distributed monies from this line in FY 2015 to the Translational Genomics Research Institute (TGen), a nonprofit medical research institution headquartered in Arizona. In addition to these monies, Chapter 18 appropriated \$3,000,000 from the General Fund in FY 2015 through FY 2019 to Northern Arizona University (NAU) for biotechnology. NAU allocated its FY 2015 appropriation to TGen. *(Please see the NAU narrative for more information.)*

In FY 2013 and FY 2014, respectively, DHS allocated \$4,100,000 and \$2,000,000 to TGen from non-appropriated Health Research Account monies. At that time, however, there was no funding through NAU.

The appropriation from this line item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

Pediatric Autoimmune Neurological Disorders Research

Laws 2016, Chapter 207 appropriates \$250,000 from the Disease Control Research Fund in FY 2017 to DHS to distribute competitive grants for pediatric autoimmune neurological disorders research.

Pediatric Acute-onset Neuropsychiatric Syndrome (PANS) involves the rapid development of neuropsychiatric symptoms in children, such as Obsessive Compulsive Disorder, anxiety, and difficulty concentrating. In some children, these symptoms could be the result of autoimmune responses to infectious disease. For example, Pediatric Autoimmune Neurological Disorders Associated with Streptococcal Infections (PANDAS) is a specific type of PANS triggered by a strep infection.

DHS will distribute monies in this line item to the Arizona Biomedical Research Commission. The commission will evaluate research grant applications related to PANS and PANDAS.

Breast and Cervical Cancer and Bone Density Screening

The budget includes \$1,369,400 and 1 FTE Position from the General Fund in FY 2017 for Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2016.

The Well Woman Healthcheck program provides contracted cancer screenings for women over age 40 who lack health insurance and have incomes less than 250% of the FPL. Women who are diagnosed with breast and cervical cancer through this program are eligible to receive treatment through AHCCCS.

County Tuberculosis Provider Care and Control

The budget includes \$590,700 from the General Fund in FY 2017 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2016.

This line item provides reimbursement to hospitals and physicians for the care of hospitalized tuberculosis patients and for assistance to all county health departments for local tuberculosis control programs.

Emergency Medical Services Local Allocation

The budget includes \$442,000 from the EMS Operating Fund in FY 2017 for the Emergency Medical Services Local Allocation line item. This amount is unchanged from FY 2016.

This line item provides funding to 4 regional EMS Councils that distribute funding for EMS training and equipment to cities and towns with a population of fewer than 90,000 people.

Folic Acid Program

The budget includes \$400,000 from the TTHCF - Medically Needy Account in FY 2017 for the Folic Acid Program. This amount is unchanged from FY 2016.

This line item provides funding for the distribution of folic acid to women of child bearing age to help prevent birth defects. In FY 2015, 30,105 women received folic acid education and multivitamins.

High Risk Perinatal Services

The budget includes \$2,543,400 in FY 2017 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
EMS Operating Fund	450,000

These amounts are unchanged from FY 2016.

This line item provides contracted transport services for high risk expectant mothers and contracted physician follow-up services for uninsured newborns in intensive care centers. It also provides funding for 4 visits per year to families who have babies born at risk of having developmental problems (i.e. speech problems, poor motor skills, delay in walking, etc.). The purpose of the visits is to have children developmentally ready to enter school by age 5.

Newborn Screening Program

The budget includes \$6,697,300 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2017 for the Newborn Screening Program. These amounts fund the following adjustments:

Annualize Equipment Contract Costs

The budget includes an increase of \$400,000 from the Newborn Screening Program Fund in FY 2017 to annualize the cost of DHS's contract for rented laboratory equipment used by the Newborn Screening program.

Background – This line item funds the centralized testing of all newborns in the state for a standard set of 29 disorders plus Chapter 171 provisions described below. In FY 2015, the program provided screening for 85,978 newborns. The program also provides for follow-up counseling for the parents of affected newborns. The State Health Laboratory is the designated laboratory for testing.

Laws 2014, Chapter 171 requires DHS to perform hearing tests on all newborns and screen them for critical congenital heart defects (CCHD). Chapter 171 also permits DHS to adopt tests for Severe Combined Immunodeficiencies (SCID) and Krabbe Disease if the department performs a cost benefit analysis and seeks stakeholder input. The law also allows DHS to designate other laboratories as testing facilities for conditions or tests added to the screening program. Prior to the enactment of this law, DHS was required to contract only with the State Health Laboratory.

In October 2014, the Newborn Screening Advisory Committee recommended DHS include the screening test for SCID. The department determined that the testing fee would need to be increased by \$10 to pay for new equipment and other related costs. In June 2015, DHS established new rules for newborn screening that allow the department to screen for SCID if sufficient funding becomes available, but the screen does not include SCID as of May 2016.

Nursing Care Special Projects

The budget includes \$100,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2017 for special projects related to long-term care facilities. This amount is unchanged from FY 2016.

Background – The Nursing Care Institution Resident Protection Revolving Fund receives deposits from civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications. Historically, DHS’ operating budget has included an ongoing appropriation of \$38,000 from this fund for emergency patient relocation and patient personal property replacement. Additional amounts have been appropriated to fund specific projects in past fiscal years, including the recently eliminated nursing facility study.

Poison Control Centers Funding

The budget includes \$990,000 from the General Fund in FY 2017 for Poison Control Centers. This amount is unchanged from FY 2016.

A.R.S. § 36-1161 requires 2 poison control centers to be maintained in Arizona. DHS allocated \$647,300 to the University of Arizona Poison Information Center and \$342,700 to the Banner Poison Control Center in FY 2015.

A.R.S. § 32-1907 allows the Board of Pharmacy to transfer up to \$1,000,000 from the Arizona State Board of Pharmacy Fund to the University of Arizona Poison

Control Information Center. However, this amount is not reflected in the table at the beginning of this narrative. The Board of Pharmacy transferred \$200,000 to the Poison Controls Centers in FY 2015.

Nonrenal Disease Management

The budget includes \$198,000 from the General Fund in FY 2017 for Nonrenal Disease Management. This amount is unchanged from FY 2016.

This line item provides funding for medication and other transplant-related services for nonrenal transplant patients who are ineligible for other public assistance programs.

Renal Dental Care and Nutrition Supplements

The budget includes \$300,000 from the TTHCF - Medically Needy Account in FY 2017 for Renal Dental Care and Nutrition Supplements. This amount is unchanged from FY 2016.

This line item provides pre-operative dental care and ongoing nutritional assistance for low-income renal disease patients. Funding in this line item treats kidney disease and associated kidney damage.

Other Issues

This section includes information on the following topics:

- Fund Transfers
- FY 2016 Supplemental
- Additional Legislation
- Arizona State Hospital Plan of Correction
- Arizona State Hospital Fund Deficit
- Proposition 123

Fund Transfers

The budget includes a total fund transfer of \$3,350,000 from the Health Services Lottery Monies Fund in FY 2017 for purposes specified in the FY 2017 General Appropriation Act. Of this amount, \$2,400,000 is for DHS to reduce a projected shortfall in the ASH Fund (*see ASH Fund Shortfall section below*), \$700,000 is for additional funding for Area Agencies on Aging in the Department of Economic Security budget, and \$250,000 for a felony pretrial intervention program in Maricopa County. These transfers will result in a one-time reduction of the balance of the fund from \$11,681,700 to \$8,331,700 by the end of FY 2017.

FY 2016 Supplemental

The budget includes a FY 2016 supplemental appropriation of \$130,433,100 for DHS in FY 2016 for higher-than-projected caseload growth across Traditional, Proposition 204, and Adult Expansion populations. The appropriation includes one-time fund sources for the \$18,059,800 in state match, which consists of \$9,235,300 from the TTHCF - Medically Needy Account, and \$8,824,500 from the Prescription Drug Rebate Fund. Section 112 of the FY 2017 General Appropriation Act also permits AHCCCS to transfer up \$3,352,200 from the Tobacco Products Tax Fund (TPTF) - Proposition 204 Protection Account to DHS for any additional supplemental funding needs for the Proposition 204 population.

Table 2 shows the differences in behavioral health caseload projections between the FY 2016 enacted budget and the FY 2017 budget. The FY 2017 budget is projecting additional enrollment of 171,257 by June 1, 2016 relative to the FY 2016 budget.

Table 2
June 1, 2016 Behavioral Health Caseload Revisions

	FY 2016 Budget	FY 2017 Budget	Net Change
Traditional	1,002,035	1,078,270	76,235
Prop 204	454,147	501,726	47,579
CMDP	16,721	16,677	(44)
Adult Expansion	41,689	89,176	47,487
Total	1,514,592	1,685,849	171,257

Laws 2016, Chapter 45 provides a FY 2016 supplemental appropriation to DHS for the payment of prior year unpaid claims, including \$157.00 from the General Fund, \$908.04 from the EMS Operating Fund, and \$227.15 from the Newborn Screening Fund. (Please see Named Claimants discussion in ADOA Other Issues.)

Additional Legislation

FY 2017 Health BRB

In addition to the previously mentioned items, The FY 2017 Health BRB (Laws 2016, Chapter 122) includes the following additional provisions:

- As permanent law, Sections 1, 2, and 35 retain the ISA for Behavioral Health Services Fund in DHS until the fund is repealed on September 1, 2020. The bill prohibits DHS from spending the monies in the fund for any purpose except to pay for behavioral health services claims incurred on or before June 30, 2016. As session law, Section 22 allows any unexpended or unencumbered monies in the fund to revert to the General Fund on July 1 of FY 2018, FY 2019, and FY

2020 after any adjustments are approved by AHCCCS and reviewed by JLBC.

- As session law, Section 27 notwithstanding A.R.S. § 36-108.01 and § 5-572C to appropriate monies from the Health Services Lottery Monies Fund for purposes specified in the FY 2017 General Appropriation Act. (Please see Fund Transfers section for additional information.)

Non-Restorable Dangerous Defendants

As session law, the FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) establishes a study committee on incompetent, nonrestorable and dangerous defendants. Such defendants are individuals that have been charged with a crime for which they were found incompetent to stand trial, and after receiving treatment from a restoration to competency program, have been deemed nonrestorable by the court. Under current law, nonrestorable defendants may be remanded to DHS for civil commitment proceedings, appointed a guardian, or released.

The study committee is required to research and offer recommendations related to the treatment and long-term supervision of dangerous and non-restorable defendants, and must submit a report on its findings on or before December 15, 2016. The Director of DHS and the CEO of the Arizona State Hospital are members of the committee.

The Governor vetoed other legislation, SB 1510, that would have made changes to competency examinations, court-ordered evaluation, and court-ordered treatment for incompetent and non-restorable defendants. In his veto letter, the Governor cited concerns about how the bill would have impacted the licensure of the Arizona State Hospital.

DHS Building Renovation

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) requires the Arizona Department of Administration (ADOA) to allocate \$4,200,000 from its building renewal appropriation to renovate the 1740 West Adams building used by the Department of Health Services. (Please see ADOA Capital Outlay section for additional information.)

Arizona State Hospital Plan of Correction

In May 2015, the Centers for Medicare and Medicaid Services (CMS) initiated an investigation into ASH following allegations of patient abuse. CMS identified several deficiencies in the quality of care at ASH, including failure to adequately monitor patients, insufficient nurse staffing, and a lack of an overall quality improvement plan. Without correcting these problems, ASH risked

losing its CMS certification, which would disqualify ASH from drawing down Disproportionate Share Hospital payments to the General Fund.

In July 2015, CMS approved the plan of correction submitted by the Hospital, and in a follow-up inspection in September 2015, CMS confirmed that ASH is no longer at immediate risk of losing certification. To support the continued implementation of the plan of correction, the budget includes \$1,512,800 from the General Fund for 14 additional nurses and 15 campus security officers to address staffing needs at ASH, as well as \$230,100 from the ASH Land Earnings Fund for new cameras and recording equipment to improve monitoring of patients.

Arizona State Hospital Fund Deficit

DHS reports that the ASH Fund has ongoing expenses that are higher than its ongoing revenues. *Table 3* below shows actual ASH Fund revenues and spending from FY 2013 to FY 2015. The fund receives payments from counties for the RTC program and the SVP program, as well as a limited amount of reimbursement from Medicaid and Medicare. DHS had originally projected that ASH Fund disbursements would exceed ASH Fund revenues by \$4.6 million in FY 2016.

In past years, DHS has offset this deficit by transferring ASH Fund expenses for prescription medications to the Non-Medicaid Seriously Mentally Ill Services line item, but AHCCCS will be administering this line item following the behavioral health transfer. The budget includes a footnote that requires AHCCCS to transfer \$1,200,000 from the Non-Medicaid Seriously Mentally Ill line item to DHS in FY 2017 to help cover the prescription medication costs of ASH patients. The budget also transfers \$2,400,000 from the Health Services Lottery Monies Fund to the ASH Fund in FY 2016.

Table 3
ASH Fund Actual Revenues and Expenditures
(\$ in millions)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Beginning Balance	\$3.2	\$4.7	\$4.5
Actual Revenue	<u>8.7</u>	<u>6.9</u>	<u>4.7</u>
Total Available	\$11.9	\$11.7	\$9.3
Actual Spending ^{1/}	<u>\$10.5</u>	<u>\$ 9.4</u>	<u>\$8.6</u>
Ending Balance ^{2/}	\$ 1.5	\$ 2.3	\$0.7

^{1/} FY 2015 Actual Spending includes an administrative adjustment of \$(1.7) million.

^{2/} According to DHS, the Ending Balance does not match the Beginning Balance in the succeeding fiscal year due to transfers of Non-Medicaid SMI monies to the ASH Fund.

Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona State Hospital receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, the Arizona State Hospital received \$138,400 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer's annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, the Arizona State Hospital will receive \$274,900 in additional revenue from the Treasurer's distributions in FY 2016 and a total of \$477,300 from the Treasurer's distributions in FY 2017. Since Arizona State Hospital land funds are subject to appropriation, the Arizona State Hospital will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*

Arizona Historical Society

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	51.9	51.9	50.9 ^{1/}
Personal Services	1,211,500	1,218,100	1,218,100
Employee Related Expenditures	509,700	516,200	509,500
Professional and Outside Services	52,300	53,400	53,400
Other Operating Expenditures	343,800	330,800	333,100
OPERATING SUBTOTAL	2,117,300	2,118,500	2,114,100
SPECIAL LINE ITEMS			
Arizona Experience Museum	428,300	428,300	0 ^{2/}
Field Services and Grants	66,000	66,000	66,000
Papago Park Museum	544,400	544,400	542,800
AGENCY TOTAL	3,156,000	3,157,200	2,722,900^{3/}
FUND SOURCES			
General Fund	3,156,000	3,157,200	2,722,900
SUBTOTAL - Appropriated Funds	3,156,000	3,157,200	2,722,900
Other Non-Appropriated Funds	1,198,100	1,282,000	1,089,300
Federal Funds	100	0	0
TOTAL - ALL SOURCES	4,354,200	4,439,200	3,812,200

AGENCY DESCRIPTION — The Arizona Historical Society acquires, preserves, maintains, and publicly exhibits archival and museum objects pertaining to the history of Arizona, the West, and the Indian tribes inhabiting the state. The Society's major museums are in Yuma, Flagstaff, Tucson, Phoenix, and Tempe (Papago Park).

Operating Budget

The budget includes \$2,114,100 and 40.4 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,400) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Arizona Experience Museum

The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transfers \$(428,300) and (1) FTE Position from the General Fund in FY 2017 to the University of Arizona to re-open the former Mining and Mineral Museum.

This line item funded personnel and rent of the Arizona Experience Museum. This facility was formerly the Arizona Mining and Mineral Museum on the Capitol Mall and was operated by the Department of Mines and Mineral Resources.

The Mining and Mineral Museum closed May 1, 2011 for renovations and the Department of Mines and Mineral Resources was eliminated as a state agency in FY 2012. The building was eventually renamed the Centennial Museum and then the Arizona Experience Museum but was never re-opened. Of the FY 2016 appropriation for the Arizona Experience Museum, \$360,800 is used to pay rent for the vacant property and the remaining \$67,500 is used to fund the Curator position.

In October 2014, AHS opened an exhibition at the Papago Park Museum utilizing a portion of the mining and mineral collection. The remainder of the collection remains at the former Mining and Mineral Museum's facility.

^{1/} Includes 10.5 FTE Positions funded from Special Line Items in FY 2017.

^{2/} Laws 2016, Chapter 128 transfers \$(428,300) and (1) FTE Position from the General Fund in FY 2017 to the University of Arizona to re-open the former Mining and Mineral Museum.

^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

The FY 2017 Agency Consolidation BRB transfers the Arizona Experience Museum to the Arizona Geological Survey/ University of Arizona, and is renamed the Mining, Mineral and Natural Resources Educational Museum. (See *Additional Legislation for more information.*)

(See the *University of Arizona - Main Campus section for more information.*)

Field Services and Grants

The budget includes \$66,000 and a 0.4 FTE Position from the General Fund in FY 2017 for Field Services and Grants. These amounts are unchanged from FY 2016.

This line item funds contracts with certified county historical societies for services to be performed for the benefit of the state.

Papago Park Museum

The budget includes \$542,800 and 10.1 FTE Positions from the General Fund in FY 2017 for the Papago Park Museum. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,600) from the General Fund in FY 2017 for statewide adjustments.

Other Issues

Additional Legislation

Museum Transfer

A.R.S. § 28-2448 established the centennial specialty license plate, which requires a \$25 fee. Of the \$25 fee, \$8 is for special plate administration costs, and \$17 is a donation for the Centennial Special Plate Fund. Beginning in FY 2013, permanent law required the Arizona Department of Transportation to make annual distributions of the monies in the Centennial Special Plate Fund to AHS to pay costs related to the maintenance and operations of the Centennial Museum that houses the Mining and Mineral Museum.

As of May 2016, the Centennial Special Plate Fund has collected total revenues of \$547,400 and has a balance of \$305,400. Beginning May 1, 2016, the FY 2017 Agency Consolidation BRB prohibits AHS from encumbering any monies deposited into the Arizona Centennial Special Plate Fund.

The FY 2017 Agency Consolidation BRB transfers all unexpended and unencumbered monies remaining in the Arizona Centennial Special Plate Fund established by A.R.S. § 28-2448 to the Mining, Mineral and Natural Resources Educational Museum Account in the Geological Survey Fund established by A.R.S. § 27-107. The Director of the Department of Transportation will now annually allocate monies in the Centennial Special Plate Fund to the Arizona Geological Survey instead of the Arizona Historical Society.

The FY 2017 Agency Consolidation BRB also includes the following provisions:

- Requires the Arizona Historical Society to fulfill existing Mining, Mineral and Natural Resources Educational Museum obligations, provide the Arizona Geological Survey with a list of inventory, and assist in the transfer of the inventory.
- Transfers to the Arizona Geological Survey all unspent and unencumbered funds received by the Arizona Historical Society for Mining, Mineral and Natural Resources Educational Museum operations.
- Transfers, from Arizona Historical Society to the Arizona Geological Survey retroactive to May 1, 2016, all unencumbered balances and future revenues of the Centennial Special Plate Fund.

Museum Attendance

Table 1

FY 2015 Museum Attendance

<u>Facility</u>	<u>Visitors</u>
Arizona History (Tucson)	8,479
Downtown History (Tucson)	2,677
Fort Lowell (Tucson)	2,869
Sosa Carrillo Fremont (Tucson)	330
Sanguinetti House (Yuma)	2,950
Museum at Papago Park (Tempe)	4,746
Pioneer Museum (Flagstaff)	9,788
Riordan Mansion (Flagstaff)	<u>21,071</u>
Total	52,910

The Sosa Carrillo Fremont House in Tucson reopened at the end of March 2015.

Prescott Historical Society of Arizona

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	13.0	13.0	13.0
Personal Services	456,200	481,100	481,100
Employee Related Expenditures	220,900	232,900	232,900
Other Operating Expenditures	131,900	111,800	110,500
AGENCY TOTAL	809,000	825,800	824,500^{1/}
FUND SOURCES			
General Fund	809,000	825,800	824,500
SUBTOTAL - Appropriated Funds	809,000	825,800	824,500
Other Non-Appropriated Funds	569,800	901,200	726,200
TOTAL - ALL SOURCES	1,378,800	1,727,000	1,550,700

AGENCY DESCRIPTION — The Prescott Historical Society preserves and maintains the Old Governor's Mansion, together with the other buildings and properties of the Sharlot Hall Museum located in Prescott. The Society is responsible for acquiring, preserving, and publicly exhibiting archival and museum objects pertaining to the history, geological, and anthropological life of Arizona and the West.

Operating Budget

The budget includes \$824,500 and 13 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,300) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Department of Homeland Security

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 ESTIMATE
FUND SOURCES			
Federal Funds	24,454,800	25,423,300	19,744,500
TOTAL - ALL SOURCES	24,454,800	25,423,300	19,744,500

AGENCY DESCRIPTION — The Arizona Department of Homeland Security distributes funding received from the U.S. Department of Homeland Security to state agencies and local governments to prevent and mitigate acts of terrorism and natural disasters. The department publishes the Arizona Homeland Security Strategy and provides planning assistance to aid in the development of regional response plans for natural disasters or terrorism incidents.

Board of Homeopathic and Integrated Medicine Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	45,700	47,500	47,500
Employee Related Expenditures	23,000	27,900	27,900
Professional and Outside Services	200	1,800	1,800
Travel - In State	2,100	2,400	2,400
Other Operating Expenditures	21,400	23,200	23,400
Equipment	200	0	0
AGENCY TOTAL	92,600	102,800	103,000^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Homeopathic and Integrated Medicine Examiners' Fund	92,600	102,800	103,000
SUBTOTAL - Other Appropriated Funds	92,600	102,800	103,000
SUBTOTAL - Appropriated Funds	92,600	102,800	103,000
TOTAL - ALL SOURCES	92,600	102,800	103,000

AGENCY DESCRIPTION — The board licenses and regulates medical physicians who practice homeopathic and integrated medicine, a system of medical treatment based on the use of small quantities of remedies which in larger doses produce symptoms of the disease. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

be \$(12,700). (Note: Its actual ending balance will not be negative.)

The budget includes \$103,000 and 1 FTE Position from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Revenue Concerns

The Board of Homeopathic and Integrated Medicine Examiners had 117 licenses renewed in FY 2015. Because the agency regulates few professionals, it has difficulty operating as a full-time board. In FY 2016, the board projects that its revenue will be \$84,600, it will have expenditures of \$102,800, and its ending fund balance will

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Department of Housing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	20.0
Personal Services	169,100	182,700	633,900
Employee Related Expenditures	76,900	69,400	266,100
Professional and Outside Services	5,900	2,000	2,300
Travel - In State	14,600	11,100	52,200
Travel - Out of State	800	0	0
Other Operating Expenditures	44,900	48,300	160,200
Equipment	2,400	5,000	15,200
AGENCY TOTAL	314,600	318,500	1,129,900^{1/}
FUND SOURCES			
General Fund	0	0	811,400
<u>Other Appropriated Funds</u>			
Housing Trust Fund	314,600	318,500	318,500
SUBTOTAL - Other Appropriated Funds	314,600	318,500	318,500
SUBTOTAL - Appropriated Funds	314,600	318,500	1,129,900
Other Non-Appropriated Funds	13,980,200	13,831,800	13,370,200
Federal Funds	76,291,500	79,594,600	81,761,500
TOTAL - ALL SOURCES	90,586,300	93,744,900	96,261,600

AGENCY DESCRIPTION — Through a variety of housing and community improvement programs, the department annually administers approximately \$95 million in federal and non-appropriated state housing and community development funds. The appropriated budget reflects a portion of the agency's administration expenses. Beginning in FY 2017, the responsibilities of the Office of Manufactured Housing are transferred from the Department of Fire, Building and Life Safety to the Arizona Department of Housing.

Operating Budget

The budget includes \$1,129,900 and 20 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$811,400
Housing Trust Fund	318,500

These amounts fund the following adjustments:

Agency Elimination

The budget includes an increase of \$814,800 and 17 FTE Positions from the General Fund in FY 2017 related to the elimination of the Department of Fire, Building and Life Safety. The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transfers the Office of Manufactured Housing from the Department of Fire, Building and Life Safety to the Arizona Department of Housing effective July 1, 2016. The Office of Manufactured Housing maintains standards for the

safety and quality of all manufactured homes, factory built buildings and accessory structures. (Please see the Department of Fire, Building and Life Safety narrative for more information.)

Statewide Adjustments

The budget includes a decrease of \$(3,400) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Governor's Office of Economic Opportunity

Laws 2016, Chapter 372 transfers all unexpended and unencumbered monies remaining in the Interagency Service Agreements Fund (ISA) attributable to the Arizona Housing Finance Authority to the Office of Economic Opportunity effective July 1, 2016. The ISA Fund is estimated to have an ending balance of \$4,829,400 in FY 2016. (Please see the Office of Economic Opportunity narrative for more information.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Independent Redistricting Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	913,900	1,115,300	1,115,300
AGENCY TOTAL	913,900	1,115,300^{2/}	1,115,300^{2/}
FUND SOURCES			
General Fund	913,900	1,115,300	1,115,300
SUBTOTAL - Appropriated Funds	913,900	1,115,300	1,115,300
TOTAL - ALL SOURCES	913,900	1,115,300	1,115,300

AGENCY DESCRIPTION — Proposition 106, approved by voters in November 2000, established the Independent Redistricting Commission (IRC). The commission consists of 5 members, 4 of which are selected by the House and Senate majority and minority leadership. These 4 members then select the final member, who can not be affiliated with either of the 2 major political parties. The commission is charged with redrawing the boundaries for Arizona's legislative and congressional districts based on the 10-year census.

Operating Budget

The budget includes \$1,115,300 from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

Other Issues

Current Redistricting Cycle Funding

For the first year of the current 2010 redistricting cycle, the Legislature appropriated \$500,000 from the General Fund in FY 2011 for start-up expenses. In FY 2012, the Legislature appropriated \$3,000,000 from the General Fund. Given the commission's legal expenses, these appropriations were insufficient. Laws 2012, Chapter 108 provided the commission with a FY 2012 supplemental General Fund appropriation of \$700,000.

The original FY 2013 General Fund appropriation of \$1,457,300 (including statewide adjustments) was also insufficient to provide for the commission's legal expenses. Laws 2013, Chapter 2 appropriated \$500,000 from the General Fund and Laws 2013, Chapter 158 appropriated \$635,226 from the General Fund in FY 2013.

Laws 2013, 1st Special Session, Chapter 1 appropriated \$1,115,100 from the General Fund and Laws 2014, Chapter 3 appropriated \$1,462,701 from the General

Table 1

CY 2010 Redistricting Cycle Appropriations

Fiscal Year	Appropriation
FY 2011 (Laws 2010, 7 th SS, Ch. 1)	\$ 500,000
FY 2012 (Laws 2011, Ch. 24)	3,000,000
FY 2012 (Laws 2012, Ch. 108)	700,000
FY 2013 (Laws 2012, Ch. 294)	1,457,300
FY 2013 (Laws 2013, Ch. 2)	500,000
FY 2013 (Laws 2013, Ch. 158)	635,226
FY 2014 (Laws 2013, 1 st SS, Ch. 1)	1,115,100
FY 2014 (Laws 2014, Ch. 3)	1,462,701
FY 2015 (Laws 2014, Ch. 18)	1,115,300
FY 2016 (Laws 2015, Ch. 8)	1,115,300
FY 2017 (Laws 2016, Ch. 117)	1,115,300
Total	\$12,716,227

Fund in FY 2014 for continued operations and legal expenses.

Laws 2014, Chapter 3 extended the availability of these funds through FY 2015 and Laws 2015, Chapter 8 further extended availability through FY 2016. Chapter 8 also appropriated \$1,115,300 in FY 2016.

After reverting unused funds from prior appropriations at the end of FY 2015, IRC has \$1,161,200 of prior appropriation authority available for use. These funds, along with the FY 2016 appropriation of \$1,115,300, result in total FY 2016 resources of \$2,276,500. Use of the FY 2016 resources was not continued into FY 2017 and any

^{1/} In addition, IRC may expend up to \$1,161,200 of remaining funds from the appropriation made by Laws 2014, Chapter 3. Laws 2015, Chapter 8, Section 120 specifies these monies do not lapse until June 30, 2016.

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

unused portion will revert to the General Fund on July 1, 2016.

These appropriations, along with the FY 2017 appropriation, bring total funding for the current redistricting cycle to \$12,716,227 (see Table 1).

Litigation Status

The budget includes funding for one outstanding case (*Leach v. Independent Redistricting Commission*). A second case was resolved in FY 2016 (*Harris v. Independent Redistricting Commission*). Those 2 cases are as follows:

1. *Leach v. Independent Redistricting Commission* – Various individuals are suing IRC in state court alleging IRC did not follow the process laid out in the Arizona Constitution for drawing the Congressional districts. Several motions have been filed in Superior Court and the individual commissioners were dismissed as defendants. A trial date may be set in 2016 after pending motions have been resolved. A decision for the plaintiff would require a map redraw.
2. *Harris v. Independent Redistricting Commission* – Various individuals sued the IRC in federal district court stating that the population counts of the state's legislative districts are the result of unconstitutional partisan bias. A 3 judge U.S. Court of Appeals panel found in favor of the commission in April 2014. The plaintiffs appealed the case to the U.S. Supreme Court in June 2014. The U.S. Supreme Court heard the case on December 8, 2015 and affirmed the U.S. Court of Appeals ruling, stating that the IRC's methods did not violate the one-person, one-vote principle when drawing the district maps.

Industrial Commission of Arizona

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	235.6	235.6	235.6
Personal Services	8,569,500	10,770,200	10,770,200
Employee Related Expenditures	3,638,000	4,040,700	3,972,900
Professional and Outside Services	1,586,900	1,757,100	1,757,100
Travel - In State	142,700	121,500	121,500
Travel - Out of State	16,800	52,200	52,200
Other Operating Expenditures	4,598,900	3,180,000	3,188,800
Equipment	342,400	18,600	18,600
AGENCY TOTAL	18,895,200	19,940,300	19,881,300^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Administrative Fund	18,895,200	19,940,300	19,881,300
SUBTOTAL - Other Appropriated Funds	18,895,200	19,940,300	19,881,300
SUBTOTAL - Appropriated Funds	18,895,200	19,940,300	19,881,300
Other Non-Appropriated Funds	31,743,900	21,896,300	18,637,400
Federal Funds	4,843,000	3,216,500	3,216,500
TOTAL - ALL SOURCES	55,482,100	45,053,100	41,735,200

AGENCY DESCRIPTION — The Industrial Commission regulates the workers' compensation insurance industry. The commission is also responsible for child labor issues, occupational safety and health issues, wage claim dispute resolutions, licensing of private employment agencies and providing workers' compensation coverage for claimants of uninsured and self-insured employers. Payment of workers' compensation claims on insolvent insurers was transferred from the Special Fund to the Workers' Compensation Insurance Account of the Arizona Property and Casualty Insurance Guaranty Fund within the Department of Insurance effective July 1, 2015.

Operating Budget

The budget includes \$19,881,300 and 235.6 FTE Positions from the Administrative Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(59,000) from the Administrative Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Additional Legislation

Agency Consolidation

The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) as permanent law transfers

the Occupational Safety and Health Review Board, along with its statutory authority and appropriation, to the Industrial Commission of Arizona effective July 1, 2016. *(Please see the Occupational Safety and Health Review Board narrative for more information.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Insurance

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	90.5	95.5	72.3
Personal Services	2,992,900	3,475,000	3,475,000
Employee Related Expenditures	1,262,900	1,377,000	1,340,200
Professional and Outside Services	231,200	239,400	239,400
Travel - In State	24,000	29,300	29,300
Travel - Out of State	2,500	0	0
Other Operating Expenditures	751,600	728,900	734,000
Equipment	47,800	17,800	6,400
AGENCY TOTAL	5,312,900	5,867,400	5,824,300 ^{1/}
FUND SOURCES			
General Fund	5,312,900	5,867,400	5,824,300
SUBTOTAL - Appropriated Funds	5,312,900	5,867,400	5,824,300
Other Non-Appropriated Funds	9,149,500	32,958,600	33,404,000
Federal Funds	675,800	1,646,100	107,400
TOTAL - ALL SOURCES	15,138,200	40,472,100	39,335,700

AGENCY DESCRIPTION — The Department of Insurance licenses and authorizes the transaction of insurance business by insurers, producers, and other insurance-related entities. The department collects various filing and licensing fees, which are deposited into the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation.

Operating Budget

The budget includes \$5,824,300 and 72.3 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(11,400) from the General Fund in FY 2017 for the elimination of one-time funding. The FY 2016 budget provided funding for one-time equipment costs related to 5 additional FTE Positions in the department's Fraud Unit.

FTE Position Reduction

The budget includes a decrease of (23.2) FTE Positions from the General Fund in FY 2017 to more accurately reflect the department's current filled FTE Positions.

Statewide Adjustments

The budget includes a decrease of \$(31,700) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Statutory Fee Revenue Requirement Suspension

The FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) continues to suspend the statutory requirement that fee revenues be between 95% and 110% of the department's appropriation for FY 2017.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Judiciary - Supreme Court

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.0	175.0	177.0 ^{1/}
Personal Services	6,211,100	6,017,600	6,185,400
Employee Related Expenditures	2,290,800	2,272,600	2,204,500
Professional and Outside Services	135,700	748,400	748,400
Travel - In State	147,000	138,500	138,500
Travel - Out of State	30,100	34,800	34,800
Other Operating Expenditures	3,397,600	3,790,100	4,103,800
Equipment	247,200	0	0
OPERATING SUBTOTAL	12,459,500	13,002,000	13,415,400 ^{2/3/4/}
SPECIAL LINE ITEMS			
State Aid	4,648,900	5,648,400	5,648,500
County Reimbursements	187,900	187,900	187,900 ^{5/}
Automation	10,246,200	20,013,100	19,977,700 ^{6/7/}
Case and Cash Management System	2,426,600	0	0
WAAS Upgrade	0	0	948,700
State Foster Care Review Board	3,611,500	3,212,300	3,178,500
Court Appointed Special Advocate	2,650,400	2,862,500	2,862,900
Model Court	446,800	437,600	437,600
Domestic Relations	649,600	621,000	613,400
Judicial Nominations and Performance Review	426,800	413,500	409,100
Commission on Judicial Conduct	520,300	505,000	498,600
Felony Pretrial Intervention	0	0	250,000
AGENCY TOTAL	38,274,500	46,903,300	48,428,300 ^{8/}
FUND SOURCES			
General Fund	15,863,900	17,951,100	19,219,500
<u>Other Appropriated Funds</u>			
Confidential Intermediary and Fiduciary Fund	257,500	488,400	488,900
Court Appointed Special Advocate Fund	2,548,400	2,942,800	2,943,200
Criminal Justice Enhancement Fund	2,221,200	4,363,800	4,365,200
Defensive Driving School Fund	3,072,100	4,197,300	4,198,500
Health Services Lottery Monies Fund	0	0	250,000
Judicial Collection Enhancement Fund	11,883,700	14,014,900	14,017,900
State Aid to the Courts Fund	2,427,700	2,945,000	2,945,100
SUBTOTAL - Other Appropriated Funds	22,410,600	28,952,200	29,208,800
SUBTOTAL - Appropriated Funds	38,274,500	46,903,300	48,428,300
Other Non-Appropriated Funds	16,642,200	21,403,800	21,403,800
TOTAL - ALL SOURCES	54,916,700	68,307,100	69,832,100

^{1/} Includes 52.5 GF and 21.8 OF FTE Positions funded from Special Line Items in FY 2017.

^{2/} Included in the operating lump sum appropriation for the Supreme Court is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote)

^{3/} The operating lump sum appropriation includes \$500,000 and 2 FTE Positions for the creation of 2 new Supreme Court justice positions. (General Appropriation Act footnote)

^{4/} The operating lump sum includes \$10,600 for the first of a 2-year 3% pay increase phase-in for Supreme Court justices. (General Appropriation Act footnote). The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) includes a provision that makes the first 1.5% increase effective on January 1, 2017 and the second 1.5% increase effective January 1, 2018.

^{5/} Of the \$187,900 appropriated for County Reimbursements, State Grand Jury is limited to \$97,900 and Capital Postconviction Relief is limited to \$90,000. (General Appropriation Act footnote)

AGENCY DESCRIPTION — The Supreme Court consists of 5 Supreme Court Justices (7 as of January 2017), judicial support staff and the Administrative Office of the Courts (AOC). The Supreme Court, as the state’s highest court, has the responsibility to review appeals and to provide rules of procedure for all the courts in Arizona. Under the direction of the Chief Justice, the AOC provides administrative supervision over the Arizona court system.

Operating Budget

The budget includes \$13,415,400 and 102.7 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$9,588,600
Confidential Intermediary and Fiduciary Fund	488,900
Criminal Justice Enhancement Fund (CJEF)	7,000
Defensive Driving School Fund	706,200
Judicial Collection Enhancement Fund (JCEF)	2,624,700

These amounts fund the following adjustments:

Additional Justices

The budget includes an increase of \$500,000 and 2 FTE Positions from the General Fund in FY 2017 for partial-year funding of 2 additional Supreme Court justices. Laws 2016, Chapter 333, expands the number of Supreme Court justices from 5 to 7. At least 3 candidates for each of these positions will be selected by the Commission on Appellate Court Appointments and provided to the Governor for approval. The term for each justice will begin on the first Monday in January 2017.

Judicial Salary Increase

The budget includes an increase of \$10,600 from the General Fund in FY 2017 for the first year of a 2-year phase-in of a 3% judicial pay increase. The budget includes a salary increase for all Supreme Court, Court of Appeals, and Superior Court judges beginning with a 1.5% salary increase beginning on January 1, 2017. The budget includes a further 1.5% increase effective January 1, 2018.

The budget made the judicial salary increase contingent on the passage of legislation (Laws 2016, Chapter 333) that increased the Supreme Court from 5 to 7 justices.

Statewide Adjustments

The budget includes a decrease of \$(97,200) in FY 2017 for statewide adjustments. This amount consists of:

- 6/ On or before September 1, 2016, the Supreme Court shall report to the Joint Legislative Budget Committee on current and future automation projects coordinated by the Administrative Office of the Courts. The report shall include a list of court automation projects receiving or anticipated to receive state monies in the current or next 2 fiscal years as well as a description of each project, the number of FTE Positions, the entities involved and the goals and anticipated results for each automation project. The report shall be submitted in 1 summary document. The report shall indicate each project's total multiyear cost by fund source and budget line item, including any prior year, current year and future year expenditures. (General Appropriation Act footnote)
- 7/ Automation expenses of the Judiciary shall be funded only from the Automation line item. Monies in the operating lump sum appropriation or other line items intended for automation purposes shall be transferred to the Automation line item before expenditure. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

General Fund	(103,300)
Confidential Intermediary and Fiduciary Fund	500
CJEF	1,400
Defensive Driving School Fund	1,200
JCEF	3,000

(Please see the Agency Detail and Allocations section.)

State Aid

The budget includes \$5,648,500 and 3.3 FTE Positions in FY 2017 for State Aid. These amounts consist of:

CJEF	2,703,400
State Aid to the Courts Fund	2,945,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$100 from the State Aid to the Courts Fund in FY 2017 for statewide adjustments.

The State Aid line item provides state aid to counties for the payment of judges pro tempore salaries, and for projects designed to improve the processing of criminal cases in the Superior Court and Justice Courts. The State Aid to the Courts Fund receives: 1) 40.97% of a 7% penalty assessment on fines, penalties, and forfeitures imposed by the courts for criminal and civil motor vehicle violations, and 2) a portion of the monies collected by the Supreme Court and the Court of Appeals.

The AOC distributes the monies appropriated from court fines and collections to the Superior Court and the Justice Courts based on a composite index formula using Superior Court felony filings and county population. Monies appropriated from the State Aid to the Courts Fund in the State Aid line item are distributed to all counties.

County Reimbursements

The budget includes \$187,900 from the General Fund in FY 2017 for County Reimbursements. This amount is unchanged from FY 2016.

The County Reimbursements line item provides reimbursement to counties for grand jury expenses and for state-funded representation of indigent defendants in first-time capital postconviction relief proceedings. Statute limits reimbursements to counties for grand jury expenses and state-funded representation of indigent defendants in first-time capital postconviction relief proceedings to the amount appropriated for those purposes.

Automation

The budget includes \$19,977,700 and 13 FTE Positions in FY 2017 for Automation. These amounts consist of:

General Fund	3,357,100
Court Appointed Special Advocate (CASA) Fund	80,300
CJEF	1,654,800
Defensive Driving School Fund	3,492,300
JCEF	11,393,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(35,400) from the General Fund in FY 2017 for statewide adjustments.

The Automation line item provides funding for court automation projects throughout the state. The budget includes monies from other Supreme Court and Superior Court line items in the Automation line item to allow for the centralization of Judicial automation expenditures. Going forward, automation costs will be solely funded from the Automation line item. As required by a General Appropriation Act footnote, any additional monies expended from other line items for automation projects are to be transferred to the Automation line item prior to expenditure.

WAAS Upgrade

The budget includes \$948,700 from the General Fund in FY 2017 for a one-time upgrade to the Wide Area Application Services (WAAS) equipment within the Courts.

In 2009, the Supreme Court purchased WAAS equipment to enhance the data transmission capacity and data speed across the Arizona Judicial Information Network (AJIN).

AJIN allows various state agencies to receive information from the courts that is necessary for their operations such as driver's license revocations, child support decisions, and other court case information. This one-time funding will allow the Courts to replace all existing WAAS equipment with updated hardware and software.

State Foster Care Review Board

The budget includes \$3,178,500 and 40 FTE Positions from the General Fund in FY 2017 for the State Foster Care Review Board. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(33,800) from the General Fund in FY 2017 for statewide adjustments.

The Foster Care Review Board line item coordinates local volunteer review boards for foster care children in out-of-home placement. *(Please see the Other Issues section for more information on the Auditor General's recommendations.)*

Court Appointed Special Advocate

The budget includes \$2,862,900 and 5.5 FTE Positions from the Court Appointed Special Advocate (CASA) Fund in FY 2017 for CASA. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$400 from the CASA Fund in FY 2017 for statewide adjustments.

The CASA line item administers and monitors a community-based volunteer advocacy program for abused and neglected children in the Juvenile Court System. In FY 2015, 1,243 individuals volunteered for this program.

Model Court

The budget includes \$437,600 from the General Fund in FY 2017 for Model Court. This amount is unchanged from FY 2016.

Monies in this line item represent a pass-through to counties to improve processing of dependency cases. The Superior Court budget includes an additional \$3,000,000 in General Fund monies in FY 2017 to fund operating expenses associated with a surge in dependency cases. *(Please see the Dependency Surge line item in the Superior Court budget for more information.)*

Domestic Relations

The budget includes \$613,400 and 4.9 FTE Positions from the General Fund in FY 2017 for Domestic Relations. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(7,600) from the General Fund in FY 2017 for statewide adjustments.

The Domestic Relations line item provides coordination and technical support for groups formed to develop and review policies and programs related to domestic relations and child support.

Judicial Nominations and Performance Review

The budget includes \$409,100 and 3.6 FTE Positions from the General Fund in FY 2017 for Judicial Nominations and Performance Review. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,400) from the General Fund in FY 2017 for statewide adjustments.

This line item funds administrative costs to oversee the nominations for the Supreme Court, the Court of Appeals, and the Superior Court in Maricopa, Pima, and Pinal Counties, as well as evaluating the performance of all merit retention justices and judges. The results of the performance evaluations are provided to the voters before each retention election.

Commission on Judicial Conduct

The budget includes \$498,600 and 4 FTE Positions from the General Fund in FY 2017 for Commission on Judicial Conduct. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(6,400) from the General Fund in FY 2017 for statewide adjustments.

The Commission on Judicial Conduct investigates and resolves all complaints of judicial misconduct.

Felony Pretrial Intervention

The budget includes \$250,000 in one-time funding from the Health Services Lottery Monies Fund in FY 2017 for a new Felony Pretrial Intervention line item.

These monies are to be distributed to the Maricopa County Attorney’s Office. The Maricopa County Attorney’s Office currently administers a program that allows individuals who are charged with felonies to avoid prosecution by successfully completing a treatment program tailored to their individual needs.

Other Issues

Fund Transfers

The budget continues \$5,000,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2017. The Supreme Court share of these fund transfers would be \$1,100,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	300,000
CASA Fund	500,000

The Superior Court share of these fund transfers would be \$3,900,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	3,650,000

These aggregate fund transfers represent a decrease of \$(1,000,000) from the \$(6,000,000) in transfers that were part of the Legislature’s 3-year spending plan associated with the FY 2016 enacted budget. As part of a new 3-year spending plan, the FY 2017 General Appropriation Act also included \$3,000,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2018. The Supreme Court share of these fund transfers would be \$900,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	200,000
CASA Fund	400,000

The Superior Court share of these fund transfers would be \$2,100,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	1,850,000

(Please see the Other Issues section in the Superior Court for more information.)

Auditor General Recommendation

In a September 2015 audit, the Auditor General recommended that the Foster Care Review Board should:

- Evaluate the adequacy of its recruitment strategies, implement new strategies as needed, and provide more administrative support to recruitment efforts.
- Improve report distribution timeliness in its Phoenix office.
- Continue to collaborate with the Department of Child Safety to improve caseworker attendance at board reviews and consider pursuing legislation requiring caseworker's attendance at board reviews.
- Develop and implement a process for making recommendations for improving Arizona's child welfare system and reporting key program metrics to stakeholders.

Judiciary - Court of Appeals

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
PROGRAM BUDGET			
Division I	9,988,900	9,988,800	9,963,900
Division II	4,340,200	4,326,700	4,316,500
AGENCY TOTAL	14,329,100	14,315,500	14,280,400
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	136.8	136.8	136.8 ^{1/}
Personal Services	9,712,400	9,965,400	9,989,000
Employee Related Expenditures	3,313,100	3,354,800	3,295,400
Professional and Outside Services	183,500	2,500	2,500
Travel - In State	175,500	186,500	186,500
Travel - Out of State	12,800	12,000	12,000
Other Operating Expenditures	805,300	794,300	795,000
Equipment	126,500	0	0
AGENCY TOTAL	14,329,100	14,315,500	14,280,400^{2/3/}
FUND SOURCES			
General Fund	14,329,100	14,315,500	14,280,400
SUBTOTAL - Appropriated Funds	14,329,100	14,315,500	14,280,400
TOTAL - ALL SOURCES	14,329,100	14,315,500	14,280,400

AGENCY DESCRIPTION — The Court of Appeals has jurisdiction in all proceedings appealable from the Superior Court except criminal death penalty cases, which are automatically appealed to the Supreme Court. Division I also has statewide responsibility for reviewing appeals from the Arizona Corporation Commission, Industrial Commission, the Department of Economic Security unemployment compensation rulings, and the Arizona Tax Court. Division I convenes in Phoenix and encompasses the counties of Apache, Coconino, La Paz, Maricopa, Mohave, Navajo, Yavapai, and Yuma. Division II convenes in Tucson and encompasses the counties of Cochise, Gila, Graham, Greenlee, Pima, Pinal, and Santa Cruz.

Operating Budget

The budget includes \$14,280,400 and 136.8 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts include \$9,963,900 and 98.3 FTE Positions for Division I and \$4,316,500 and 38.5 FTE Positions for Division II. These amounts fund the following adjustments:

Judicial Salary Increase

The budget includes an increase of \$31,900 from the General Fund in FY 2017 for the first year of a 2-year phase-in of a 3% judicial pay increase. The budget

includes a salary increase for all Supreme Court, Court of Appeals, and Superior Court judges beginning with a 1.5% salary increase beginning on January 1, 2017. The budget includes a further 1.5% increase effective January 1, 2018. The FY 2017 increase is split with Division I receiving \$22,300 and Division II receiving \$9,600.

Statewide Adjustments

The budget includes a decrease of \$(67,000) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

1/ Of the 136.8 FTE Positions for FY 2017, 98.3 FTE Positions are for Division I and 38.5 FTE Positions are for Division II. (General Appropriation Act footnote)

2/ The appropriated amounts include \$22,300 for Division I and \$9,600 for Division II for the first of a 2-year 3% pay increase phase-in for Court of Appeals judges. (General Appropriation Act footnote)

3/ General Appropriation Act funds are appropriated as an Operating Lump Sum by Subprogram.

Judiciary - Superior Court

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	137.5	137.5	137.5 ^{1/}
Personal Services	0	2,376,000	2,376,000
Employee Related Expenditures	0	970,700	856,900
Professional and Outside Services	0	53,300	53,300
Travel - In State	0	49,400	49,400
Travel - Out of State	0	5,600	5,600
Other Operating Expenditures	0	870,700	871,200
OPERATING SUBTOTAL	0	4,325,700	4,212,400 ^{2/}
SPECIAL LINE ITEMS			
Centralized Service Payments	0	3,458,000	3,458,000 ^{3/}
Judges Compensation	8,272,300	8,231,000	8,288,500 ^{4/5/}
Adult Standard Probation	17,687,800	15,109,200	16,864,200 ^{6/}
Adult Intensive Probation	12,173,400	9,910,000	10,366,900 ^{6/}
Community Punishment	1,451,000	2,310,300	2,310,300
Interstate Compact	748,600	416,700	427,500 ^{6/}
Drug Court	1,006,800	993,600	993,600
Court Ordered Counseling	250,000	0	0
Drug Treatment Alternative to Prison	250,000	0	0
Juvenile Standard Probation	4,620,900	3,745,700	3,850,600 ^{6/}
Juvenile Intensive Probation	8,467,300	5,532,700	5,612,400 ^{6/}
Juvenile Treatment Services	22,341,600	19,937,800	19,960,900 ^{7/}
Juvenile Family Counseling	658,300	500,000	500,000
Juvenile Diversion Consequences	9,024,800	8,039,300	8,157,800 ^{7/}
Juvenile Crime Reduction	3,388,200	3,308,000	3,308,000
Dependency Surge Funding	0	0	3,000,000 ^{8/}
Special Water Master	131,300	160,000	160,000
AGENCY TOTAL	90,472,300	85,978,000	91,471,100 ^{9/10/11/12/}
FUND SOURCES			
General Fund	79,865,000	73,911,400	79,517,800
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	4,339,000	5,542,000	5,435,200
Drug Treatment and Education Fund	500,200	502,400	502,900
Judicial Collection Enhancement Fund	5,768,100	6,022,200	6,015,200
SUBTOTAL - Other Appropriated Funds	10,607,300	12,066,600	11,953,300
SUBTOTAL - Appropriated Funds	90,472,300	85,978,000	91,471,100
Other Non-Appropriated Funds	6,399,000	6,427,800	6,427,800
TOTAL - ALL SOURCES	96,871,300	92,405,800	97,898,900

1/ Of the 137.5 FTE Positions, 82 FTE Positions represent Superior Court judges in counties with a population of less than 2,000,000 persons. One-half of those judges' salaries are provided by state General Fund appropriations pursuant to A.R.S. § 12-128. This FTE Position clarification does not limit the counties' ability to add judges pursuant to A.R.S. § 12-121. (General Appropriation Act footnote)

2/ All expenditures made by the Administrative Office of the Courts for the administration of Superior Court line items shall be funded only from the Superior Court operating budget. Monies in Superior Court line items intended for this purpose shall be transferred to the Superior Court operating budget before expenditure. (General Appropriation Act footnote)

3/ All centralized service payments made by the Administrative Office of the Courts on behalf of counties shall be funded only from the Centralized Service Payments line item. Centralized service payments include only training, motor vehicle payments, CORP review board funding, LEARN funding, research, operational reviews and GPS vendor payments. This footnote does not apply to treatment or counseling services payments made from the Juvenile Treatment Services and Juvenile Diversion Consequences line items. Monies in the operating lump sum appropriation or other line items intended for centralized service payments shall be transferred to the Centralized Service Payments line item before expenditure. (General Appropriation Act footnote)

AGENCY DESCRIPTION — The Superior Court, which has a division in every county, is the state’s only general jurisdiction court. Superior Court judges hear all types of cases except small claims, minor offenses, or violations of city codes and ordinances. In addition, the responsibility for supervising adults and juveniles who have been placed on probation resides in the Superior Court.

Operating Budget

The budget includes \$4,212,400 and 55.5 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$3,879,400
Criminal Justice Enhancement Fund (CJEF)	317,100
Drug Treatment and Education Fund	2,700
Judicial Collection Enhancement Fund (JCEF)	13,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(113,300) in FY 2017 for statewide adjustments. This amount consists of:

CJEF	(106,800)
Drug Treatment and Education Fund	500
JCEF	(7,000)

(Please see the Agency Detail and Allocations section.)

Background – These monies represent the administrative costs incurred by the Administrative Office of the Courts (AOC) while overseeing the various line items of the Superior Court budget. In prior years, these monies were included in the individual line items. In order to increase the clarity of expenditure sourcing, these monies have been shifted to a centralized operating budget leaving the monies passed through to the county Superior Courts in their respective line items.

Centralized Service Payments

The budget includes \$3,458,000 in FY 2017 for centralized service payments. This amount consists of:

- 4/ All monies in the Judges’ Compensation line item shall be used to pay for the 50% state share of Superior Court judges’ salaries, Elected Officials’ Retirement Plan costs and related state benefit costs for judges in counties with a population of less than 2 million person. Monies in the operating lump sum appropriation or other line items intended for this purpose shall be transferred to the Judges’ Compensation line item before expenditure. (General Appropriation Act footnote)
- 5/ The Judges’ Compensation line item includes \$57,500 for the first of a 2-year 3% pay increase phase-in for non-Maricopa County Superior Court justices. (General Appropriation Act footnote). The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) includes a provision that makes the first 1.5% increase effective on January 1, 2017 and the second 1.5% increase effective January 1, 2018.
- 6/ All monies in the Adult Standard Probation, Adult Intensive Probation, Interstate Compact, Juvenile Standard Probation and Juvenile Intensive Probation line items shall be used only as pass-through monies to county probation departments. Monies in the operating lump sum appropriation or other line items intended as pass-through for the purpose of administering a county probation program shall be transferred to the appropriate probation line item before expenditure. (General Appropriation Act footnote)
- 7/ Monies appropriated to Juvenile Treatment Services and Juvenile Diversion Consequences shall be deposited into the Juvenile Probation Services Fund established by A.R.S. § 8-322. (General Appropriation Act footnote)
- 8/ Monies appropriated in the Dependency Surge Funding line item shall be used only as pass-through monies to county Superior Courts for dependency case processing. Monies in the Dependency Surge Funding line item are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all FY 2017 monies remaining unexpended and unencumbered on June 30, 2018 revert to the state General Fund. On or before December 1, 2016, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee on the amounts allocated from the Dependency Surge Funding line item by court and judicial function within these courts. (General Appropriation Act footnote)
- 9/ Receipt of state probation monies by the counties is contingent on the county maintenance of FY 2004 expenditure levels for each probation program. State probation monies are not intended to supplant county dollars for probation programs. (General Appropriation Act Footnote)
- 10/ On or before November 1, 2016, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee the FY 2016 actual, FY 2017 estimated and FY 2018 requested amounts for each of the following:
 - 1. On a county-by-county basis, the number of authorized and filled case carrying probation positions and non-case carrying positions, distinguishing between Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive. The report shall indicate the level of state probation funding, other state funding, county funding and probation surcharge funding for those positions.
 - 2. Total receipts and expenditures by county and fund source for the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items, including the amount of Personal Services expended from each revenue source of each account.
 - 3. The amount of monies from the Adult Standard, Adult Intensive, Juvenile Standard and Juvenile Intensive Probation line items that the office does not distribute as direct aid to counties. The report shall delineate how the office expends these monies that are not distributed as direct aid to counties. (General Appropriation Act footnote)
- 11/ On or before October 1, 2016, the Administrative Office of the Courts shall report to the Joint Legislative Budget Committee on overall salary adjustments provided to county probation officers in FY 2017, including total funding adjustments and percentage increases. The Administrative Office of the Courts shall compile the information provided by each county for this report. (General Appropriation Act footnote)
- 12/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

General Fund	3,008,100
JCEF	449,900

These amounts are unchanged from FY 2016.

Background – In order to facilitate payment for services that are offered by all Superior Courts, AOC pays for various services centrally. These services include training, motor vehicle payments, Corrections Officer Retirement Plan Review Board funding, Literacy Education and Resource Network program funding (an online G.E.D. preparation program), research, operational reviews and GPS vendor payments.

Judges' Compensation

The budget includes \$8,288,500 and 82 FTE Positions from the General Fund in FY 2017 for Judges' Compensation. These amounts fund the following adjustments:

Judicial Salary Increase

The budget includes an increase of \$57,500 from the General Fund in FY 2017 for the first year of a 2-year phase-in of a 3% judicial pay increase. The budget includes a salary increase for all Supreme Court, Court of Appeals, and Superior Court judges beginning with a 1.5% salary increase beginning on January 1, 2017. The budget includes a further 1.5% increase effective January 1, 2018.

The budget made the judicial salary increase contingent on the passage of legislation (Laws 2016, Chapter 333) that increased the Supreme Court from 5 to 7 justices.

Background – This line item provides funding for the state's 50% share of the salary and Elected Officials Retirement Plan costs for Superior Court Judges. The line item also funds 100% of the costs of Superior Court Judges that elect state benefits, although some opt to participate in county programs. In the latter circumstance, the county pays 100% of the cost.

A.R.S. § 12-128 requires the state General Fund to pay for one-half of Superior Court Judges' salaries, except for Maricopa County judges. Maricopa County is responsible for 100% of the salary and benefits of its Superior Court Judges. Pursuant to A.R.S. § 12-121, each county receives one judge for the first 30,000 of population. Additional judges may be created for every additional 30,000 person increment upon approval by the Governor.

Probation Programs

The state and non-Maricopa Counties share the costs of probation. For the intensive programs, the state pays

100% of the costs (although the counties may provide offices and other support services). Counties typically contribute through Probation Service Fee collections, outside grants, and office space. Since FY 2004, Maricopa County has assumed the state's share of its probation costs. (Please see the Other Issues section for more information on probation funding.)

Adult Standard Probation

The budget includes \$16,864,200 in FY 2017 for Adult Standard Probation. This amount consists of:

General Fund	13,090,100
JCEF	3,774,100

These amounts fund the following adjustments:

Adult Standard Probation Growth

The budget includes an increase of \$1,000,000 from the General Fund in FY 2017 for additional Adult Standard Probation officers. From July 2014 to February 2016, the non-Maricopa County Adult Standard Probation caseload increased by 1,251 probationers, or 8.8%. As a result, the ratio of probation officers to probationers increased from 64:1 in July 2014 to 70:1 in February 2016. Pursuant to A.R.S. § 12-251A, an adult probation officer shall not supervise more than 65 adults on standard probation at one time. This funding will bring the caseload ratio down to the statutorily-required 65:1 level through the hiring of an additional 18 probation officers, thus increasing caseload capacity by 1,170 at the 65:1 statutory ratio.

CORP Contribution Increase

The budget includes an increase of \$391,900 from the General Fund in FY 2017 for an increase in the employer contribution rate for the Corrections Officer Retirement Plan (CORP). Within the Judiciary budget, only probation officers participate in the CORP program. The increase funds the FY 2016 CORP employer contribution rate increase from 16.2% to 19.95% for state-funded probation officers.

Probation Salary Increase

The budget includes an increase of \$363,100 from the General Fund in FY 2017 for approved salary increases for state-funded probation officers. Although most case-carrying probation officer positions are funded by the state, probation officer salaries are determined by their respective counties. The state has not adjusted its funding in the recent past to reflect these salary increases. As a result, the cost of probation officers has increased without a commensurate increase in the state appropriation. This appropriation increase, in addition to \$302,400 in excess Juvenile Probation monies which the

AOC plans to transfer in FY 2017, will provide sufficient funding to cover all salary increases for Adult Standard probation officers through FY 2016.

Background – This line item provides funding for community supervision services for adults placed on standard probation by the Adult Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 12-251A, an adult probation officer shall not supervise more than 65 adults on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Adult Intensive Probation

The budget includes \$10,366,900 in FY 2017 for Adult Intensive Probation. This amount consists of:

General Fund	8,831,700
JCEF	1,535,200

These amounts fund the following adjustments:

CORP Contribution Increase

The budget includes an increase of \$218,800 from the General Fund in FY 2017 for an increase in the employer contribution rate for CORP. Within the Judiciary budget, only probation officers participate in the CORP program. The increase funds the FY 2016 CORP employer contribution rate increase from 16.2% to 19.95% for state-funded probation officers.

Probation Salary Increase

The budget includes an increase of \$238,100 from the General Fund in FY 2017 for approved salary increases for state-funded probation officers. Although the Adult Intensive Probation program is completely funded by the state, Adult Intensive Probation officer salaries are determined by their respective counties. As a result, the cost of probation officer salaries has increased without a commensurate increase in the state appropriation. This appropriation increase, in addition to \$198,200 in excess Juvenile Probation monies which the AOC plans to transfer in FY 2017, will provide sufficient funding to cover all salary increases for Adult Intensive probation officers through FY 2016.

Background – This line item provides funding for a sentencing alternative intended to divert serious, non-

violent offenders from prison. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 13-916, 1 team shall not supervise more than 25 intensive probationers at one time.

As required by a General Appropriation Act footnote, the monies in the Adult Intensive Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Community Punishment

The budget includes \$2,310,300 in FY 2017 for Community Punishment. This amount consists of:

CJEF	1,810,100
Drug Treatment and Education Fund	500,200

These amounts are unchanged from FY 2016.

Background – This line item provides behavioral treatment services for adult probationers and for enhanced supervision, such as electronic monitoring and specialized probation caseloads. The funding is intended to provide for diversion of offenders from prison and jail, as well as to enhance probation programs, excluding Maricopa County.

The monies in the Community Punishment line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Interstate Compact

The budget includes \$427,500 in FY 2017 for Interstate Compact. This amount consists of:

General Fund	334,700
JCEF	92,800

These amounts fund the following adjustments:

CORP Contribution Increase

The budget includes an increase of \$10,800 from the General Fund in FY 2017 for an increase in the employer contribution rate for CORP. Within the Judiciary budget, only probation officers participate in the CORP program. The increase funds the FY 2016 CORP employer contribution rate increase from 16.2% to 19.95% for state-funded probation officers.

Background – This line item provides funding for supervision and intervention to probationers transferring to Arizona and monitors the supervision of probationers transferred to other states from Arizona.

As required by a General Appropriation Act footnote, the monies in the Interstate Compact line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Drug Court

The budget includes \$993,600 from the General Fund in FY 2017 for Drug Court programs. This amount is unchanged from FY 2016.

Background – This line item provides funding for juvenile and adult drug courts within the Superior Court throughout the state. It provides funding for prosecuting, adjudicating and treating drug-dependent offenders. Superior Court divisions in 12 counties have implemented or are planning the implementation of drug courts. These programs utilize drug education, intensive therapy, parent support, case management, socialization alternatives, aftercare and compliance monitoring for drug abstinence.

Juvenile Standard Probation

The budget includes \$3,850,600 in FY 2017 for Juvenile Standard Probation. This amount consists of:

General Fund	3,700,600
JCEF	150,000

These amounts fund the following adjustments:

CORP Contribution Increase

The budget includes an increase of \$104,900 from the General Fund in FY 2017 for an increase in the employer contribution rate for CORP. Within the Judiciary budget, only probation officers participate in the CORP program. The increase funds the FY 2016 CORP employer contribution rate increase from 16.2% to 19.95% for state-funded probation officers.

The budget did not include any additional funding for probation officer salary increases in the Juvenile Standard Probation line item due to excess monies in the line item. The Administrative Office of the Courts indicated that they would transfer \$240,200 of these excess funds in FY 2017 to the Adult Standard Probation line item to pay a portion of the costs for approved adult standard probation officer salary increases through FY 2016.

Background – This line item provides funding for community supervision services for juveniles placed on standard probation by the Juvenile Division of the Superior Court. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-203B, a juvenile probation officer shall not supervise more than an average of 35 juveniles on standard probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Standard Probation line item shall be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Intensive Probation

The budget includes \$5,612,400 from the General Fund in FY 2017 for Juvenile Intensive Probation. This amount funds the following adjustments:

CORP Contribution Increase

The budget includes an increase of \$79,700 from the General Fund in FY 2017 for an increase in the employer contribution rate for CORP. Within the Judiciary budget, only probation officers participate in the CORP program. The increase funds the FY 2016 CORP employer contribution rate increase from 16.2% to 19.95% for state-funded probation officers.

The budget did not include any additional funding for probation officer salary increases in the Juvenile Intensive Probation line item due to excess monies in the line item. Of these excess funds, the Administrative Office of the Courts indicated that they would transfer \$62,200 to the Adult Standard Probation line item and \$198,200 to the Adult Intensive Probation line item in FY 2017 to pay a portion of the costs for approved adult standard and adult intensive probation officer salary increases through FY 2016.

Background – This line item provides funding for a sentencing alternative to divert serious, non-violent juvenile offenders from incarceration or residential care and to provide intensive supervision for high-risk offenders already on probation. Supervision is intended to monitor compliance with the terms and conditions of probation imposed by the court. Pursuant to A.R.S. § 8-353B, 1 JIPS team shall not supervise more than an average of 25 juveniles on intensive probation at one time.

As required by a General Appropriation Act footnote, the monies in the Juvenile Intensive Probation line item shall

be used only as pass-through monies to the counties for their probation programs and are not available for AOC expenses.

Juvenile Treatment Services

The budget includes \$19,960,900 from the General Fund in FY 2017 for Juvenile Treatment Services. This amount funds the following adjustments:

CORP Contribution Increase

The budget includes an increase of \$23,100 from the General Fund in FY 2017 for an increase in the employer contribution rate for CORP. Within the Judiciary budget, only probation officers participate in the CORP program. This line item only funds non-case carrying supervisory probation officers. The increase funds the FY 2016 CORP employer contribution rate increase from 16.2% to 19.95% for those state-funded probation officers.

Background – This line item provides funding to the juvenile courts to meet the requirements of A.R.S. § 8-321 relating to the assignment of youths referred for delinquency or incorrigibility to treatment programs, residential treatment centers, counseling, shelter care and other programs.

The FY 2016 budget moved monies from other Superior Court line items to the Juvenile Treatment Services line item to allow for the centralization of probation treatment services payments. Going forward, juvenile probation treatment service costs will be solely funded from the Juvenile Treatment Services line item. Any additional monies expended from other line items for juvenile probation treatment services will first be transferred to the Juvenile Treatment Services line item.

As required by a General Appropriation Act footnote, the monies in the Juvenile Treatment Services line item shall be used only as pass-through monies to the counties for their treatment programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Family Counseling

The budget includes \$500,000 from the General Fund in FY 2017 for Juvenile Family Counseling. This amount is unchanged from FY 2016.

Background – This line item provides funding to the Juvenile Division of the Superior Court for prevention of delinquency among juvenile offenders by strengthening family relationships. These monies are predominantly for

non-adjudicated juveniles and their families and require a 25% county match.

Juvenile Diversion Consequences

The budget includes \$8,157,800 from the General Fund in FY 2017 for Juvenile Diversion Consequences. This amount funds the following adjustments:

CORP Contribution Increase

The budget includes an increase of \$118,500 from the General Fund in FY 2017 for an increase in the employer contribution rate for CORP. Within the Judiciary budget, only probation officers participate in the CORP program. This line item only funds non-case carrying supervisory probation officers. The increase funds the FY 2016 CORP employer contribution rate increase from 16.2% to 19.95% for those state-funded probation officers.

Background – This program diverts youth from formal court proceedings in order to reduce court costs and prevent re-offending. A juvenile diversion probation officer assigns consequences for the juvenile to complete, such as substance abuse education, graffiti abatement, counseling, or other community service programs. In FY 2015, there were approximately 13,258 juveniles diverted from formal court proceedings. Monies in this line item are distributed to all counties.

As required by a General Appropriation Act footnote, the monies in the Juvenile Diversion Consequences line item shall be used only as pass-through monies to the counties for their diversion programs and central treatment service payments made by AOC on behalf of the counties and are not available for AOC expenses.

Juvenile Crime Reduction

The budget includes \$3,308,000 from CJEF in FY 2017 for Juvenile Crime Reduction. This amount is unchanged from FY 2016.

Background – This line item provides funding for the design and implementation of community-based strategies for reducing juvenile crime. Strategies include prevention, early intervention, effective intermediate sanctions, and rehabilitation. Through a grant process, AOC distributes monies in this line item to approximately 28 public and private entities.

As required by a General Appropriation Act footnote, the monies in the Juvenile Crime Reduction line item shall be used only as pass-through monies to the counties for their crime reduction programs and are not available for AOC expenses.

Dependency Surge Funding

The budget includes \$3,000,000 from the General Fund in FY 2017 for a one-time appropriation for Superior Court processing of dependency cases.

From FY 2006 through FY 2014 the number of dependency petitions filed with the Superior Court has increased from 3,464 to 7,086 representing an increase of 104.6%. This appropriation will allow for the hiring of additional staff, purchasing of equipment and materials, and the funding of other operational costs for the processing of dependency cases. A footnote in the budget makes these monies non-lapsing until June 30, 2018.

The Supreme Court budget continues to include \$437,600 in General Fund monies in FY 2017 for the improved processing of dependency cases in the Model Court line item. *(Please see the Model Court line item in the Supreme Court narrative for more information.)*

Monies in this line item represent a pass-through to county Superior Courts to assist with the processing of dependency cases.

Special Water Master

The budget includes \$160,000 from the General Fund in FY 2017 for the Special Water Master line item. This amount is unchanged from FY 2016.

Background – This line item provides funding for the Special Water Master assigned by the court in 1990 to the Little Colorado River and Gila River water rights adjudications. The adjudication of water rights for the Little Colorado River and Gila River were petitioned in 1978 and 1980, respectively. In FY 2015, 585 water rights claims were filed by individuals, communities, governments, and companies. The Special Water Master conducts hearings for each claimant and makes recommendations to a Superior Court judge.

Pursuant to statute, the costs of the Water Master are funded from claimant fees. If claimant fees are insufficient, statute requires the state General Fund to pay for these expenses in a line item within the Superior Court budget. *(Please see the Other Issues section for more information.)*

Other Issues

Fund Transfers

The budget continues \$5,000,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2017. The Superior Court share of these fund transfers would be \$3,900,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	3,650,000

The Supreme Court share of these fund transfers would be \$1,100,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	300,000
CASA Fund	500,000

These aggregate fund transfers represent a decrease of \$(1,000,000) from the \$(6,000,000) in transfers that were part of the Legislature's 3-year spending plan associated with the FY 2016 enacted budget. As part of a new 3-year spending plan, the FY 2017 General Appropriation Act also included \$3,000,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2018. The Superior Court share of these fund transfers would be \$2,100,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	1,850,000

The Supreme Court share of these fund transfers would be \$900,000 and would be allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	200,000
CASA Fund	400,000

Combining the Supreme and Superior Court, the \$6,000,000 in FY 2016 transfers was allocated as follows:

Supreme Court

Alternative Dispute Resolution Fund	\$250,000
Arizona Lengthy Trial Fund	750,000
CASA Fund	500,000
State Aid to Courts Fund	100,000

Superior Court

CJEF	\$650,000
Drug Treatment and Education Fund	250,000
JCEF	500,000
Juvenile Probation Services Fund	3,000,000

Additional Legislation

The FY 2017 Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) continues to suspend county non-supplanting requirements associated with funding for probation services, criminal case processing, and alternative dispute resolution programs and requires the counties to report on reductions in county funding as a result of the elimination of the non-supplanting provisions.

Probation Caseloads

The budget includes \$31,569,500 in General Fund and \$7,862,400 in Other Fund monies in FY 2017 to support non-Maricopa County adult and juvenile probation caseloads. In addition to this amount, a total of \$8,855,800 General Fund and \$477,100 JCEF was transferred in FY 2016 from the probation line items to the newly-created Superior Court operating budget, the Centralized Service Payments line item, and the existing Superior Court Judges Compensation, Superior Court Juvenile Treatment Services and Supreme Court Automation line items for increased transparency of expenditures.

Prior to this shift, in FY 2015, the state appropriated \$38,728,000 in General Fund and \$8,339,500 in Other Fund monies to support non-Maricopa County adult and juvenile probation services. Additionally, counties provided \$32,331,900 in funding and \$8,112,800 in

probation fee revenues for these purposes. *Table 1* below displays total funding and probation officer expenditures from both county and state sources in FY 2015.

In FY 2015 the average non-Maricopa County probation caseload was 18,053. This represents a year-over-year increase of 2.8%. Although aggregate caseloads increased last year, only the Adult Standard category has seen multi-year increases while all other categories continued their multi-year downtrends. *Table 2* shows the caseloads for FY 2013 - FY 2017 by probation category. The FY 2016 and FY 2017 figures represent estimated caseloads.

Special Water Master

In FY 2015, revenue and interest to the Gila River water rights adjudication, including a \$200,000 General Fund appropriation, totaled \$211,844 and expenditures were \$111,599 leaving an ending balance of \$123,656. The revenue consists of filing fees paid by claimants initiating water rights claims, interest, and monies appropriated by the Legislature. The FY 2015 budget included an increase of \$126,000, or \$200,000 total, to ensure that the fund remains balanced. Laws 2015, Chapter 276 reduced this amount by \$(54,500) leaving a total of \$145,500 in General Fund support in FY 2016 and beyond.

The FY 2015 revenue, interest and appropriations to the Little Colorado River water rights adjudication totaled \$23,835 and expenditures were \$19,694. The FY 2015 ending balance was \$90,902. Laws 2015, Chapter 276

Table 1

FY 2015 Non-Maricopa County Probation Funding

	<u>Adult Standard</u>	<u>Adult Intensive</u>	<u>Juvenile Standard</u>	<u>Juvenile Intensive</u>	<u>Total</u>
Probation Officers					
Case Carrying Positions	202.0	105.0	60.3	46.8	414.1
Non-Case Carrying Positions	<u>337.3</u>	<u>52.8</u>	<u>358.2</u>	<u>29.5</u>	<u>777.8</u>
Total Filled Positions	539.3	157.8	418.5	76.3	1,191.9
Probation Line Item Expenditures					
Amount Distributed to Counties	\$17,483,700	\$10,559,400	\$4,160,300	\$7,327,500	\$39,530,900
Amount Retained by AOC	<u>2,403,700</u>	<u>1,614,000</u>	<u>460,600</u>	<u>1,139,800</u>	<u>5,618,100</u>
Total Line Item Expenditures	\$19,887,400^{1/}	\$12,173,400	\$4,620,900	\$8,467,300	\$45,149,000^{2/}
County Probation Expenditures					
State General Fund	\$12,837,500 ^{3/}	\$9,088,800	\$3,636,400	\$6,374,000	\$31,936,700
Other State Funds	5,586,700	1,440,100	0	0	7,026,800
County Funding	17,490,000	0	14,841,900	0	32,331,900
Probation Fees	<u>7,408,100</u>	<u>0</u>	<u>704,700</u>	<u>0</u>	<u>8,112,800</u>
Total Expenditures	\$43,322,300	\$10,528,900	\$19,183,000	\$6,374,000	\$79,408,200^{3/}

^{1/} Includes the Adult Standard Probation, Interstate Compact, and Community Punishment line item appropriations.

^{2/} Represents the amount expended by AOC in support of non-Maricopa County probation programs.

^{3/} Represents the amount expended by the counties from all sources, including current and prior years' monies received from the state.

reduced the annual \$20,000 General Fund appropriation to the Little Colorado River Water Master by \$(5,500) in FY 2016 leaving a total of \$14,500 in General Fund support. *Table 3* displays a short history of the revenues and expenditures to the Gila River and Little Colorado River Water Masters from FY 2013 through FY 2017.

Table 2

Non-Maricopa County Average Annual Probation Caseloads

	FY 2013 <u>Actual</u>	FY 2014 <u>Actual</u>	FY 2015 <u>Actual</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>
<u>Probation Category</u>					
Adult Standard ^{1/}	13,682	13,727	14,556	14,953	15,234
Adult Intensive	1,351	1,363	1,320	1,265	1,244
Juvenile Standard	2,102	1,738	1,717	1,545	1,394
Juvenile Intensive	<u>547</u>	<u>511</u>	<u>460</u>	<u>427</u>	<u>379</u>
Total Caseload	17,682	17,339	18,053	18,190	18,251

^{1/} Does not include Interstate Compact participants. In FY 2015 there was an average of 219 individuals in Pima and Yavapai Counties that were funded from the Interstate Compact line item.

Table 3

Special Water Master Funding

	FY 2013 <u>Actual</u>	FY 2014 <u>Actual</u>	FY 2015 <u>Actual</u>	FY 2016 <u>Estimated</u> ^{1/}	FY 2017 <u>Estimated</u> ^{1/}
<u>Gila River</u>					
Beginning Balance	\$250,543	\$97,342	\$23,411	\$123,656	\$157,750
Revenues ^{2/}	3,042	86,233	211,844	157,344	157,344
Expenditures	<u>156,243</u>	<u>160,164</u>	<u>111,599</u>	<u>123,250</u>	<u>159,800</u>
Ending Balance	\$97,342	\$23,411	\$123,656	\$157,750	\$155,294
<u>Little Colorado River</u>					
Beginning Balance	\$99,753	\$94,185	\$86,761	\$90,902	\$87,487
Revenues ^{2/}	22,004	21,489	23,835	18,335	18,335
Expenditures	<u>27,572</u>	<u>28,913</u>	<u>19,694</u>	<u>21,750</u>	<u>28,200</u>
Ending Balance	\$94,185	\$86,761	\$90,902	\$87,487	\$77,622

^{1/} Estimated amounts were provided by the Administrative Office of the Courts.
^{2/} Includes an annual appropriation of \$74,000 for the Gila River Water Master in FY 2014 and \$200,000 in FY 2015. Laws 2015, Chapter 276 reduced this amount to \$145,500 in FY 2016 and beyond. The Little Colorado River Water Master revenues include an annual appropriation of \$20,000 through FY 2015. Laws 2015, Chapter 276 reduced this amount to \$14,500 in FY 2016 and beyond.

Department of Juvenile Corrections

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	738.5	738.5	738.5
Personal Services	23,890,600	24,164,500	22,668,700
Employee Related Expenditures	12,640,700	12,702,600	11,633,700
Professional and Outside Services	715,600	1,100,600	1,100,600
Travel - In State	412,900	445,300	445,300
Travel - Out of State	14,400	11,500	11,500
Other Operating Expenditures	4,733,300	4,430,000	3,438,200
Equipment	937,900	262,200	262,200
AGENCY TOTAL	43,345,400	43,116,700	39,560,200 ^{1/2/}
FUND SOURCES			
General Fund	40,762,300	26,984,600	24,180,400
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	207,500	531,300	531,500
Department of Juvenile Corrections Local Cost Sharing Fund	0	12,000,000	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	549,300	2,000,100	2,000,100
State Education Fund for Committed Youth	1,826,300	1,600,700	1,588,200
SUBTOTAL - Other Appropriated Funds	2,583,100	16,132,100	15,379,800
SUBTOTAL - Appropriated Funds	43,345,400	43,116,700	39,560,200
Other Non-Appropriated Funds	172,400	155,800	155,800
Federal Funds	1,565,000	1,678,100	1,678,100
TOTAL - ALL SOURCES	45,082,800	44,950,600	41,394,100

AGENCY DESCRIPTION — The Department of Juvenile Corrections (DJC) is responsible for the care and treatment of youth offenders adjudicated to be delinquent and remanded to the custody of the department. DJC has jurisdiction over youth until they are released from custody or reach age 18.

Operating Budget

The budget includes \$39,560,200 and 738.5 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$24,180,400
Criminal Justice Enhancement Fund (CJEF)	531,500
Department of Juvenile Corrections (DJC) Local Cost Sharing Fund	11,260,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,000,100
State Education Fund for Committed Youth	1,588,200

These amounts fund the following adjustments:

Admission Changes

The budget includes a decrease of \$(3,240,000) in FY 2017 for reductions in the committed youth population within DJC. This amount consists of:

General Fund	(2,500,000)
DJC Local Cost Sharing Fund	(740,000)

(Please see the Other Issues section for more information on DJC populations.)

Statewide Adjustments

The budget includes a decrease of \$(316,500) in FY 2017 for statewide adjustments. This amount consists of:

- 1/ Twenty-five percent of land earnings and interest from the State Charitable, Penal and Reformatory Institutions Land Fund shall be distributed to the Department of Juvenile Corrections, in compliance with Section 25 of the Enabling Act and the Constitution of Arizona, to be used for the support of state juvenile institutions and reformatories. (General Appropriation Act footnote)
- 2/ General Appropriation Act funds are appropriated as a Lump Sum by Agency.

General Fund	(304,200)
CJEF	200
State Education Fund for Committed Youth	(12,500)

(Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Adobe Mountain School Renovations

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriates \$1,100,000 from CJEF in FY 2017 for renovations to buildings on the Adobe Mountain School campus. The renovations to be completed include roof replacements, floor installation, enhanced radio communication, and other repairs to campus buildings.

Fund Shift

The budget continues the \$901,400 FY 2016 fund shift from the General Fund to the State Charitable, Penal and Reformatory Institutions Land Fund in FY 2017. The total Land Fund appropriation will continue to be \$2,000,100.

As enacted, the \$901,400 shift was intended as one-time; the State Charitable, Penal and Reformatory Institutions Land Fund is estimated to have sufficient resources to continue this shift in FY 2017. With the passage of Proposition 123 in May 2016, the State Land Trust distribution formula increased from 2.5% to 6.9%. As a result, the State Charitable, Penal and Reformatory Institutions Land Fund will realize aggregate revenues of \$2,752,000 in FY 2017. This amount is more than adequate to allow for the continued \$2,000,100 FY 2017 expenditure level that results from the continued shift. (Please see Proposition 123 within the Other Issues section for more information on the increased distribution.)

Local Cost Sharing

The FY 2016 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 17) created the DJC Local Cost Sharing Fund with annual deposits from each county for their proportional cost share of the operational costs of DJC. The FY 2016 Criminal Justice BRB required that each county pay their proportional share of \$12,000,000 according to their population in the 2010 decennial census. The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) reduced this amount to \$11,260,000 to reflect savings realized from a decreased housed population, which includes a \$(740,000) reduction in

county contributions. Table 1 displays the estimated payment by county.

Table 1

Allocation of Local Cost Sharing

<u>County</u>	<u>FY 2017</u>
Apache County	\$ 126,000
Cochise County	231,400
Coconino County	236,800
Gila County	94,400
Graham County	65,600
Greenlee County	14,800
La Paz County	36,100
Maricopa County	6,724,100
Mohave County	352,600
Navajo County	189,300
Pima County	1,726,800
Pinal County	661,900
Santa Cruz County	83,500
Yavapai County	371,800
Yuma County	344,900
TOTAL	\$11,260,000

The FY 2017 General Appropriation Act provides a one-time \$8,000,000 General Fund appropriation to the Department of Administration for distribution to counties according to their proportional share of the population as reported by the 2010 decennial census. This amount is meant to offset a portion of the costs paid by counties to DJC for local cost sharing. Table 2 displays the distribution by county.

Table 2

Allocation of County Payment

<u>County</u>	<u>FY 2017</u>
Apache County	\$ 89,500
Cochise County	164,400
Coconino County	168,300
Gila County	67,100
Graham County	46,600
Greenlee County	10,500
La Paz County	25,700
Maricopa County	4,777,300
Mohave County	250,500
Navajo County	134,500
Pima County	1,226,900
Pinal County	470,300
Santa Cruz County	59,300
Yavapai County	264,100
Yuma County	245,000
TOTAL	\$8,000,000

Proposition 123

As a beneficiary of the Arizona State Land Trust, DJC receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into a

“permanent fund,” pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, DJC received \$623,650 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, DJC will receive \$1,216,100 in additional revenue from the Treasurer’s distributions in FY 2016 and a total of \$2,085,775 from the Treasurer’s distributions in FY 2017. Since DJC land funds are subject to appropriation, DJC will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*

Population Counts

Table 3 lists the DJC population by category. The housed and parole populations within DJC have seen significant decreases in the past 10 years. As illustrated in Table 3, the housed population within DJC has decreased by (46.4)% from FY 2013 through March 2016. The parole population has also decreased significantly realizing a reduction of (61.1)% over the same period. DJC reports that these declines are due to a decline in the number of committed youth, an increase in the age of the average offender resulting in shorter parole and incarceration periods, and statutory changes to admissions requirements.

The FY 2016 Criminal Justice BRB altered the requirements for admission to DJC facilities. These changes include an increase in the minimum admission age to 14, the requirement that juveniles who are admitted must have committed a felony in the past, and the allowance for those that are adjudicated as seriously mentally ill to be allowed admission if they have only committed a misdemeanor. Prior to this bill, the minimum age for admission was 8 years and individuals who had committed a misdemeanor were allowed entrance.

Table 3

DJC Census				
	FY 2013 Average Population	FY 2014 Average Population	FY 2015 Average Population	Population as of March 31, 2016
Housed Population				
Adobe Mountain	347	351	321	186
Parole Population				
Parole	252	135	127	98
Interstate Compact (inside Arizona) ^{1/}	<u>139</u>	<u>120</u>	<u>114</u>	<u>115</u>
Total Parole Population	<u>391</u>	<u>255</u>	<u>241</u>	<u>213</u>
Total DJC Population	738	606	562	399

^{1/} The Interstate Compact is an agreement between states to supervise parolees in each other’s state. “Inside Arizona” means parolees from other states living in Arizona and “outside Arizona” means Arizona parolees living in other states. There were an average of 8 Arizona parolees outside of Arizona in FY 2015 and 1 parolee on March 31, 2016.

State Land Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	130.7	129.7	129.7
Personal Services	6,639,500	7,295,000	7,295,000
Employee Related Expenditures	2,695,200	3,034,300	2,969,300
Professional and Outside Services	1,188,500	1,357,500	1,357,500
Travel - In State	92,300	100,000	100,000
Travel - Out of State	20,300	20,000	20,000
Other Operating Expenditures	3,021,700	3,171,300	3,226,800
Equipment	645,900	180,000	180,000
OPERATING SUBTOTAL	14,303,400	15,158,100	15,148,600
SPECIAL LINE ITEMS			
CAP User Fees	705,700	737,800	769,900 ^{1/}
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	563,100	650,000	650,000 ^{2/}
Scanning and Digitizing Trust Land Records	1,006,200	0	0
Streambed Navigability Litigation	0	0	220,000
AGENCY TOTAL	16,578,400	17,045,900	17,288,500^{3/}
FUND SOURCES			
General Fund	12,507,700	12,520,500	12,491,400
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	500,000	500,000
Environmental Special Plate Fund	173,100	260,500	260,600
Trust Land Management Fund	3,897,600	3,764,900	4,036,500
SUBTOTAL - Other Appropriated Funds	4,070,700	4,525,400	4,797,100
SUBTOTAL - Appropriated Funds	16,578,400	17,045,900	17,288,500
Other Non-Appropriated Funds	751,200	850,000	800,000
Federal Funds	698,900	50,000	0
TOTAL - ALL SOURCES	18,028,500	17,945,900	18,088,500

AGENCY DESCRIPTION — The agency manages the state's 9.2 million acres of trust land on behalf of its 13 beneficiaries. In order to generate revenue, the agency plans, leases, and sells trust land. The agency also generates revenue by collecting royalties from trust land minerals and other natural products.

Operating Budget

The budget includes \$15,148,600 and 129.7 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$11,331,500
Environmental Special Plate Fund	600
Trust Land Management Fund	3,816,500

These amounts fund the following adjustments:

Risk Management Premium

The budget includes an increase of \$52,000 from the Trust Land Management Fund in FY 2017 for increasing Risk Management insurance premiums.

- 1/ The appropriation includes \$769,900 for Central Arizona Project User Fees in FY 2017. For FY 2017, from municipalities that assume their allocation of Central Arizona Project water for every dollar received as reimbursement to the state for past Central Arizona Water Conservation District payments, \$1.00 reverts to the state General Fund in the year that the reimbursement is collected. (General Appropriation Act footnote)
- 2/ Of the amount appropriated for Natural Resource Conservation Districts in FY 2017, \$30,000 shall be used to provide grants to Natural Resource Conservation Districts environmental education centers. (General Appropriation Act footnote)
- 3/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Statewide Adjustments

The budget includes a decrease of \$(61,500) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(61,200)
Environmental Special Plate Fund	100
Trust Land Management Fund	(400)

(Please see the Agency Detail and Allocations section.)

CAP User Fees

The budget includes \$769,900 from the General Fund in FY 2017 for Central Arizona Project (CAP) User Fees. This amount funds the following adjustments:

CAP Rate Increase

The budget includes an increase of \$32,100 from the General Fund in FY 2017 to adjust the appropriation for increased CAP rates. This funding level assumes that the department will be billed for "capital charges" of \$24 per acre foot on 32,076 acre-feet of water in FY 2017 for a total annual charge of \$769,900. This amount will be \$32,100 above the appropriation for CAP user fees of \$737,800 for FY 2016.

Pursuant to A.R.S. § 36-106.01, the State Land Department has a long-term contract with the Central Arizona Water Conservation District (CAWCD) (the governing entity for CAP) for the rights to purchase 32,076 acre-feet of CAP water annually for municipal and industrial uses on state trust lands. The department typically does not take delivery of the water, but must still pay capital charges to the CAWCD each year in order to maintain its CAP water rights. (The CAWCD uses revenue from capital charges to fund repayment of federal construction debt for the CAP.) Maintaining CAP water rights on state trust lands increases their market value. When CAP water rights on state trust lands are transferred to a municipality through the sale or lease of state trust lands, the state General Fund is reimbursed for all previous costs associated with the water rights pursuant to A.R.S. § 37-106.01C. *(Please see related General Appropriation Act footnote.)*

Due Diligence Fund

The budget includes \$500,000 from the Due Diligence Fund in FY 2017 for this line item. This amount is unchanged from FY 2016.

The State Land Department uses monies in this line item to fund due diligence studies on land that it prepares for auction. The purchasers of state trust land then

reimburse the State Land Department for the cost of the studies.

Natural Resource Conservation Districts

The budget includes \$650,000 in FY 2017 for Natural Resource Conservation Districts (NRCDs). This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2016.

Monies in this line item are used to provide for natural resource research, activities, and staff at the state's 30 NRCDs. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires the department to include in its budget request up to \$40,000 for each NRCD and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote requires that \$30,000 of the total appropriation for NRCDs be used to provide grants to NRCD environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCDs. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

The revenue deposited in the Environmental Special Plate Fund consists of \$17 of the \$25 fee for environmental license plates. Current levels of Environmental Special Plate Fund revenue do not permit expenditure of the full appropriation. Revenue for FY 2015 totaled \$147,800 and will not be able to fund the appropriated amount, which is set at \$260,000. The revenue generated from the Environmental Special Plate Fund has trended downward and license plate sales have not reached \$260,000 since FY 2007.

Streambed Navigability Litigation

The budget includes \$220,000 from the Trust Land Management Fund in FY 2017 for Streambed Navigability Litigation. This amount funds the following adjustments:

Streambed Navigability Litigation

The budget includes an increase of \$220,000 from the Trust Land Management Fund in FY 2017 for streambed navigability litigation. Pursuant to A.R.S. §§ 37-1123 and 37-1124, the Land Department is required to provide evidence to the Arizona Navigable Stream Adjudication

Commission (ANSAC) to help resolve litigation regarding the navigability of watercourses in the state. *(Please see the Arizona Navigable Stream Adjudication section.)*

The Land Department will use monies in this line item to fund expert witness services, technical examinations, and associated legal costs it expects to incur in connection with ongoing hearings and appeals processes in FY 2017. The department reports that these costs rose from approximately \$75,000 in FY 2014 to approximately \$150,000 in FY 2015 and expects them to reach \$220,000 in FY 2017.

Other Issues

Long-Term Budget Impacts

As part of the FY 2017 Baseline's 3-year spending plan, the Land Department's General Fund costs were projected to remain unchanged in FY 2017 and decrease by \$(12,520,500) in FY 2018 below FY 2017. These estimates assumed the agency's self-funding proposal in SCR 1018 would receive voter approval in November 2016. To avoid overstating the savings should the ballot proposition have failed, however, the 3-year plan did not score the General Fund savings until 2018.

Due to the withdrawal of the self-funding ballot proposition and the repeal of related statutory provisions, the budget no longer assumes a \$(12,520,500) decrease in General Fund support beginning in FY 2018. *(Please see Self-Funding Agency section below.)*

Self-Funding Agency

In 2015, the Legislature approved SCR 1018, which would have allowed voters in the November 2016 general election to decide whether to amend the Arizona Constitution to allow up to 10% of annual proceeds from state trust land to be used for administration and disposition of trust lands. Contingent upon voter approval of this amendment, the FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) would have repealed A.R.S. § 37-527, the authorizing language for the existing Trust Land Management Fund, and replaced it with a new A.R.S. § 37-527 creating the Trust Land Administration Fund.

The constitutional amendments proposed in SCR 1018 left ambiguous whether the Land Department would have authority to use proceeds both from land sales and royalties ("permanent receipts") and from lease revenues ("expendable receipts") for the administration of trust lands. The conditionally enacted language of the FY 2016

Environment BRB also did not provide statutory authority for the Land Department to deposit future fee revenue into an active fund nor transfer existing funds from the Trust Land Management Fund to an active fund upon its repeal. *(Please see Land Department narrative in the FY 2017 JLBC Baseline for more information.)*

In 2016, the Legislature determined not to pursue the self-funding plan as drafted in SCR 1018 and the FY 2016 Environment BRB. The Legislature thus approved HCR 2051, which withdraws SCR 1018 from the November 2016 general election ballot. The FY 2017 Environment BRB (Laws 2016, Chapter 120) also repealed the conditionally enacted self-funding provisions of the FY 2016 Environment BRB.

October 2015 Special Session and Proposition 123

As approved by voters at the May 2016 election, Proposition 123 implements the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001) to increase the annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

Proposition 123 provides \$172,081,000 in incremental funds to K-12 schools in FY 2016 and an estimated \$172,444,700 in FY 2017, or an estimated \$2,155,186,400 over 10 years. *(Please see October 2015 Special Session and Proposition 123 section in the Department of Education section for more information.)*

Proposition 123 also would increase distributions to other public institutions. Non-K-12 beneficiaries received \$5,745,100 in distributions under the 2.5% rate in FY 2015. The 6.9% distribution rate under Proposition 123 increases this amount to \$18,176,200 in FY 2016 and an estimated \$20,540,600 in FY 2017. Over 10 years, non-K-12 beneficiaries will receive an estimated \$159,721,000 in additional distributions under Proposition 123. *(Please see Table 1.)*

In addition to the distributions from the Treasurer, each beneficiary continues to receive lease and mineral royalty revenues generated from their land parcels. Non-K-12 beneficiaries received \$10,100,400 from these sources in FY 2015. *(Please see Table 1.)*

Table 1

State Land Trust Expendable Receipts: Non-K-12 Beneficiaries^{1/2/3/}

	Treasurer's Distribution				FY 2015 Lease Revenues
	FY 2015 (2.5% Distribution)	FY 2016 (6.9% Distribution)	FY 2017 (6.9% Distribution)	Prop 123 10-Year Incremental Distributions	
Military Institute	\$ 12,800	\$ 38,600	\$ 41,600	\$ 280,200	\$ 71,000
Normal Schools ASU/NAU	82,100	256,600	285,800	2,128,700	214,500
A & M Colleges	228,000	695,200	754,700	5,220,000	217,100
School of Mines	258,000	786,000	853,600	5,896,400	241,800
University Fund	429,000	1,335,000	1,483,800	11,090,000	1,746,400
U of A Land - 1881	1,129,200	3,868,200	4,698,500	43,604,400	530,200
Universities Subtotal	\$ 2,139,100	\$ 6,979,600	\$ 8,118,000	\$ 68,219,700	\$ 3,020,900
State Hospital	\$ 138,400	\$ 431,100	\$ 477,300	\$ 3,510,900	\$ 562,600
Legal, Executive, & Judicial Buildings	185,200	566,900	619,800	4,360,400	201,100
Miners' Hospital (Pioneers' Home)	389,000	1,302,000	1,545,500	13,680,100	1,592,400
Penitentiaries (Dept. of Corrections)	282,500	906,300	1,037,200	8,486,500	1,100,100
School for Deaf & Blind	116,300	362,000	399,700	2,925,900	308,100
State Charitable					
Pioneers' Home (50%)	\$1,247,300	\$ 3,814,200	\$ 4,171,600	\$ 29,268,800	\$ 1,657,700
Dept. of Corrections (25%)	623,700	1,907,100	2,085,800	14,634,400	828,800
Dept. of Juvenile Corrections (25%)	623,700	1,907,100	2,085,800	14,634,400	828,800
State Charitable Subtotal	\$2,494,700	\$ 7,628,300	\$ 8,343,100	\$ 58,537,500	\$ 3,315,300
Non-K-12 Beneficiaries Total	\$5,745,100	\$18,176,200	\$20,540,600	\$159,721,000	\$10,100,400

^{1/} Trust beneficiaries receive revenues from 2 "expendable" earnings sources: 1) a 6.9% distribution of fund balances by the Treasurer and 2) payments for leases and mineral extraction from state trust lands. The Land Department distributes the lease and mineral royalty payments.

^{2/} Assumes 6.9% annual investment returns and \$11 million annual non-K-12 Land Trust sale proceeds.

^{3/} Some numbers do not add correctly due to rounding.

Additional Legislation

National Monument Geographic Boundaries

Laws 2016, Chapter 265 requires the Land Department to determine whether land parcels designated as national monuments are confined to the smallest geographic areas necessary for the management and protection of the objects of each monument. The department must request and review relevant coordinate data from the federal government and notify the Attorney General in cases where more land than is deemed necessary is designated as part of the monument. The Attorney General may then take action to limit the boundaries of the monument lands.

If the federal government provides the specified data, the Land Department's statutory obligations under this law may require additional staffing and operational resources.

Legislature - Auditor General

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	184.8	184.8	184.8
Personal Services	11,235,800	11,235,800	11,235,800
Employee Related Expenditures	4,278,600	4,210,600	4,142,600
Professional and Outside Services	499,100	499,100	699,100
Travel - In State	290,800	290,800	290,800
Travel - Out of State	4,500	4,500	4,500
Other Operating Expenditures	1,120,300	1,125,200	1,126,400
Equipment	567,300	567,300	567,300
OPERATING SUBTOTAL	17,996,400	17,933,300	18,066,500
SPECIAL LINE ITEMS			
Independent Consultant	250,000	0	0
AGENCY TOTAL	18,246,400	17,933,300	18,066,500^{1/2/3/}
FUND SOURCES			
General Fund	18,246,400	17,933,300	18,066,500
SUBTOTAL - Appropriated Funds	18,246,400	17,933,300	18,066,500
Other Non-Appropriated Funds	1,919,300	1,940,300	1,940,300
TOTAL - ALL SOURCES	20,165,700	19,873,600	20,006,800

AGENCY DESCRIPTION — The Auditor General (AG) provides an independent financial, performance, and compliance audit capability in support of legislative oversight and public accountability of funds administered by the state and certain local governments.

Operating Budget

The budget includes \$18,066,500 and 184.8 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Audit Funding

The budget includes a one-time increase of \$200,000 from the General Fund in FY 2017 for an audit of the Arizona Power Authority.

Statewide Adjustments

The budget includes a decrease of \$(66,800) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

^{3/} Included in the lump sum appropriation is funding to pay state rent at the statewide rate. (General Appropriation Act footnote)

Legislature - House of Representatives

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	13,342,700	13,289,500	13,201,500
AGENCY TOTAL	13,342,700	13,289,500	13,201,500 ^{1/2/3/}
FUND SOURCES			
General Fund	13,342,700	13,289,500	13,201,500
SUBTOTAL - Appropriated Funds	13,342,700	13,289,500	13,201,500
TOTAL - ALL SOURCES	13,342,700	13,289,500	13,201,500

AGENCY DESCRIPTION — The House of Representatives is made up of 60 members, 2 of whom are elected from each of the legislative districts. The officers and employees of the House of Representatives consist of the Speaker of the House, a Chief Clerk of the House, and other employees as the House directs.

Operating Budget

The budget includes \$13,201,500 from the General Fund in FY 2017 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(88,000) from the General Fund in FY 2017 for statewide adjustments.
(Please see the Agency Detail and Allocations section.)

- 1/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- 2/ Included in the Lump Sum appropriation of \$13,201,500 for FY 2017 is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 3/ General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Legislature - Joint Legislative Budget Committee

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,639,900	1,661,800	1,661,800
Employee Related Expenditures	506,900	604,000	601,300
Professional and Outside Services	103,700	125,000	125,000
Travel - In State	900	500	500
Travel - Out of State	800	0	0
Other Operating Expenditures	55,300	97,600	97,700
Equipment	900	2,000	2,000
AGENCY TOTAL	2,308,400	2,490,900	2,488,300 ^{1/2/}
FUND SOURCES			
General Fund	2,308,400	2,490,900	2,488,300
SUBTOTAL - Appropriated Funds	2,308,400	2,490,900	2,488,300
TOTAL - ALL SOURCES	2,308,400	2,490,900	2,488,300

AGENCY DESCRIPTION — The Staff of the Joint Legislative Budget Committee, established by the Arizona Legislature, provides its members with analysis, forecasts, research and recommendations on state government finances and public policies.

Operating Budget

The budget includes \$2,488,300 and 29 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,600) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Legislature - Legislative Council

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	49.0	49.0	49.0 ^{1/}
Personal Services	2,572,000	2,785,000	2,785,000
Employee Related Expenditures	976,000	958,900	942,900
Professional and Outside Services	96,500	60,300	60,300
Other Operating Expenditures	394,400	353,100	353,900
Equipment	3,007,200	3,250,400	3,250,400
OPERATING SUBTOTAL	7,046,100	7,407,700	7,392,500
SPECIAL LINE ITEMS			
Hearing Loop Installation	0	0	250,000 ^{2/}
Ombudsman-Citizens Aide Office	811,500	825,600	822,900 ^{3/}
AGENCY TOTAL	7,857,600	8,233,300	8,465,400 ^{4/5/6/}
FUND SOURCES			
General Fund	7,857,600	8,233,300	8,215,400
<u>Other Appropriated Funds</u>			
Telecommunication Fund for the Deaf	0	0	250,000
SUBTOTAL - Other Appropriated Funds	0	0	250,000
SUBTOTAL - Appropriated Funds	7,857,600	8,233,300	8,465,400
TOTAL - ALL SOURCES	7,857,600	8,233,300	8,465,400

AGENCY DESCRIPTION — The Legislative Council, a staff agency of the Legislative Department, provides bill drafting and research services, continuing code revision and manages the operation and renovation of certain legislative buildings and grounds. The council is also responsible for the development, operation, and maintenance of the legislative computer system.

Operating Budget

The budget includes \$7,392,500 and 40 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,200) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Hearing Loop Installation

The budget includes \$250,000 from the Telecommunication Fund for the Deaf in FY 2017 for hearing loop installation. This one-time appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Monies in this appropriation fund the one-time installation of looping hearing aid service systems in the House of Representatives and Senate buildings. The looping systems transmit sound from the House and Senate Public Address (PA) systems directly into hearing

^{1/} Includes 9 GF FTE Positions funded from Special Line Items in FY 2017.

^{2/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act, Section 146)

^{3/} It is the intent of the Legislature that the Ombudsman-Citizens Aide prioritize the investigation and processing of complaints relating to the Department of Child Safety. (General Appropriation Act footnote)

^{4/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{5/} Dues for the Council of State Governments may be expended only on an affirmative vote of the Legislative Council. (General Appropriation Act footnote)

^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

aids allowing device users to clearly hear the sound from the PA systems without disruptive background noise. Legislative Council will oversee the installation of the looping system.

Ombudsman-Citizens Aide Office

The budget includes \$822,900 and 9 FTE Positions from the General Fund in FY 2017 for the Ombudsman-Citizens Aide Office. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,700) from the General Fund in FY 2017 for statewide adjustments.

Monies in this line item fund operation of the Ombudsman-Citizens Aide Office, which receives public complaints, investigates administrative acts of agencies, and may present their final opinion and recommendations to the Governor, the Legislature, the office of the appropriate prosecutor or the public, or any combination of these persons. The Ombudsman-Citizens Aide Office also trains public officials and educates the public on the rights of the public and the responsibilities of public agencies under the public access laws.

Other Issues

Additional Legislation

Department of Child Safety Complaint Referral Extension

The FY 2017 Human Services Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 123), as session law, extends to June 30, 2018 an Ombudsman-Citizens Aide Office (OCAO) provision allowing OCAO, upon investigation, to refer any complaint concerning the Department of Child Safety directly to a Superior Court judge for further review and action.

Legal Fees

The FY 2017 Budget Procedures BRB (Laws 2016, Chapter 127), as permanent law, allows the Legislative Council to pay legal fees incurred jointly by the House of Representatives and the Senate on the authorization of the Speaker of the House of Representatives and the President of the Senate.

Legislature - Senate

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	8,686,300	8,223,900	9,408,500
AGENCY TOTAL	8,686,300	8,223,900	9,408,500 ^{1/2/3/}
FUND SOURCES			
General Fund	8,686,300	8,223,900	9,408,500
SUBTOTAL - Appropriated Funds	8,686,300	8,223,900	9,408,500
TOTAL - ALL SOURCES	8,686,300	8,223,900	9,408,500

AGENCY DESCRIPTION — The Senate is made up of 30 members elected from each of the legislative districts. The officers and employees of the Senate consist of the President of the Senate, a Secretary of the Senate, and other employees as the Senate directs.

Operating Budget

The budget includes \$9,408,500 from the General Fund in FY 2017 for the operating budget. This amount funds the following adjustments:

Additional Funding

The budget includes an increase of \$1,250,000 from the General Fund in FY 2017 for additional funding.

Statewide Adjustments

The budget includes a decrease of \$(65,400) from the General Fund in FY 2017 for statewide adjustments.
(Please see the Agency Detail and Allocations section.)

- ^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- ^{2/} Included in the Lump Sum appropriation of \$9,408,500 for FY 2017 is \$1,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations)
- ^{3/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Liquor Licenses and Control

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	45.2	45.2	45.2
Personal Services	1,573,300	1,522,700	1,522,700
Employee Related Expenditures	774,700	734,900	786,000
Professional and Outside Services	44,200	40,400	40,400
Travel - In State	78,800	110,400	110,400
Travel - Out of State	2,200	3,300	3,300
Other Operating Expenditures	458,600	543,600	544,600
Equipment	28,400	0	0
OPERATING SUBTOTAL	2,960,200	2,955,300	3,007,400
SPECIAL LINE ITEMS			
Licensing Replacement System	174,900	400,000	0
AGENCY TOTAL	3,135,100	3,355,300	3,007,400^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Liquor Licenses Fund	3,135,100	3,355,300	3,007,400
SUBTOTAL - Other Appropriated Funds	3,135,100	3,355,300	3,007,400
SUBTOTAL - Appropriated Funds	3,135,100	3,355,300	3,007,400
Other Non-Appropriated Funds	915,600	934,200	934,200
Federal Funds	136,800	0	0
TOTAL - ALL SOURCES	4,187,500	4,289,500	3,941,600

AGENCY DESCRIPTION — The department licenses, investigates and regulates the production, distribution, and sale of alcoholic beverages throughout the state.

Operating Budget

The budget includes \$3,007,400 and 45.2 FTE Positions from the Liquor Licenses Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Public Safety Personnel Retirement System Increase

The budget includes an increase of \$62,300 from the Liquor Licenses Fund in FY 2017 for increased costs associated with the Public Safety Personnel Retirement System.

Statewide Adjustments

The budget includes a decrease of \$(10,200) from the Liquor Licenses Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Licensing Replacement System

The budget includes no funding in FY 2017 for a licensing and imaging system. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(400,000) from the Liquor Licenses Fund in FY 2017 to remove one-time funding for the replacement of the licensing and imaging system. The new system integrates both licensing and imaging; enhances tracking, reporting and enforcement mechanisms; and allows the department to accept online license renewals and fee payments.

The FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) continues to extend spending authority of \$626,700 from the department's FY 2015 appropriation and \$400,000 from the department's FY 2016 appropriation for the licensing and imaging system through FY 2017.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona State Lottery Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	98.8	98.8	98.8
Personal Services	4,123,400	4,812,000	4,812,000
Employee Related Expenditures	1,870,000	1,732,800	1,693,300
Professional and Outside Services	352,900	386,800	386,800
Travel - In State	204,200	271,600	271,600
Travel - Out of State	14,100	16,800	16,800
Other Operating Expenditures	933,700	1,169,400	1,173,200
Equipment	118,400	0	0
OPERATING SUBTOTAL	7,616,700	8,389,400	8,353,700
SPECIAL LINE ITEMS			
Advertising	13,676,700	15,500,000	15,500,000
Charitable Commissions ^{1/}	443,000	1,105,200	1,215,800 ^{2/}
Instant Tickets ^{1/}	10,474,600	22,056,300	23,671,800 ^{3/}
On-Line Vendor Fees ^{1/}	7,080,500	7,344,200	8,062,600 ^{4/}
Retailer Commissions ^{1/}	22,619,400	53,977,900	56,633,900 ^{5/}
AGENCY TOTAL	61,910,900	108,373,000	113,437,800^{6/}

FUND SOURCES

Other Appropriated Funds

State Lottery Fund	61,910,900	108,373,000	113,437,800
SUBTOTAL - Other Appropriated Funds	61,910,900	108,373,000	113,437,800
SUBTOTAL - Appropriated Funds	61,910,900	108,373,000	113,437,800
Other Non-Appropriated Funds	488,728,000	514,176,300	539,989,200
TOTAL - ALL SOURCES	550,638,900	622,549,300	653,427,000

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. In addition to Arizona-specific games, the state also participates in multi-state Powerball and Mega-Millions on-line games.

Operating Budget

The budget includes \$8,353,700 and 98.8 FTE Positions from the State Lottery Fund in FY 2017 for the operating budget. This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(35,700) from the State Lottery Fund in FY 2016 for statewide adjustments.

(Please see the Agency Detail and Allocations section.)

Advertising

The budget includes \$15,500,000 from the State Lottery Fund in FY 2017 for Advertising. This amount is unchanged from FY 2016.

- ^{1/} Charitable Commissions, Instant Tickets, On-Line Vendor Fees, and Retailer Commissions are appropriated as a percentage of sales. Therefore, the amounts shown for those line items are estimates only.
- ^{2/} An amount equal to 20% of Tab Ticket sales is appropriated for payment of sales commissions to charitable organizations. This amount is currently estimated to be \$1,215,800 in FY 2017. (General Appropriation Act footnote)
- ^{3/} An amount equal to 3.6% of actual instant ticket sales is appropriated for the printing of instant tickets or for contractual obligations concerning instant ticket distribution. This amount is currently estimated to be \$23,671,800 in FY 2017. (General Appropriation Act footnote)
- ^{4/} An amount equal to a percentage of actual on-line game sales as determined by contract is appropriated for payment of on-line vendor fees. This amount is currently estimated to be \$8,062,600, or 4.16% of actual on-line ticket sales in FY 2017. (General Appropriation Act footnote)
- ^{5/} An amount equal to 6.5% of gross lottery game sales, minus Tab Tickets, is appropriated for payment of sales commissions to ticket retailers. An additional amount not to exceed 0.5% of gross lottery game sales is appropriated for payment of sales commissions to ticket retailers. The combined amount is currently estimated to be 6.7% of total ticket sales, or \$56,633,900 in FY 2017. (General Appropriation Act footnote)
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The budget includes \$1,215,800 from the State Lottery Fund in FY 2017 for Charitable Commissions. This amount funds the following adjustments:

Tab Ticket Increase

The budget includes an increase of \$110,600 from the State Lottery Fund in FY 2017 to realign spending with projected revenues. (See Table 1 for more information.)

Monies in this line item are used to compensate charities for selling lottery 'Tab Tickets.' Tab Tickets are games sold exclusively by charitable organizations, who receive a 20% commission for selling the games. The displayed amount is derived by applying the approved percentage, 20%, to the forecasted Tab Ticket sales. A.R.S. § 5-555 also allows the department to collect up to 35% of total Tab Ticket sales (which includes the 20% commission) for their operating budget, with the remainder distributed as prizes.

Instant Tickets

The budget includes \$23,671,800 from the State Lottery Fund in FY 2017 for Instant Tickets. This amount funds the following adjustments:

Instant Ticket Sales Increase

The budget includes an increase of \$1,615,500 from the State Lottery Fund in FY 2017 for Instant Tickets due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to pay for instant ticket printing and distribution costs. The actual appropriation is for 3.6% of instant ticket sales. The amount displayed is derived by applying the approved spending percentage to the forecasted sales total.

On-Line Vendor Fees

The budget includes \$8,062,600 from the State Lottery Fund in FY 2017 for On-Line Vendor Fees. This amount funds the following adjustments:

On-Line Vendor Fee Rate Increase

The budget includes an increase of \$891,600 from the State Lottery Fund in FY 2017 for On-Line Vendor Fees due to a contractual rate increase set to begin in September 2016.

On-Line Sales Decrease

The budget includes a decrease of \$(173,200) from the State Lottery Fund in FY 2017 for On-Line Vendor Fees due to lower projected sales. This reflects the decline in on-line vendor fees prior to the adjustment for the fee increase. On-Line sales have experienced a (4.6)% average annual growth rate since FY 2012, which is driven by decreasing revenues in multi-state draw games. (See Table 1 for more information.)

Monies in this line item are used to pay the vendor that operates the on-line game computer system. The actual appropriation is equal to a percentage of on-line ticket sales specified in the Lottery's contractual agreement with the vendor. This percentage is currently 3.7%. However, the agency has entered into a new contract with another vendor to provide this service. Beginning in September 2016, the rate will increase to 4.256%. The \$891,600 increase in this line item is a result of a blended rate of 4.16% in FY 2017.

Retailer Commissions

The budget includes \$56,633,900 from the State Lottery Fund in FY 2017 for Retailer Commissions. This amount funds the following adjustments:

Retailer Commissions Increase

The budget includes an increase of \$2,656,000 from the State Lottery Fund in FY 2017 for Retailer Commissions due to higher projected sales. (See Table 1 for more information.)

Monies in this line item are used to compensate retailers for selling lottery tickets. A.R.S. § 5-555 specifies that compensation to retailers will be at least 5.5% but not more than 8% of non-Tab Ticket sales. The actual appropriation is equal to 6.5% of these sales. Pursuant to statute, an additional 0.5% of total non-Tab Ticket sales may be paid to retailers based on their attainment of specified sales and marketing objectives. Since 40% of retailers are estimated to meet these objectives, this would result in an additional 0.2% in retailer commissions and a total retail commission rate of 6.7%. The displayed amount is derived by applying the approved percentage to the forecasted sales total.

Other Issues

Additional Legislation

Delayed Retailer Commissions

The FY 2017 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 127) requires that \$27,227,600

in Lottery ticket sales commissions earned during the second half of FY 2015 be paid from the State Lottery Fund's FY 2015 ending balance. Due to a delay in processing, these amounts were recorded as an FY 2015 administrative adjustment in the state's accounting system, which could have affected the Lottery Commission's calculations of FY 2016 profits. Instead, the BRB provision would have the sales commissions paid from the State Lottery Fund balance.

Tribal College Dual Enrollment Funding

The FY 2017 K-12 Education BRB (Laws 2016, Chapter 124) increases the maximum distribution of unclaimed Lottery prize money to the Tribal College Dual Enrollment Program Fund from \$160,000 to \$250,000 in a fiscal year.

Lottery Forecast and Distributions

The budget assumes an 8.2% increase in overall Lottery ticket sales in FY 2016, followed by a 5.0% increase in FY 2017. For FY 2016 and FY 2017, the budget assumes Lottery ticket sales of \$811,167,200 and \$851,361,500, respectively.

Sources and Uses of Lottery Profit Distribution

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2015 and the JLBC Staff projected distributions for FY 2016 and FY 2017. A brief description of each beneficiary follows in the order that they receive Lottery-generated revenue in accordance with A.R.S. §§ 5-534 and 5-572.

State Lottery Revenue Bond Debt Service Payment Fund

Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. The payments are made from Lottery revenues that would have otherwise been deposited into the General Fund. The principal and interest payments in FY 2016 and FY 2017 are expected to be \$37,501,800 and \$37,501,500, respectively. Chapter 4 requires the first Lottery proceeds to be distributed to the State Lottery Revenue Bond Debt Service Payment Fund.

Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is \$11,444,400 in each FY 2016 and FY 2017.

Laws 1993, 6th Special Session, Chapter 1 allocated not less than 31.5% of multi-state Powerball revenues to

public transportation programs, otherwise known as Local Transportation Assistance Fund (LTAF) II. This allocation was capped at \$18,000,000 and was contingent upon the General Fund receiving \$45,000,000 in Lottery revenues.

Laws 2010, 7th Special Session, Chapter 12 redirected these monies to the General Fund. In September 2011, the U.S. District Court in the case of *Paisley v. Darwin* ruled that the Arizona Legislature must restore the distribution of mass transit monies to Maricopa County because the distribution was part of the state implementation plan to ensure compliance with the Clean Air Act. As a result, the state must calculate Maricopa County's share of 31.5% of statewide Powerball proceeds and distribute those monies to the county.

General Fund - Part 1

The statutory distribution requires the General Fund to receive up to \$84,150,000. The General Fund - Part 2 would receive up to an additional \$15,490,000 (for a total of \$99,640,000) after the statutory funding obligations have been met through the Homeless Shelters distribution. After all other statutory obligations have been met, the General Fund - Part 3 would receive all remaining revenues.

The profit distributions in FY 2016 and FY 2017 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,501,800 in FY 2016 and \$37,501,500 in FY 2017 count towards the \$84,150,000 General Fund - Part 1 requirement.

Heritage Fund

Statute caps annual distributions to the Arizona Game and Fish Commission's Heritage Fund at \$10,000,000. The funds are used to promote wildlife habitat and education programs and to rehabilitate historic buildings. In FY 2016 and FY 2017, the fund is projected to receive its entire allocation.

Health and Welfare Programs

Statute requires annual inflation adjustments for the Health and Welfare distribution. The revised allocation cap is \$20,603,400 in FY 2016 and \$21,087,400 in FY 2017. These amounts are distributed among the following agencies:

- 29.4% to the Department of Child Safety for the Healthy Families program.
- 23.5% to the Arizona Board of Regents (ABOR) for the Arizona Health Education Center program.
- 17.6% to the Department of Health Services (DHS) for teenage pregnancy prevention.
- 11.8% to DHS for Disease Control Research.

- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

Health and Welfare Programs are expected to receive their entire allocation in both FY 2016 and FY 2017.

Homeless Shelters

Under the statutory distribution, DES would receive up to \$1,000,000 for Homeless Shelters. The department shall use the funding to distribute grants to nonprofit organizations, including faith based organizations, for homeless emergency and transitional shelters and related support services. The fund is estimated to receive its full allocation in both FY 2016 and FY 2017.

General Fund - Part 2

As noted above, the General Fund would receive up to an additional \$15,490,000 after all prior allocations have been met. In FY 2016 and FY 2017, the General Fund is estimated to receive its entire allocation of \$15,490,000.

Arizona Competes Fund

Statute caps annual distributions to the Arizona Competes Fund at \$3,500,000. Allotments to this fund are used for administering grants to qualifying businesses for the purpose of attracting, retaining, and expanding business within the state. This fund is estimated to receive its full allocation in both FY 2016 and FY 2017.

University Capital Improvement Fund

This fund serves as the source for up to 80% of the annual debt service associated with \$800,000,000 of University Capital construction lease-purchase agreements. This fund received \$22,273,200 in FY 2015. The UCI Fund is expected to require \$38,653,000 in FY 2016 and \$39,928,200 in FY 2017 to make the expected 80% level of debt service payments. The Universities do not plan to issue any additional lease-purchase agreements in FY 2017 above the \$668,710,000 of lease-purchase agreements that have already been or will be issued by the end of FY 2016. Once the full \$800,000,000 has been issued, debt service payments could total \$41,632,900, depending on assumptions of repayment lengths and interest rates. *(Please see the FY 2017 Arizona Board of Regents Capital Outlay section for more details.)*

General Fund - Part 3

The General Fund receives all remaining revenues after all statutory funding obligations have been met. These payments to the General Fund are estimated to equal \$3,477,100 in FY 2016 and \$10,998,800 in FY 2017. Total General Fund distributions, net of bond payments, are therefore estimated to be \$65,615,300 in FY 2016 and \$73,137,300 in FY 2017.

Table 1

Forecast of Lottery Revenue Distribution
(\$ in Millions)

<u>Sales</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Instant Sales	\$547.2	\$612.7	\$657.6
On-Line Sales	<u>202.8</u>	<u>198.5</u>	<u>193.8</u>
Total Sales	\$750.0	\$811.2	\$851.4
<i>Less:</i>			
Operating Budget ^{1/}	\$ 61.9	\$ 108.4	\$ 113.5 ^{2/}
Delayed Commissions ^{3/}	27.2	0.0	0.0
Gaming Distribution	0.3	0.3	0.3
Prizes ^{4/}	<u>488.7</u>	<u>514.2</u>	<u>540.0</u>
Net Profit ^{5/}	\$171.9	\$188.3	\$197.6
Profit Transfers ^{6/}			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{7/}	11.4	11.4	11.4
General Fund - Part 1 ^{8/}	46.6	46.6	46.6
Heritage	10.0	10.0	10.0
Health and Welfare Programs	20.2	20.6	21.1
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2 ^{8/}	15.5	15.5	15.5
Arizona Commerce Authority	3.5	3.5	3.5
University Capital	22.3	38.7	39.9
General Fund - Part 3 ^{8/}	<u>3.9</u>	<u>3.5</u>	<u>11.1</u>
Total Transfer	\$171.9	\$188.3	\$197.6

- ^{1/} Of this amount, an estimated \$1,105,200 in FY 2016 and an estimated \$1,215,800 in FY 2017 will be distributed as commissions to charities that sell lottery Tab Tickets.
- ^{2/} Excludes the statewide adjustment amount of \$(35,700).
- ^{3/} Due to a delay in processing, \$27,227,600 of Lottery expenditures made in FY 2015 were recorded in FY 2016 in the state's accounting system. This delay in processing did not change the FY 2015 calculations of prizes, net profit, and profit transfers that appear in this table. Any delayed expenditures are assumed to be made from the FY 2015 ending balance and are not included in FY 2016 expenditures.
- ^{4/} Prizes are estimated by subtracting net profit, operating budget expenditures, and the Department of Gaming transfer from total Lottery sales.
- ^{5/} To derive the profit transfer amounts, the actual FY 2014 and FY 2015 average rate of return for each game was applied to the current budget forecast. The cumulative profit transfer rate is 23.41%.
- ^{6/} In addition to these listed transfers, the following monies are distributed:
- \$900,000 and \$100,000 from vending machine sales in age-restricted areas to the Internet Crimes Against Children Enforcement Fund and the Victims' Rights Enforcement Fund, respectively.
 - 30% of unclaimed prizes to the Court Appointed Special Advocates program.
 - 15% of unclaimed prizes, not to exceed \$160,000 to the Tribal College Dual Enrollment Program Fund in FY 2016 and \$250,000 in FY 2017.
- ^{7/} As a result of a federal court order, Maricopa County's share of Local Transportation Assistance Fund II monies was reinstated starting September 2011. (See *Other Issues* section for more information.)
- ^{8/} Excluding fund transfers, distributions to the General Fund totaled \$66,096,300 in FY 2015 and are estimated to be \$65,615,300 in FY 2016 and \$73,137,300 in FY 2017.

Board of Massage Therapy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	235,000	241,100	241,100
Employee Related Expenditures	101,600	101,600	101,400
Professional and Outside Services	7,000	22,000	35,900
Travel - In State	500	500	500
Other Operating Expenditures	86,600	86,900	87,500
Equipment	3,700	3,700	3,700
AGENCY TOTAL	434,400	455,800	470,100^{1/2/}

FUND SOURCES

Other Appropriated Funds

Board of Massage Therapy Fund	434,400	455,800	470,100
SUBTOTAL - Other Appropriated Funds	434,400	455,800	470,100
SUBTOTAL - Appropriated Funds	434,400	455,800	470,100
TOTAL - ALL SOURCES	434,400	455,800	470,100

AGENCY DESCRIPTION — The board licenses and regulates massage therapists. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$470,100 and 5 FTE Positions from the Board of Massage Therapy Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(15,000) from the Board of Massage Therapy Fund in FY 2017 to eliminate one-time FY 2016 funding for implementation of online licensing.

Attorney General Representation

The budget includes an increase of \$13,900 from the Board of Massage Therapy Fund in FY 2017 for increased Attorney General representation.

Online Renewal Application

The budget includes a one-time increase of \$15,000 from the Board of Massage Therapy Fund in FY 2017 for implementation of an online system for renewals. *(Please see General Appropriation Act footnote.)*

Statewide Adjustments

The budget includes an increase of \$400 from the Board of Massage Therapy Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} The appropriation includes \$15,000 for online renewal applications. Before the expenditure of these monies, the Board of Massage Therapy shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Medical Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	58.5	58.5	61.5
Personal Services	2,659,200	3,077,900	3,112,900
Employee Related Expenditures	942,300	1,154,200	1,151,100
Professional and Outside Services	1,088,300	973,600	973,600
Travel - In State	16,300	22,500	22,500
Travel - Out of State	9,000	29,000	29,000
Other Operating Expenditures	839,200	892,500	898,200
Equipment	209,900	276,300	276,300
AGENCY TOTAL	5,764,200	6,426,000	6,463,600 ^{1/2/3/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Arizona Medical Board Fund	5,764,200	6,426,000	6,463,600
SUBTOTAL - Other Appropriated Funds	5,764,200	6,426,000	6,463,600
SUBTOTAL - Appropriated Funds	5,764,200	6,426,000	6,463,600
TOTAL - ALL SOURCES	5,764,200	6,426,000	6,463,600

AGENCY DESCRIPTION — The Arizona Medical Board licenses, regulates and conducts examinations of medical doctors and physician's assistants.

Operating Budget

The budget includes \$6,463,600 and 61.5 FTE Positions from the Arizona Medical Board Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Licensure of Out-of-State Physicians

Laws 2016, Chapter 137 appropriates \$50,000 and 3 FTE Positions from the Arizona Medical Board Fund in FY 2017 for additional licensure costs associated with new licensing procedures for out-of-state physicians seeking to practice medicine in Arizona. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. *(Please see Additional Legislation for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(12,400) from the Arizona Medical Board Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Additional Legislation

Credentials Verification Service

The FY 2017 Government Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 121) authorizes the Arizona Medical Board to continue spending credentials verification monies in FY 2016. Notwithstanding the Arizona Department of Administration's (ADOA) authority to allow administrative adjustments for payment of contracts made by state agencies, the board is prohibited from spending credentials verification monies after FY 2016.

Laws 2014, Chapter 251 included a one-time supplemental appropriation of \$855,000 from the Arizona Medical Board Fund in FY 2014 for the review of initial applications received by the board from October 1, 2011 through February 5, 2014, after the Ombudsman-Citizens Aide Office found that an expedited licensing process had not followed state statute and rules. The board has since contracted with an in-state credentials verification service to review over 3,000 initial license applications. The

- 1/ The Arizona Medical Board may use up to 7% of the Arizona Medical Board Fund balance remaining at the end of each fiscal year for a performance based incentive program the following fiscal year based on the program established pursuant to A.R.S. § 38-618. (General Appropriation Act footnote)
- 2/ Laws 2016, Chapter 137 appropriated \$50,000 and 3 FTE Positions from the Arizona Medical Board Fund for licensure. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.
- 3/ General Appropriation Act funds are appropriated as a Lump Sum by Agency.

monies were not expended in FY 2014 due to a delay in contractor selection and procurement. Chapter 251 also allows the board to expend the monies in FY 2015.

Due to additional delays, the board continued to expend monies on credentials verification in FY 2016 via an exemption granted by ADOA pursuant to statute. As of May 2016, \$853,600 of the \$855,000 has been spent.

Agency Relocation

The FY 2017 Budget Procedures BRB (Laws 2016, Chapter 127) requires ADOA to report to the Joint Legislative Budget Committee if the Executive decides to go forward with the sale of the East Doubletree Ranch Road building in Scottsdale in which the Arizona Medical Board currently resides. If the building is sold, the Arizona Medical Board would be relocated to the 1740 West Adams building currently used by the Department of Health Services. *(Please see the ADOA Capital Outlay section for additional information.)*

Licensure of Out-of-State Physicians

Laws 2016, Chapter 137 makes the Arizona Medical Board a member of the Medical Licensure Compact. The Compact allows out-of-state physicians to use an expedited licensure process if they wish to practice medicine in other member states of the Compact. There are currently 12 other member states.

Participating state medical boards are required to verify the qualifications and conduct a criminal background check for in-state physicians seeking to practice out of state. Upon completion of these requirements, the applicant may register with the Interstate Medical Licensure Compact Commission, and receive an expedited license from a member board of another state upon payment of any applicable fees.

The bill also requires the board to recommend statutory changes to create a process for expedited licensure for out-of-state physicians that do not participate in the Compact. The board is required to submit its findings to the Senate Health and Human Services Committee and the House of Representatives Health Committee on or before December 1, 2017.

The board must also develop a temporary license beginning July 1, 2017. The temporary license would allow out-of-state physicians to practice in this state for at least 250 consecutive days. The board will be required to approve or deny applications for temporary licensure within 30 days. Applicants must have an active license to

practice medicine in another state, have never had a license revoked, suspended, surrendered for disciplinary reasons, and cannot be the subject of an unresolved complaint. The board may verify that each applicant has met these requirements verbally with other state medical boards.

To implement these licensing changes for out-of-state physicians, the bill includes an appropriation of \$50,000 and 3 FTE Positions from the Arizona Medical Board Fund in FY 2017.

State Mine Inspector

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	14.0	14.0	14.0
Personal Services	467,200	566,000	566,000
Employee Related Expenditures	210,600	217,700	214,200
Professional and Outside Services	1,500	2,000	2,000
Travel - In State	59,100	57,600	57,600
Travel - Out of State	900	0	0
Other Operating Expenditures	208,700	167,200	168,000
Equipment	29,400	10,000	10,000
OPERATING SUBTOTAL	977,400	1,020,500	1,017,800
SPECIAL LINE ITEMS			
Abandoned Mines	175,500	194,700	194,700
Aggregate Mined Land Reclamation	21,600	112,800	112,900 ^{1/}
AGENCY TOTAL	1,174,500	1,328,000	1,325,400^{2/}
FUND SOURCES			
General Fund	1,152,900	1,215,200	1,212,500
<u>Other Appropriated Funds</u>			
Aggregate Mining Reclamation Fund	21,600	112,800	112,900
SUBTOTAL - Other Appropriated Funds	21,600	112,800	112,900
SUBTOTAL - Appropriated Funds	1,174,500	1,328,000	1,325,400
Federal Funds	543,000	344,200	344,200
TOTAL - ALL SOURCES	1,717,500	1,672,200	1,669,600

AGENCY DESCRIPTION — The State Mine Inspector is an elected constitutional officer and may serve 4 consecutive 4-year terms. The office inspects the health conditions and safety of mining operations, investigates mining accidents, identifies abandoned mines, and conducts safety certification classes for mine employees.

Operating Budget

The budget includes \$1,017,800 and 14 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,700) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Abandoned Mines

The budget includes \$194,700 from the General Fund in FY 2017 for Abandoned Mines. This amount is unchanged from FY 2016.

Monies in this line item are used to pay contractors for costs to fill, plug, or fence abandoned mines. These monies are also used to pay administrative salaries and other costs. In addition to General Fund appropriations to the program, deposits can be made into the Abandoned Mines Safety Fund from sources such as intergovernmental agreements and donations.

^{1/} All Aggregate Mining Reclamation Fund monies received by the State Mine Inspector in excess of \$112,900 in FY 2017 are appropriated to the Aggregate Mined Land Reclamation line item. Before the expenditure of any Aggregate Mining Reclamation Fund receipts in excess of \$112,900 in FY 2017, the State Mine Inspector shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act, as adjusted for statewide allocations)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Aggregate Mined Land Reclamation

The budget includes \$112,900 from the Aggregate Mining Reclamation Fund in FY 2017 for Aggregate Mined Land Reclamation. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$100 from the Aggregate Mining Reclamation Fund in FY 2017 for statewide adjustments.

Monies in this line item are used to review legally required plans to reclaim land damaged by aggregated mining and ensure compliance with those plans. Aggregate mining is a process whereby earth moving equipment is used to mine an area close to the surface for crushed rock or stone, granite, and sand. Aggregate Mining Reclamation Fund revenues come from fees paid by owners or operators of aggregate mining sites upon submitting a reclamation plan.

Naturopathic Physicians Medical Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	88,000	95,700	95,700
Employee Related Expenditures	31,400	31,400	31,400
Professional and Outside Services	10,900	11,400	15,400
Travel - In State	1,000	2,600	2,600
Other Operating Expenditures	33,100	38,600	39,100
AGENCY TOTAL	164,400	179,700	184,200 ^{1/2/}

FUND SOURCES

Other Appropriated Funds

Naturopathic Physicians Medical Board Fund	164,400	179,700	184,200
SUBTOTAL - Other Appropriated Funds	164,400	179,700	184,200
SUBTOTAL - Appropriated Funds	164,400	179,700	184,200
TOTAL - ALL SOURCES	164,400	179,700	184,200

AGENCY DESCRIPTION — The board licenses and regulates naturopathic physicians, and naturopathic medical assistants. The board certifies physicians to dispense natural remedies, and accredits and approves naturopathic medical schools, internships, and programs. The board also investigates persons unlawfully practicing naturopathic medicine and refers them for prosecution. This board is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$184,200 and 2 FTE Positions from the Naturopathic Physicians Medical Board Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Technology Update

The budget includes a one-time increase of \$4,000 from the Naturopathic Physicians Medical Board Fund in FY 2017 to purchase laptops for board meetings. *(Please see General Appropriation Act footnote.)*

Statewide Adjustments

The budget includes an increase of \$500 from the Naturopathic Physicians Medical Board Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

- ^{1/} The appropriation includes \$4,000 for technology updates. Before the expenditure of these monies, the Naturopathic Physicians Medical Board shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)
- ^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Navigable Stream Adjudication Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	70,000	70,000	70,000
Employee Related Expenditures	28,000	31,000	28,400
Professional and Outside Services	208,000	208,000	208,000
Travel - In State	5,000	0	0
Other Operating Expenditures	16,400	17,600	17,600
AGENCY TOTAL	327,400	326,600	324,000^{1/}
FUND SOURCES			
General Fund	127,400	126,600	124,000
<u>Other Appropriated Funds</u>			
Arizona Water Banking Fund	200,000	200,000	200,000
SUBTOTAL - Other Appropriated Funds	200,000	200,000	200,000
SUBTOTAL - Appropriated Funds	327,400	326,600	324,000
TOTAL - ALL SOURCES	327,400	326,600	324,000

AGENCY DESCRIPTION — The Arizona Navigable Stream Adjudication Commission (ANSAC) is a 5-member body charged with determining the ownership of watercourses in the state by establishing whether the watercourses were navigable at the time of statehood. If navigable, title to the watercourse belongs to the state based on a series of court rulings. If non-navigable, the title to the watercourse belongs to the current title holder.

Operating Budget

The budget includes \$324,000 and 2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$124,000
Arizona Water Banking Fund	200,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,600) from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Arizona Water Banking Fund

The FY 2017 Environment Budget Reconciliation Bill (Laws 2016, Chapter 120) continues to allow the commission to use monies appropriated to it from the Arizona Water Banking Fund for the commission's unpaid legal

obligations. The General Appropriation Act appropriates \$200,000 from the Arizona Water Banking Fund to the commission in FY 2017. In FY 2015 the commission spent \$200,000 from the Arizona Water Banking Fund for unpaid legal obligations.

Litigation

The commission is responsible for determining the navigability of state watercourses at the time of statehood. If navigable, the watercourses are considered State Trust Land and any related proceeds from the waterbeds would be deposited in the Riparian Trust Fund, pursuant to A.R.S. § 37-1156. The monies in this fund are primarily used to acquire and maintain land adjacent to the waterbeds for conservation purposes.

As of May 2006, ANSAC had determined all watercourses in Arizona to be non-navigable at the time of statehood. In June 2006, the first appeal was filed against the commission by the Arizona Center for Law in the Public Interest and the State Land Department regarding the commission's determination for the Lower Salt River. Five other appeals have been filed and stayed pending the completion of the Lower Salt River case.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

In August 2007, the Maricopa County Superior Court affirmed the commission's determination. The Superior Court decision was appealed to the Arizona Court of Appeals. A decision by the Arizona Court of Appeals in May 2010 did not overturn the commission's determination concerning the Lower Salt River. Instead, the Court of Appeals set aside the Superior Court's original decision, and remanded the Lower Salt River case to the Maricopa County Superior Court to determine the "ordinary and natural condition" of the watercourses by considering navigability in the period prior to statehood.

In October 2011, the Maricopa County Superior Court remanded the 4 cases appealed in Maricopa County back to the commission to address issues raised by the May 2010 Arizona Court of Appeals opinion. The 2 cases appealed in Pima County were also returned to the commission to address the same issues.

In February 2012, the United States Supreme Court ruling in *PPL Montana v. Montana* required the commission to resolve whether individual segments of the affected streambeds were navigable prior to statehood. The commission had previously determined navigability for each streambed as a whole rather than by segments. Following the U.S. Supreme Court decision, the commission adopted a segment-by-segment approach in determining navigability for the 6 remanded cases.

As of May 2016, the commission indicates that hearings for the San Pedro River, Santa Cruz River, Gila River, and Verde River cases have been completed. The Upper Salt River and the Lower Salt River cases have been consolidated into a single Salt River case for hearing purposes. The Salt River case requires additional hearings in order to further address questions raised by the Arizona Court of Appeals and the related 2012 U.S. Supreme Court ruling. Hearings for the Salt River case are expected to continue throughout the 2016 calendar year. The commission is scheduled to sunset on June 30, 2020 pursuant to Laws 2015, Chapter 58.

State Board of Nursing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	42.2	42.2	42.2
Personal Services	2,316,300	2,327,800	2,327,800
Employee Related Expenditures	923,600	937,200	914,800
Professional and Outside Services	353,100	341,700	341,700
Travel - In State	5,700	10,000	10,000
Travel - Out of State	2,000	8,000	8,000
Other Operating Expenditures	577,000	598,800	603,400
Equipment	69,600	42,400	42,400
OPERATING SUBTOTAL	4,247,300	4,265,900	4,248,100
SPECIAL LINE ITEMS			
Certified Nursing Assistant Credentialing Program	149,900	536,700	536,700
AGENCY TOTAL	4,397,200	4,802,600	4,784,800^{1/}
FUND SOURCES			
General Fund	149,900	0	0
<u>Other Appropriated Funds</u>			
Board of Nursing Fund	4,247,300	4,802,600	4,784,800
SUBTOTAL - Other Appropriated Funds	4,247,300	4,802,600	4,784,800
SUBTOTAL - Appropriated Funds	4,397,200	4,802,600	4,784,800
Federal Funds	422,000	414,700	414,700
TOTAL - ALL SOURCES	4,819,200	5,217,300	5,199,500

AGENCY DESCRIPTION — The board licenses, regulates, conducts examinations and approves educational programs for nurses and nurse aides.

Operating Budget

The budget includes \$4,248,100 and 42.2 FTE Positions from the Board of Nursing Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(17,800) from the Board of Nursing Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Certified Nursing Assistant Credentialing Program

The budget includes \$536,700 from the Board of Nursing Fund in FY 2017 for the Certified Nursing Assistant (CNA)

Credentialing Program line item. This amount is unchanged from FY 2016.

Laws 2015, Chapter 262 splits the current CNA classification into licensed nursing assistants (LNA) and certified nursing assistants (CNA) effective July 1, 2016. The board will register CNAs at no charge to the individual and with no fingerprinting requirement. This policy meets federal requirements for having a nurse assistant (aide) registry. The LNAs will pay application, fingerprinting and other fees to be deposited 10% to the General Fund and 90% to the Board of Nursing Fund. The revenue impact of the changes is unknown.

Monies in this line item fund CNA Credentialing program costs not paid by federal monies.

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	233,700	231,800	231,800
Employee Related Expenditures	93,500	93,100	91,600
Professional and Outside Services	6,600	8,000	32,000
Travel - In State	6,400	7,000	7,000
Travel - Out of State	2,300	4,000	4,000
Other Operating Expenditures	43,200	73,600	74,400
Equipment	1,500	4,600	4,600
AGENCY TOTAL	387,200	422,100	445,400 ^{1/2}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	387,200	422,100	445,400
SUBTOTAL - Other Appropriated Funds	387,200	422,100	445,400
SUBTOTAL - Appropriated Funds	387,200	422,100	445,400
TOTAL - ALL SOURCES	387,200	422,100	445,400

AGENCY DESCRIPTION — The board licenses, certifies, and regulates administrators of nursing care institutions and managers of adult care homes.

Operating Budget

The budget includes \$445,400 and 6 FTE Positions from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Online Application and License Renewal

The budget includes an increase of \$24,000 from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2017 for implementation and annual maintenance of online licensing software. *(Please see General Appropriation Act footnote.)*

Statewide Adjustments

The budget includes a decrease of \$(700) from the Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

- ^{1/} The appropriation includes \$24,000 for online application and license renewals. Before the expenditure of these monies, the Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)
- ^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Occupational Safety and Health Review Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
Lump Sum Appropriation	1,800	0	0
AGENCY TOTAL	1,800	0	0^{1/}
FUND SOURCES			
General Fund	1,800	0	0
SUBTOTAL - Appropriated Funds	1,800	0	0
TOTAL - ALL SOURCES	1,800	0	0

AGENCY DESCRIPTION — The board reviews cases involving violations of the state's occupational safety and health laws. The cases start with an informal conference with the Industrial Commission's Occupational Safety and Health Division Director. If the case cannot be resolved, the employer can request a hearing before an Industrial Commission Administrative Law Judge. If either the Director of the Occupational Safety and Health Division or the employer disagrees with the Administrative Law Judge's ruling, it can be appealed before the Occupational Safety and Health Review Board. The decisions of the Occupational Safety and Health Review Board can be appealed to the Court of Appeals. The Occupational Safety and Health Review Board was transferred to the Industrial Commission of Arizona, effective July 1, 2016.

Operating Budget

The budget includes no funding from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

In FY 2012 the board received a one-time non-lapsing appropriation of \$15,000. Pursuant to A.R.S. § 23-422E, General Fund appropriations to the Occupational Safety and Health Review Board are exempt from lapsing. The board had an ending balance of \$9,900 in FY 2015.

The board uses the monies for outside legal services related to the administration of the board's activities. As of June 20, 2016, the agency had not yet provided an update for the statement included in the *FY 2017 Baseline Book*, which reported that the board had no cases pending, but that 2 possible cases might occur in FY 2016. Any unspent monies would be available for expenditure in FY 2017.

Other Issues

Additional Legislation

Agency Consolidation

The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) as permanent law transfers

the Occupational Safety and Health Review Board to the Industrial Commission of Arizona effective July 1, 2016.

The 5 Review board members are appointed by the Governor, and supervised by the Director of the Industrial Commission. The commission employs staff needed for board administration.

^{1/} Additional board expenses are paid for by the federal government as part of a grant. These monies are included in the non-appropriated budget of the Industrial Commission's Occupational Safety and Health Division.

Board of Occupational Therapy Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.5	1.5	1.5
Personal Services	91,000	91,000	91,000
Employee Related Expenditures	46,100	46,100	44,600
Travel - In State	900	1,300	1,300
Other Operating Expenditures	27,000	33,600	33,800
AGENCY TOTAL	165,000	172,000	170,700^{1/}

FUND SOURCES

Other Appropriated Funds

Occupational Therapy Fund	165,000	172,000	170,700
SUBTOTAL - Other Appropriated Funds	165,000	172,000	170,700
SUBTOTAL - Appropriated Funds	165,000	172,000	170,700
TOTAL - ALL SOURCES	165,000	172,000	170,700

AGENCY DESCRIPTION — The board examines and licenses occupational therapists and occupational therapy assistants, investigates complaints and holds hearings to enforce standards of practice.

Operating Budget

The budget includes \$170,700 and 1.5 FTE Positions from the Occupational Therapy Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,300) from the Occupational Therapy Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Dispensing Opticians

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	66,800	70,500	70,500
Employee Related Expenditures	28,300	29,700	29,700
Professional and Outside Services	100	500	500
Travel - In State	8,200	5,800	8,800
Travel - Out of State	1,800	1,800	1,800
Other Operating Expenditures	28,600	28,500	28,700
AGENCY TOTAL	133,800	136,800	140,000^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Dispensing Opticians Fund	133,800	136,800	140,000
SUBTOTAL - Other Appropriated Funds	133,800	136,800	140,000
SUBTOTAL - Appropriated Funds	133,800	136,800	140,000
TOTAL - ALL SOURCES	133,800	136,800	140,000

AGENCY DESCRIPTION — The board licenses and regulates optical establishments and opticians. An optician fits and sells optical devices such as contact lenses and eyeglasses. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$140,000 and 1 FTE Position from the Board of Dispensing Opticians Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Travel

The budget includes an increase of \$3,000 from the Board of Dispensing Opticians Fund in FY 2017 for in-state travel to perform inspections and respond to complaints.

Statewide Adjustments

The budget includes an increase of \$200 from the Board of Dispensing Opticians Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Optometry

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2.0	2.0	2.0
Personal Services	115,600	121,000	121,000
Employee Related Expenditures	43,800	41,700	39,900
Professional and Outside Services	0	23,800	5,000
Travel - In State	1,200	1,500	1,500
Travel - Out of State	3,400	1,500	1,500
Other Operating Expenditures	31,700	40,700	41,200
AGENCY TOTAL	195,700	230,200	210,100^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Optometry Fund	195,700	230,200	210,100
SUBTOTAL - Other Appropriated Funds	195,700	230,200	210,100
SUBTOTAL - Appropriated Funds	195,700	230,200	210,100
TOTAL - ALL SOURCES	195,700	230,200	210,100

AGENCY DESCRIPTION — The board licenses and regulates optometrists and issues certificates authorizing the use of diagnostic pharmaceutical agents. An optometrist examines eyes, measures vision, and prescribes corrective lenses and treatments which do not require a licensed physician.

Operating Budget

The budget includes \$210,100 and 2 FTE Positions from the Board of Optometry Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(23,800) from the Board of Optometry Fund in FY 2017 to eliminate one-time funding for database upgrades.

Board Member Training

The budget includes an increase of \$5,000 from the Board of Optometry Fund in FY 2017 for board member training.

Statewide Adjustments

The budget includes a decrease of \$(1,300) from the Board of Optometry Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Board of Osteopathic Examiners in Medicine and Surgery

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.7	6.7	7.2
Personal Services	368,400	383,700	403,600
Employee Related Expenditures	137,000	154,800	160,600
Professional and Outside Services	143,100	122,600	139,600
Travel - In State	3,100	1,000	1,000
Travel - Out of State	5,000	6,000	6,000
Other Operating Expenditures	117,600	135,600	196,700
Equipment	0	0	33,000
AGENCY TOTAL	774,200	803,700	940,500 ^{1/2/}

FUND SOURCES

Other Appropriated Funds

Board of Osteopathic Examiners in Medicine and Surgery Fund	774,200	803,700	940,500
SUBTOTAL - Other Appropriated Funds	774,200	803,700	940,500
SUBTOTAL - Appropriated Funds	774,200	803,700	940,500
TOTAL - ALL SOURCES	774,200	803,700	940,500

AGENCY DESCRIPTION — The agency licenses and regulates medical physicians who practice osteopathic medicine, a system of medical treatment that emphasizes the inter-relationship of the body's muscles, bones, and joints with other body systems as an adjunct to invasive and/or chemically-based treatment.

Operating Budget

The budget includes \$940,500 and 7.2 FTE Positions from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Expedited Licensing Process

The budget includes an increase of \$32,900 and 0.5 FTE Positions from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2017 for additional licensure costs associated with new licensing procedures for out-of-state physicians seeking to practice medicine in Arizona. (Please see *Additional Legislation for more information.*)

Database and Licensing System Expenses

The budget includes an increase of \$25,100 from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2017 for increased licensing system

^{1/} The appropriation includes \$58,100 for database licensing software and the replacement of information technology equipment. Before the expenditure of these monies, the Arizona Board of Osteopathic Examiners in Medicine and Surgery shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

contract expenses. Of this amount, \$6,000 is for one-time development costs. (Please see *General Appropriation Act footnote.*)

Replacement of Information Technology Equipment

The budget includes a one-time increase of \$33,000 from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2017 to replace Information Technology equipment. (Please see *General Appropriation Act footnote.*)

Formal Hearing Expenses

The budget includes an increase of \$47,000 from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2017 for expert witness costs associated with investigating complaints against physicians via the formal hearing process.

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the Arizona Board of Osteopathic Examiners in Medicine and Surgery Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Additional Legislation

Licensure of Out-of-State Physicians

Laws 2016, Chapter 137 makes the Arizona Board of Osteopathic Examiners in Medicine and Surgery a member board of the Medical Licensure Compact. The Compact allows out-of-state physicians to use an expedited licensure process if they wish to practice medicine in Arizona or other member states of the Compact. There are currently 12 other member states.

Participating state medical boards are required to verify the qualifications and conduct a criminal background check for in-state physicians seeking to practice out of state. Upon completion of these requirements, the applicant may register with the Interstate Medical Licensure Compact Commission, and receive an expedited license from a member board of another state upon payment of any applicable fees.

The bill also requires the board to recommend statutory changes to create a process for expedited licensure for out-of-state physicians that do not participate in the Compact. The board is required to submit its findings to the Senate Health and Human Services Committee and the House of Representatives Health Committee on or before December 1, 2017.

The board must also develop a temporary license beginning July 1, 2017. The temporary license would allow out-of-state physicians to practice in this state for at least 250 consecutive days. The board will be required to approve or deny applications for temporary licensure within 30 days. Applicants must have an active license to practice medicine in another state, have never had a license revoked, suspended, surrendered for disciplinary reasons, and cannot be the subject of an unresolved complaint. The board may verify that each applicant has met these requirements verbally with other state medical boards.

Agency Relocation

The FY 2017 Budget Procedures Budget Reconciliation Bill (Laws 2016, Chapter 127) requires the Arizona Department of Administration (ADOA) to report to the

Joint Legislative Budget Committee if the Executive decides to go forward with the sale of the East Doubletree Ranch Road building in Scottsdale in which the Arizona Board of Osteopathic Examiners in Medicine and Surgery currently resides. If the building is sold, the Arizona Board of Osteopathic Examiners in Medicine and Surgery would be relocated to the 1740 West Adams building currently used by the Department of Health Services. *(Please see the ADOA Capital Outlay section for additional information.)*

Arizona Parents Commission on Drug Education and Prevention

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
SPECIAL LINE ITEMS			
Prevention Education Program	0	0	300,000 ^{1/2/}
AGENCY TOTAL	0	0	300,000 ^{3/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Drug Treatment and Education Fund	0	0	300,000
SUBTOTAL - Other Appropriated Funds	0	0	300,000
SUBTOTAL - Appropriated Funds	0	0	300,000
Other Non-Appropriated Funds	4,929,100	4,641,700	4,341,700
TOTAL - ALL SOURCES	4,929,100	4,641,700	4,641,700

AGENCY DESCRIPTION — The commission funds programs that increase and enhance parental involvement and education regarding the serious risks and public health problems caused by the abuse of alcohol and controlled substances. With the exception of a FY 2017 appropriation, the commission typically does not receive an appropriation from the Legislature.

Prevention Education Program

The budget includes \$300,000 from the Drug Treatment and Education Fund in FY 2017 for the Prevention Education Program. This amount funds the following adjustments:

Prevention Education Program

The budget includes an increase of \$300,000 from the Drug Treatment and Education Fund in FY 2017 for the Prevention Education Program for students. This one-time appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Monies in this line item are used to fund the provisions of the school prevention education program. The program is required to promote positive life choices by middle school and high school students, and to incorporate an educational prevention component focusing on substance abuse, mental health, violence, and other risky behaviors.

- 1/ The commission shall distribute monies on a competitive grant basis to grant applicants to implement a proactive prevention education program in all middle and high schools in this state. The program shall: 1. Promote positive life choices by educating middle and high school students about the harms and consequences of destructive behaviors in order to reduce motivation to use drugs and be involved in harmful social environments. 2. Incorporate an educational prevention component focusing on the areas of: (a) Substance abuse. (b) Mental health. (c) Violence. (d) Other risky behaviors. (General Appropriation Act footnote, Sec. 147)
- 2/ This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote, Sec. 147)
- 3/ General Appropriation Act funds are appropriated as a Special Line Item by Agency.

Arizona State Parks Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	163.0	163.0	163.0 ^{1/}
Personal Services	4,257,200	4,928,400	4,928,400
Employee Related Expenditures	1,972,400	2,355,300	2,333,300
Professional and Outside Services	272,500	0	0
Travel - In State	0	7,000	7,000
Other Operating Expenditures	3,404,000	3,332,100	3,341,900
Equipment	324,300	0	0
OPERATING SUBTOTAL	10,230,400	10,622,800	10,610,600 ^{2/}
SPECIAL LINE ITEMS			
Arizona Trail Fund	0	0	150,000
Federal Contingency Funding	0	0	1,500,000 ^{3/}
Kartchner Caverns State Park	2,248,700	2,232,000	2,226,300
Yarnell Hill Memorial	346,900	0	0
AGENCY TOTAL	12,826,000	12,854,800	14,486,900 ^{4/}
FUND SOURCES			
General Fund	346,900	0	0
<u>Other Appropriated Funds</u>			
State Parks Revenue Fund	12,479,100	12,854,800	14,486,900
SUBTOTAL - Other Appropriated Funds	12,479,100	12,854,800	14,486,900
SUBTOTAL - Appropriated Funds	12,826,000	12,854,800	14,486,900
Other Non-Appropriated Funds	9,033,000	16,427,300	12,854,600
Federal Funds	1,906,500	6,209,400	3,911,800
TOTAL - ALL SOURCES	23,765,500	35,491,500	31,253,300

AGENCY DESCRIPTION — The Arizona State Parks Board is responsible for managing the state parks system, which includes recreational parks, historical parks, and natural areas. The Parks Board consists of 7 members appointed by the Governor. Major functions of the Parks Board, through its staff, include the maintenance and development of existing parks, new parks acquisitions, statewide recreational planning, historic preservation, the administration of the Arizona State Parks Board Heritage Fund grant programs, and the administration of Growing Smarter Grants.

Operating Budget

The budget includes \$10,610,600 and 127.2 FTE Positions from the State Parks Revenue Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(12,200) from the State Parks Revenue Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

- 1/ Includes 35.8 OF FTE Positions funded from Special Line Items in FY 2017.
- 2/ All Other Operating Expenditures include \$26,000 from the State Parks Revenue Fund for Fool Hollow State Park revenue sharing. If receipts to Fool Hollow exceed \$260,000 in FY 2017, an additional 10% of this increase of Fool Hollow receipts is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 to meet the revenue sharing agreement with the City of Show Low and the United States Forest Service. (General Appropriation Act footnote)
- 3/ In addition to any other appropriations made in FY 2017, the sum of \$1,500,000 is appropriated from the State Parks Revenue Fund established by A.R.S. § 41-511.21 in FY 2017 to the Arizona State Parks Board for operating costs. This amount may be spent only after the board submits a FY 2017 agency expenditure plan for review by the Joint Legislative Budget Committee. The plan must demonstrate that the actual amount of federal monies the board will receive during FY 2017 is less than the actual amount of federal monies the board received in FY 2016. The amount spent by the board during FY 2017 may not exceed the estimated decrease in federal monies between FY 2016 and FY 2017. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Arizona Trail Fund

The budget includes a one-time increase of \$150,000 from the State Parks Revenue Fund in FY 2017 for a transfer to the Arizona Trail Fund.

The Arizona Trail Fund is used to maintain and preserve the Arizona Trail. The Arizona Trail is an 819-mile nonmotorized trail that crosses Arizona from the southern border to the northern border.

Federal Contingency Funding

The budget includes an increase of \$1,500,000 from the State Parks Revenue Fund in FY 2017 for contingency funding in case of a significant decrease in federal funding for the fiscal year. This appropriation may only be spent after the board submits an agency expenditure plan for review by the Joint Legislative Budget Committee that demonstrates that the actual amount of federal funding the board will receive in FY 2017 is less than the actual amount of federal monies received by the board in FY 2016. The amount spent by the board may not exceed the estimated decrease in federal monies between FY 2016 and FY 2017.

Kartchner Caverns State Park

The budget includes \$2,226,300 and 35.8 FTE Positions from the State Parks Revenue Fund in FY 2017 for Kartchner Caverns State Park. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(5,700) from the State Parks Revenue Fund in FY 2017 for statewide adjustments.

Kartchner Caverns is located in Benson, Arizona and was discovered in 1974. The State Parks Board acquired the property in 1988 and opened the caverns to the public in 1999.

Yarnell Hill Memorial

The budget includes no funding from the General Fund in FY 2017 for the new Yarnell Hill Memorial State Park. This amount is unchanged from FY 2016.

The FY 2015 Environment Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 13) established Yarnell Hill Memorial State Park and appropriated \$500,000 to establish it. The Environment BRB created the Yarnell Hill Memorial Site Board, which will determine whether to establish the new

park, in addition to allowing the board to designate a site for the park. The \$500,000 General Fund appropriation has been used in part for land acquisition.

Furthermore, the Environment BRB established the Yarnell Hill Memorial Fund, which consists of legislative appropriations and donations for the purposes of land acquisition, site maintenance and board member travel expenses. The Yarnell Hill Memorial Site Board will administer the fund until December 31, 2016, when the board's authority lapses. At that time, the State Parks Board will administer the fund.

Laws 2014, Chapter 273 contained the same language for Yarnell Memorial State Park as the FY 2015 Environment BRB, except for the \$500,000 General Fund appropriation. However, this separate legislation contains an emergency clause.

The FY 2016 Environment BRB (Laws 2015, Chapter 13) clarifies that the Yarnell Hill Memorial Site Board Fund can be used to purchase, design and construct the Yarnell Hill Memorial.

The Parks Board purchased land for the Yarnell Hill Memorial at a State Land Department auction on June 30, 2015.

Other Issues

Additional Legislation

Operating Funding

As session law, the FY 2017 Environment BRB (Laws 2016, Chapter 120) continues to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs in FY 2017.

Status of Parks

As of June 2016, all 27 state parks are open to the public:

- Eighteen open parks plan to use only existing state fund sources (Alamo Lake, Buckskin Mountain, Catalina, Cattail Cove, Dead Horse Ranch, Fool Hollow, Fort Verde, Jerome, Kartchner Caverns, Lake Havasu, Lost Dutchman, Lyman Lake, Oracle, Patagonia Lake, Picacho Peak, Roper Lake, Slide Rock, and Tonto Natural Bridge).
- Seven open parks will be funded and operated through agreements between the State Parks Board and local governments (Riordan Mansion, Boyce Thompson Arboretum, McFarland, Tombstone

Courthouse, Tubac Presidio, Yuma Territorial Prison, and Yuma Quartermaster Depot).

- Two open parks receive minimal funding through agreements to fund part-time staff (Homolovi Ruins and Red Rock).

State Personnel Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	111,200	125,000	125,000
Employee Related Expenditures	46,000	46,500	45,800
Professional and Outside Services	116,200	162,800	162,800
Travel - In State	1,500	2,400	2,400
Other Operating Expenditures	34,600	36,300	36,600
Equipment	2,700	2,700	2,700
AGENCY TOTAL	312,200	375,700	375,300 ^{1/}

FUND SOURCES

Other Appropriated Funds

Personnel Board Subaccount of the Personnel Division Fund	312,200	375,700	375,300
SUBTOTAL - Other Appropriated Funds	312,200	375,700	375,300
SUBTOTAL - Appropriated Funds	312,200	375,700	375,300
TOTAL - ALL SOURCES	312,200	375,700	375,300

AGENCY DESCRIPTION — The State Personnel Board hears appeals for covered state employees in the State Personnel System who have been dismissed, involuntarily demoted, or suspended for more than 80 hours. The board may recommend modifying or reversing the agency decision, but the agency makes the final determination. The board also hears “whistleblower” complaints concerning reprisals against employees or former employees who disclose information to a public body. If the Personnel Board finds a reprisal occurred, the employee who committed the reprisal shall be ordered by the board to pay a civil penalty of up to \$5,000, and the board shall rescind the personnel action and order all lost pay and benefits be restored to the “whistleblower.”

Operating Budget

The budget includes \$375,300 and 3 FTE Positions from the Personnel Board Subaccount of the Personnel Division Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(400) from the Personnel Board Subaccount of the Personnel Division Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Office of Pest Management

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.0	30.0	0.0
Personal Services	716,600	759,100	0
Employee Related Expenditures	359,700	398,800	0
Travel - In State	40,100	49,000	0
Travel - Out of State	400	0	0
Other Operating Expenditures	192,100	490,600	0
Equipment	20,300	2,000	0
AGENCY TOTAL	1,329,200	1,699,500	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Pest Management Fund	1,329,200	1,699,500	0
SUBTOTAL - Other Appropriated Funds	1,329,200	1,699,500	0
SUBTOTAL - Appropriated Funds	1,329,200	1,699,500	0
Federal Funds	77,800	113,500	0
TOTAL - ALL SOURCES	1,407,000	1,813,000	0

AGENCY DESCRIPTION — The agency licensed and regulated professional pest control companies and conducted examinations of applicators of structural pesticides. Beginning in FY 2017, the responsibilities of the Office of Pest Management are transferred to the Division of Pest Management within the Department of Agriculture.

Laws 2016, Chapter 221 merges the Office of Pest Management into the Department of Agriculture (ADA), creating the Division of Pest Management (Division) within ADA, effective July 1, 2016. While the FY 2017 General Appropriation Act appropriated a separate budget for the Office of Pest Management, Chapter 221 states that all appropriated monies of the Office of Pest Management are transferred to the new Division within ADA. As a result, the *FY 2017 Appropriations Report* reflects the funding for the Division in ADA, displayed as its own line item.

the Division and repeals statute establishing the Office of Pest Management as a 90/10 agency. All authority, powers, duties and responsibilities previously granted to the Office of Pest Management are transferred to the new Division within ADA. *(Please see the Department of Agriculture narrative for additional information.)*

Operating Budget

The budget includes no funding in FY 2017 for the operating budget. This amount funds the following adjustments:

Agency Elimination

The budget includes a decrease of \$(1,699,500) and (30) FTE Positions from the Pest Management Fund in FY 2017 to eliminate the Office of Pest Management.

Laws 2016, Chapter 221 establishes the Division of Pest Management within the Department of Agriculture as of July 1, 2016. Chapter 221 establishes the Pest Management Trust Fund for the purpose of supporting

Arizona State Board of Pharmacy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	18.0	18.0	18.0
Personal Services	1,087,900	1,140,800	1,140,800
Employee Related Expenditures	410,000	402,400	393,900
Professional and Outside Services	99,200	112,200	212,200
Travel - In State	45,300	47,000	47,000
Travel - Out of State	2,800	23,000	23,000
Other Operating Expenditures	289,800	289,800	293,000
Equipment	5,300	5,300	5,300
OPERATING SUBTOTAL	1,940,300	2,020,500	2,115,200
SPECIAL LINE ITEMS			
Annual Leave Payout	0	0	20,000
AGENCY TOTAL	1,940,300	2,020,500	2,135,200^{1/2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona State Board of Pharmacy Fund	1,940,300	2,020,500	2,135,200
SUBTOTAL - Other Appropriated Funds	1,940,300	2,020,500	2,135,200
SUBTOTAL - Appropriated Funds	1,940,300	2,020,500	2,135,200
Other Non-Appropriated Funds	710,300	710,500	710,500
TOTAL - ALL SOURCES	2,650,600	2,731,000	2,845,700

AGENCY DESCRIPTION — The board licenses, regulates, and conducts examinations of pharmacists and issues permits to distributors of approved medications. The board also educates pharmacists and the general public on the proper distribution and use of these medications.

Operating Budget

The budget includes \$2,115,200 and 18 FTE Positions from the Arizona State Board of Pharmacy Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

E-Licensing and Inspections

The budget includes a one-time increase of \$100,000 from the Arizona State Board of Pharmacy Fund in FY 2017 for software upgrades relating to the E-Licensing and inspections process. (Please see General Appropriation Act footnote.)

Statewide Adjustments

The budget includes a decrease of \$(5,300) from the Arizona State Board of Pharmacy Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Annual Leave Payout

The budget includes \$20,000 from the Arizona State Board of Pharmacy Fund in FY 2017 for Annual Leave Payout. This amount funds the following adjustments:

One-Time Annual Leave Payout

The budget includes an increase of \$20,000 from the Arizona State Board of Pharmacy Fund in FY 2017 for a one-time annual leave payout for anticipated retirements.

^{1/} The appropriation includes \$100,000 for software upgrades for licensing and inspections. Before the expenditure of these monies, the Arizona State Board of Pharmacy shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Other Issues

Additional Legislation

Controlled Substances Prescription Monitoring Program

Laws 2016, Chapter 211 requires a medical practitioner to obtain a patient utilization report from the Controlled Substances Prescription Monitoring Program's (CSPMP) central database tracking system before prescribing an opioid analgesic or benzodiazepine controlled substance listed as a schedule II, III, or IV substance. This requirement goes into effect October 1, 2017 or 60 days after CSPMP data has been integrated into the statewide Health Information Exchange, whichever comes later.

The Board of Pharmacy operates the CSPMP. Chapter 211 requires the Board of Pharmacy to contract with a third party to conduct an analysis of the efficiency and usability of CSPMP. On or before January 15, 2017, the board must deliver the report to the President of the Senate, the Speaker of the House of Representatives, the Secretary of State, and the Governor.

Board of Physical Therapy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	199,600	196,300	196,300
Employee Related Expenditures	92,400	81,400	78,100
Professional and Outside Services	52,500	114,000	125,600
Travel - In State	900	5,700	5,700
Other Operating Expenditures	50,900	66,000	66,500
Equipment	0	17,000	12,000
AGENCY TOTAL	396,300	480,400	484,200 ^{1/2/}
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board of Physical Therapy Fund	396,300	480,400	484,200
SUBTOTAL - Other Appropriated Funds	396,300	480,400	484,200
SUBTOTAL - Appropriated Funds	396,300	480,400	484,200
TOTAL - ALL SOURCES	396,300	480,400	484,200

AGENCY DESCRIPTION — The board licenses and regulates physical therapists. A physical therapist treats patients by exercise, massage, mechanical energy, electrical energy, heat, light, sound, and water. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$484,200 and 4 FTE Positions from the Board of Physical Therapy Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(71,400) from the Board of Physical Therapy Fund in FY 2017 to eliminate one-time funding. Of this amount, \$(21,400) is for a database upgrade, \$(15,000) is for a multifunction printer, and \$(35,000) is for Attorney General services.

Attorney General Representation

The budget includes an increase of \$35,000 from the Board of Physical Therapy Fund in FY 2017 for increased Attorney General representation.

Laptop Replacement

The budget includes a one-time increase of \$10,000 from the Board of Physical Therapy Fund in FY 2017 for laptop replacement. *(Please see General Appropriation Act footnote.)*

Online Licensing Software

The budget includes an increase of \$33,000 from the Board of Physical Therapy Fund in FY 2017 for implementation and annual maintenance of online licensing software. *(Please see General Appropriation Act footnote.)*

Statewide Adjustments

The budget includes a decrease of \$(2,800) from the Board of Physical Therapy Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} The appropriation includes \$43,000 for laptop replacement and online licensing software. Before the expenditure of these monies, the Board of Physical Therapy shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona Pioneers' Home

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	106.3	106.3	106.3
Personal Services	3,327,000	3,250,000	3,250,000
Employee Related Expenditures	1,715,100	1,750,000	1,718,000
Professional and Outside Services	93,600	70,000	70,000
Travel - In State	27,300	30,000	30,000
Other Operating Expenditures	656,100	900,900	902,600
Equipment	13,600	4,000	4,000
OPERATING SUBTOTAL	5,832,700	6,004,900	5,974,600
SPECIAL LINE ITEMS			
Prescription Drugs	130,500	200,000	200,000
AGENCY TOTAL	5,963,200	6,204,900	6,174,600^{1/2/}
FUND SOURCES			
General Fund	1,599,200	0	0
<u>Other Appropriated Funds</u>			
Miners' Hospital Fund	1,857,100	2,040,000	2,028,900
State Charitable Fund	2,506,900	4,164,900	4,145,700
SUBTOTAL - Other Appropriated Funds	4,364,000	6,204,900	6,174,600
SUBTOTAL - Appropriated Funds	5,963,200	6,204,900	6,174,600
Other Non-Appropriated Funds	23,300	14,100	14,100
TOTAL - ALL SOURCES	5,986,500	6,219,000	6,188,700

AGENCY DESCRIPTION — The Arizona Pioneers' Home provides a home and long-term nursing care and medical care for Arizona pioneers, long-term residents, and disabled miners. The Home cares for, on average, 105 residents.

Operating Budget

The budget includes \$5,974,600 and 106.3 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
Miners' Hospital Fund	\$2,028,900
State Charitable Fund	3,945,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(30,300) in FY 2017 for statewide adjustments. This amount consists of:

Miners' Hospital Fund	(11,100)
State Charitable Fund	(19,200)

(Please see the Agency Detail and Allocations section.)

Prescription Drugs

The budget includes \$200,000 from the State Charitable Fund in FY 2017 for Prescription Drugs. This amount is unchanged from FY 2016.

Monies in this line item provide funding for prescription drugs used by residents at the Arizona Pioneers' Home.

Other Issues

Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona Pioneers' Home receives monies generated from lease revenues as well as the proceeds from trust land

^{1/} Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated for the Arizona Pioneers' Home and the State Hospital for Miners with Disabilities in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)
^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

sales that are invested into a "permanent fund," pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, the Arizona Pioneers' Home received \$1,636,300 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer's annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, the Arizona Pioneers' Home will receive \$3,262,500 in additional revenue from the Treasurer's distributions in FY 2016 and a total of \$5,717,050 from the Treasurer's distributions in FY 2017. Since the Arizona Pioneers' Home land funds are subject to appropriation, the Arizona Pioneers' Home will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*

State Board of Podiatry Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1.0	1.0	1.0
Personal Services	63,600	71,200	71,200
Employee Related Expenditures	20,100	23,000	23,000
Professional and Outside Services	8,000	18,000	18,000
Travel - In State	2,600	3,500	3,500
Other Operating Expenditures	26,500	29,000	29,200
Equipment	0	3,500	3,500
AGENCY TOTAL	120,800	148,200	148,400^{1/}

FUND SOURCES

Other Appropriated Funds

Podiatry Fund	120,800	148,200	148,400
SUBTOTAL - Other Appropriated Funds	120,800	148,200	148,400
SUBTOTAL - Appropriated Funds	120,800	148,200	148,400
TOTAL - ALL SOURCES	120,800	148,200	148,400

AGENCY DESCRIPTION — The board licenses and regulates Doctors of Podiatric Medicine. A podiatrist must take specialized training, serve an internship and pass a qualifying examination prior to licensure to diagnose and treat foot ailments. This agency is one of several, housed within the State Boards' Office, contracting with the Department of Administration for administrative services.

Operating Budget

The budget includes \$148,400 and 1 FTE Position from the Podiatry Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 from the Podiatry Fund in FY 2017 for statewide adjustments.
(Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Commission for Postsecondary Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0 ^{1/}
Personal Services	69,400	118,900	118,900
Employee Related Expenditures	33,000	53,000	51,700
Professional and Outside Services	16,100	0	0
Other Operating Expenditures	(2,800)	12,400	13,000
Equipment	1,000	0	0
OPERATING SUBTOTAL	116,700	184,300	183,600
SPECIAL LINE ITEMS			
Arizona College and Career Guide	100	21,300	21,300 ^{2/}
Arizona Minority Educational Policy Analysis Center	13,300	100,000	100,000 ^{2/}
Leveraging Educational Assistance Partnership	2,319,500	2,319,500	2,319,500 ^{3/}
Math and Science Teacher Initiative	176,000	176,000	176,000
Twelve Plus Partnership	70,500	130,500	130,500 ^{2/}
AGENCY TOTAL	2,696,100	2,931,600	2,930,900 ^{4/5/}
FUND SOURCES			
General Fund	1,396,800	1,396,800	1,396,800
<u>Other Appropriated Funds</u>			
Postsecondary Education Fund	1,299,300	1,534,800	1,534,100
SUBTOTAL - Other Appropriated Funds	1,299,300	1,534,800	1,534,100
SUBTOTAL - Appropriated Funds	2,696,100	2,931,600	2,930,900
Other Non-Appropriated Funds	1,131,600	723,100	723,100
Federal Funds	34,300	10,000	10,000
TOTAL - ALL SOURCES	3,862,000	3,664,700	3,664,000

AGENCY DESCRIPTION — The Commission for Postsecondary Education reviews and recommends higher education policies, while providing a discussion forum for public and private postsecondary educational institutions and their stakeholders on issues of mutual interest. The 16 commissioners are authorized to administer certain federal and state student financial aid programs.

Operating Budget

The budget includes \$183,600 and 4.5 FTE Positions from the Postsecondary Education Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(700) from the Postsecondary Education Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} Includes 0.5 OF FTE Positions funded from Special Line Items in FY 2017.

^{2/} The appropriations for the Arizona College and Career Guide, Arizona Minority Educational Policy Analysis Center and Twelve Plus Partnership are estimates representing all monies distributed to these funds, including balance forward, revenue and transfers, during FY 2017. The appropriations shall be adjusted as necessary to reflect actual final monies credited to the Postsecondary Education Fund. (General Appropriation Act footnote)

^{3/} Each participating institution, public or private, in order to be eligible to receive state matching monies under the Leveraging Educational Assistance Partnership for grants to students, shall provide an amount of institutional matching funds that equals the amount of funds provided by the state to the institution for the Leveraging Educational Assistance Partnership. Administrative expenses incurred by the Commission for Postsecondary Education shall be paid from institutional matching funds and may not exceed 12% of the funds in FY 2017. (General Appropriation Act footnote)

^{4/} Any unencumbered balance remaining in the Postsecondary Education Fund established by A.R.S § 15-1853 on June 30, 2016, and all grant monies and other revenues received by the Commission for Postsecondary Education, when paid into the State Treasury, are appropriated for the specific purposes designated by line items and for additional responsibilities prescribed in A.R.S. § 15-1851 and A.R.S. § 15-1852. (General Appropriation Act footnote)

^{5/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Arizona College and Career Guide

The budget includes \$21,300 from the Postsecondary Education Fund in FY 2017 for the Arizona College and Career Guide line item. This amount is unchanged from FY 2016.

This line item funds cost associated with the Arizona College and Career Guide, which is an annual publication that lists Arizona's public and private postsecondary educational institutions. The guide describes each institution's available degree and certificate programs, course lengths, and costs of attendance.

Arizona Minority Educational Policy Analysis Center

The budget includes \$100,000 and a 0.2 FTE Position from the Postsecondary Education Fund in FY 2017 for the Arizona Minority Educational Policy Analysis Center (AMEPAC) line item. These amounts are unchanged from FY 2016.

AMEPAC promotes minority students' access to Arizona's postsecondary educational institutions.

Leveraging Educational Assistance Partnership

The budget includes \$2,319,500 for the Leveraging Educational Assistance Partnership (LEAP) in FY 2017. This amount consists of:

	FY 2017
General Fund	\$1,220,800
Postsecondary Education Fund	1,098,700

These amounts are unchanged from FY 2016.

LEAP is a state and institutional partnership that provides financial assistance to students demonstrating substantial financial need. To be eligible, students must attend, on at least a half-time basis, an approved program at a properly accredited Arizona postsecondary educational institution (including public universities, public community colleges, private collegiate institutions, and proprietary schools). The federal portion of these funds was eliminated in FY 2012. *(Please see Other Issues for more information.)*

In FY 2015, awards were provided through 40 postsecondary institutions. Of the total funding distributed, 32% went to public universities, 55% to community colleges, and 13% to private institutions.

Math and Science Teacher Initiative

The budget includes \$176,000 from the General Fund in FY 2017 for the Math and Science Teacher Initiative. This amount is unchanged from FY 2016.

The program, also known as the Math, Science, and Special Education Teacher Loan Forgiveness Program (MSSE), offers forgivable loans to students pursuing a teaching degree at a postsecondary institution and who agree to teach math, science, or special education at an Arizona public school upon graduation. A.R.S. § 15-1784 allows the commission to retain up to 10% of the annual fund deposit for administration costs. The commission may also use the interest deposited into the fund for administration costs of the loan repayment portion of the program.

Twelve Plus Partnership

The budget includes \$130,500 and a 0.3 FTE Position from the Postsecondary Education Fund in FY 2017 for the Twelve Plus Partnership (TPP). These amounts are unchanged from FY 2016.

TPP is an early education awareness initiative with 3 components: Best Education Practices Conference and Awards Recognition, Think College, and College Goal Sunday. Approximately 70% of this line item funds College Goal Sunday, 25% of the monies go to Best Education Practices Conference and Awards Recognition, and the remaining 5% funds Think College. Private gifts, donations of service, and corporate sponsorships support TPP.

Other Issues

Repayment Programs

The commission currently administers repayment programs for unforgiven loans from the Private Postsecondary Education Student Financial Assistance program (PFAP) and the Postsecondary Education Grant (PEG) program, both of which are no longer awarding new grants. In addition, the commission administers repayment programs for unforgiven loans from the MSSE, and the non-appropriated Paul Douglas Teacher Scholarship (PDTs). Loan collections are returned to their respective program fund.

PFAP

Prior to FY 2011, PFAP distributed awards of up to \$2,000 annually, for up to 2 years, to qualified community college

graduates enrolled at a private baccalaureate degree granting institution chartered in Arizona, pursuant to A.R.S. § 15-1854. The PFAP program has not been funded since FY 2011, but the repayment process for existing unforgiven loans remains. Repayments are deposited into the Private Postsecondary Education Student Financial Assistance Fund. If a grantee does not earn a baccalaureate degree within 3 years, the grantee must repay the commission all award monies. When a grantee refuses to repay award monies or cannot be located, the Office of the Attorney General takes over administration of the repayment process.

There have been 1,651 students awarded PFAP forgivable loans since its inception in 1996. A total of 20 borrowers are currently being tracked in the repayment program or will be placed in repayment once located. The commission has turned over 66 of these loans to the Attorney General for collections.

The commission may use PFAP funds to administer PEG collections. At the end of FY 2015, the PFAP fund had a balance of \$33,900. The commission reported it expects to use at least \$5,100 of PFAP funds in FY 2016 to identify PEG students who have not met the loan requirements.

PEG

Prior to FY 2011, PEG distributed awards up to \$2,000 annually, for up to 4 years, to full-time and part-time students enrolled at a private baccalaureate degree-granting institution, pursuant to A.R.S. § 15-1855. The awards are forgiven if a student recipient earns a baccalaureate degree within 5 years. The program has not been funded since FY 2010, but the repayment process remains (though not started until FY 2012) for existing unforgiven loans. Repayments will be deposited into the PEG Program Fund.

There have been 4,478 students awarded PEG forgivable loans since its inception in 2007. Of those recipients, 2,897 graduated with a baccalaureate degree and 18 are working to complete their degree. The remaining 1,563 are reported as not enrolled at an institution and are being located to determine their enrollment or graduation status. The commission has not yet determined any of these loans to be uncollectible and therefore, has not referred them to the Attorney General.

The commission may contract with a third-party vendor to collect outstanding PEG debt. The commission has not yet selected a third-party vendor to collect debt, but plans to once it identifies students who did not meet loan forgiveness requirements. Once a vendor is selected, the

commission is allowed to use PFAP funds to administer PEG collections.

MSSE

There have been 254 students awarded MSSE forgivable loans since its inception in FY 2007. Of those recipients, 134 completed the loan requirements and had their loan forgiven, 8 have paid their loan balance in full, 33 are currently in repayment, 12 have had their loans referred to the Attorney General, and 67 will require tracking for up to 15 years to ensure they meet the promissory note obligations and to determine retention rates.

PDTS

There have been 254 students awarded PDTS forgivable loans. Of those recipients, 2 are in default. All others have completed their obligation by fulfilling the teaching requirements of the program or repaying their loan in full.

Family College Savings Plan

The Family College Savings Program (FCSP) was established pursuant to Laws 1997, Chapter 171. It enables parents to save for their child's college education in plans compatible with Internal Revenue Code § 529 (529 Plans). Monies in these plans grow tax-free, and withdrawals for qualified higher educational expenses are federal and state income tax free. FCSP operates from the proceeds of new account fees, which are currently \$15 per account. The plans are available to both residents and non-residents of the state. The commission oversees 3 FCSP providers, 2 of which have multiple investment offerings in their plans.

In 2004, A.R.S. § 15-1873 established the Family College Savings Program Trust Fund, which is a non-appropriated fund. The FCSP Trust Fund directly receives FCSP fee revenues.

Arizona Power Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 ESTIMATE
FUND SOURCES			
Other Non-Appropriated Funds	35,676,700	35,900,100	35,900,100
TOTAL - ALL SOURCES	35,676,700	35,900,100	35,900,100

AGENCY DESCRIPTION — The Arizona Power Authority (APA) manages Arizona’s allocation of hydroelectric power from the Hoover Dam for the benefit of the state. Within the scope of that management, APA cooperates with federal, state, and non-governmental agencies to address regulatory and environmental matters that impact electric and water uses of the Colorado River. In addition, the APA serves as an informational resource for its customers on electricity utilization. APA is not subject to appropriation.

Other Issues

Additional Legislation

Agency Continuance, Hearings, and Audit
 Laws 2016, Chapter 107 continues the APA for 8 years (until July 1, 2024); instructs the Office of Administrative Hearings to conduct hearings on appeals or proceedings, orders, or actions of the APA; and requires the Auditor General to conduct a performance audit on the APA and submit the report to the Legislature by December 31, 2016. Prior to Chapter 107, the APA Commission could conduct administrative hearings acting as an administrative law judge without the services or personnel of the Office of Administrative Hearings.

State Board for Private Postsecondary Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	217,600	234,500	234,500
Employee Related Expenditures	80,500	86,600	86,200
Professional and Outside Services	17,300	27,400	27,400
Travel - In State	100	0	0
Travel - Out of State	1,700	2,000	2,000
Other Operating Expenditures	44,900	40,000	40,200
Equipment	1,900	5,800	5,800
OPERATING SUBTOTAL	364,000	396,300	396,100
SPECIAL LINE ITEMS			
Student Tuition Recovery Fund Deposit	0	600,000	0
AGENCY TOTAL	364,000	996,300	396,100^{1/}

FUND SOURCES

Other Appropriated Funds

Board for Private Postsecondary Education Fund	364,000	996,300	396,100
SUBTOTAL - Other Appropriated Funds	364,000	996,300	396,100
SUBTOTAL - Appropriated Funds	364,000	996,300	396,100
Other Non-Appropriated Funds	197,200	322,700	223,600
TOTAL - ALL SOURCES	561,200	1,319,000	619,700

AGENCY DESCRIPTION — The board licenses and regulates 255 private postsecondary education institutions that service approximately 711,097 students annually. The board processes license applications, determines compliance, investigates complaints and violations, and takes disciplinary action on all private postsecondary institutions that offer vocational and/or degree programs. However, the board does not have jurisdiction over cosmetology, barber, real estate, or professional driving schools. In addition to regulatory duties, the board administers the Student Tuition Recovery Fund, which provides restitution to students financially injured by private postsecondary institutional closures.

Operating Budget

The budget includes \$396,100 and 4 FTE Positions from the Board for Private Postsecondary Education Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(200) from the Board for Private Postsecondary Education Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Student Tuition Recovery Fund Deposit

The budget includes no funding from the Board for Private Postsecondary Education Fund in FY 2017 for the Student

Tuition Recovery Fund Deposit. This amount funds the following adjustments:

Eliminate One-Time Transfer

The budget includes a decrease of \$(600,000) from the Board for Private Postsecondary Education Fund in FY 2017 for the elimination of a one-time fund transfer to the Student Tuition Recovery Fund in FY 2016.

Other Issues

Additional Legislation

Yoga Instruction, Yoga Training Programs

Laws 2016, Chapter 371 removes yoga instruction and yoga instructor training programs and courses from regulation by the State Board for Private Postsecondary Education. This is retroactive to July 1, 2016.

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Psychologist Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	199,100	221,400	221,400
Employee Related Expenditures	80,600	96,500	95,000
Professional and Outside Services	10,900	30,000	54,000
Travel - In State	4,900	7,400	7,400
Travel - Out of State	1,600	4,000	4,000
Other Operating Expenditures	88,900	86,200	90,600
Equipment	3,400	3,000	3,000
AGENCY TOTAL	389,400	448,500	475,400^{1/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Board of Psychologist Examiners Fund	389,400	448,500	475,400
SUBTOTAL - Other Appropriated Funds	389,400	448,500	475,400
SUBTOTAL - Appropriated Funds	389,400	448,500	475,400
TOTAL - ALL SOURCES	389,400	448,500	475,400

AGENCY DESCRIPTION — The board licenses and regulates psychologists and behavior analysts.

Operating Budget

The budget includes \$475,400 and 4 FTE Positions from the Board of Psychologist Examiners Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(8,000) from the Board of Psychologist Examiners Fund in FY 2017 to eliminate one-time funding for rulemaking.

Attorney General Representation

The budget includes an increase of \$20,000 from the Board of Psychologist Examiners Fund in FY 2017 for increased Attorney General representation.

Treatment and Rehabilitation

The budget includes an increase of \$16,000 from the Board of Psychologist Examiners Fund in FY 2017 to establish a confidential treatment and rehabilitation program.

Statewide Adjustments

The budget includes a decrease of \$(1,100) from the Board of Psychologist Examiners Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Department of Public Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,907.7	1,907.7	1,956.7 ^{1/}
Personal Services	98,717,900	98,384,600	100,873,200
Employee Related Expenditures	69,383,000	79,321,300	81,935,600
Professional and Outside Services	1,853,000	2,198,200	2,198,200
Travel - In State	489,300	497,100	497,100
Travel - Out of State	376,000	330,000	330,000
Other Operating Expenditures	28,375,700	32,376,400	32,516,900
Equipment	9,913,900	10,074,400	10,074,400
OPERATING SUBTOTAL	209,108,800	223,182,000	228,425,400 ^{2/}
SPECIAL LINE ITEMS			
ACTIC	0	1,450,000	1,450,000
Border Strike Task Force Ongoing	0	0	6,778,800 ^{3/}
Border Strike Task Force One-Time	0	0	18,600,000 ^{3/}
Border Strike Task Force Local Support	0	0	1,261,700 ^{3/4/5/}
GIITEM	20,762,000	22,172,900	22,584,300 ^{2/6/7/}
GIITEM Subaccount	2,113,600	2,390,000	2,390,000
Law Enforcement Officer Virtual Training	0	0	2,100,000 ^{8/}
Public Safety Equipment	2,534,400	2,890,000	2,890,000
Motor Vehicle Fuel	3,134,300	5,454,600	5,454,600
Civil Air Patrol	0	0	150,000
Sexual Assault Kit Testing	0	0	500,000 ^{9/}
AGENCY TOTAL	237,653,100	257,539,500	292,584,800 ^{10/11/}
FUND SOURCES			
General Fund	85,779,000	93,374,800	121,195,700
<u>Other Appropriated Funds</u>			
Automated Fingerprint Identification System Fund	2,820,600	2,910,500	2,910,200
Automation Operations Fund	287,500	0	0
Automobile Theft Authority Fund	0	0	3,000,000
Concealed Weapons Permit Fund	966,100	1,391,400	3,489,000
Crime Laboratory Assessment Fund	871,300	870,300	870,200
Crime Laboratory Operations Fund	13,306,500	14,660,600	13,597,300
Criminal Justice Enhancement Fund	2,873,400	2,864,400	2,860,500
Deoxyribonucleic Acid (DNA) Identification System Fund	6,013,800	6,297,300	4,969,600
Drug and Gang Prevention Resource Center Fund	0	0	1,000,000
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount	2,113,600	2,390,000	2,527,700
Highway Patrol Fund	18,908,700	20,397,100	24,113,100
Highway User Revenue Fund	89,255,000	96,409,200	96,006,100
Motorcycle Safety Fund	205,000	205,000	205,000
Parity Compensation Fund	1,950,100	2,115,500	2,129,400
Public Safety Equipment Fund	2,534,400	2,893,000	2,893,700
Risk Management Revolving Fund	1,233,700	1,228,100	1,263,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,090,500	1,559,100	1,551,800
State Aid to Indigent Defense Fund	700,000	700,000	700,000
State Highway Fund	6,743,900	7,273,200	7,301,800
SUBTOTAL - Other Appropriated Funds	151,874,100	164,164,700	171,389,100
SUBTOTAL - Appropriated Funds	237,653,100	257,539,500	292,584,800

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
Other Non-Appropriated Funds	37,785,600	41,860,200	41,860,200
Federal Funds	35,168,700	52,467,000	46,016,300
TOTAL - ALL SOURCES	310,607,400	351,866,700	380,461,300

AGENCY DESCRIPTION — The Department of Public Safety (DPS) is responsible for the enforcement of state criminal laws and traffic regulations. In addition to the Highway Patrol, DPS operates and maintains statewide communications systems, state crime laboratories and an automated fingerprint identification network, and performs aviation missions, special investigations, and other law enforcement activities.

- 1/ Includes 184.8 GF FTE Positions funded from Special Line Items in FY 2017.
- 2/ The operating lump sum appropriation and GIITEM line item include \$4,440,000 from the state General Fund, \$215,800 from the Arizona Highway Patrol Fund and \$30,900 from the Risk Management Revolving Fund for a 3% aggregate pay full-year pay adjustment for sworn officer positions. The appropriated amount also includes \$156,400 from the state General Fund for a 3% aggregate pay full-year pay adjustment for civilian employees of the Highway Patrol division. On or before August 1, 2016, the department shall report its pay adjustment plan to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 3/ Before the expenditure of any monies appropriated in FY 2017 in the Border Strike Task Force Ongoing, Border Strike Task Force One-Time and Border Strike Task Force Local Support line items, the department shall submit an expenditure plan for these line items to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)
- 4/ Of the \$1,261,700 appropriated for Border Strike Task Force Local Support, \$761,700 shall be used to fund local law enforcement officer positions within the Border Strike Task Force. Any city, town, county or other entity that enters into an agreement with the department to participate in the Border Strike Task Force shall provide at least 25% of the cost of the services, and the department shall provide not more than 75% of Personal Services and Employee-Related Expenditures for each agreement or contract. The department may fund all capital-related equipment. (General Appropriation Act footnote)
- 5/ Of the \$1,261,700 appropriated for Border Strike Task Force Local Support, \$500,000 shall be used for grants to cities, towns or counties for costs associated with the prosecution and imprisonment of individuals charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes. (General Appropriation Act footnote)
- 6/ Of the \$22,584,300 appropriated to GIITEM, only \$2,603,400 is deposited in the GIITEM Fund established by A.R.S. § 41-1724, and is appropriated for the purposes of that section. The \$2,603,400 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. This state recognizes that states have inherent authority to arrest a person for any immigration violation. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 7/ Of the \$22,584,300 appropriated to GIITEM, \$10,029,400 shall be used for 100 Department of Public Safety GIITEM personnel. The additional staff shall include at least 50 sworn Department of Public Safety positions to be used for immigration enforcement and border security and 50 Department of Public Safety positions to assist GIITEM in various efforts, including:
- 1) Strict enforcement of all federal laws relating to illegal aliens and arresting illegal aliens.
 - 2) Responding to or assisting any county sheriff or attorney in investigating complaints of employment of illegal aliens.
 - 3) Enforcing Arizona's law known as the Legal Arizona Workers Act, strict enforcement of Arizona's SB 1070, Arizona's "Support Our Law Enforcement and Safe Neighborhoods Act", investigating crimes of identity theft in the context of hiring illegal aliens and the unlawful entry into the country.
 - 4) Taking strict enforcement action.
- Any change in the GIITEM mission or allocation of monies shall be approved by the Joint Legislative Budget Committee. The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review before expending any monies not identified in the department's previous expenditure plans. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 8/ The Law Enforcement Officer Virtual Training line item includes \$2,100,000 for virtual training for law enforcement officers. This amount shall be awarded to a contractor using a competitive bid process. The virtual training shall include the use of a simulator that:
- 1) Has the ability to display, and for the trainee to engage with, characters and scenario content simultaneously across at least a 300 degree screen environment.
 - 2) Has the ability to accurately replicate real-world ballistic characteristics of a projectile in flight.
 - 3) Is equipped with transducers to recreate sound vibrations.
 - 4) Includes a stress component, including the use of a wireless device capable of delivering an adjustable electric impulse, during training engagements.
- The Department of Public Safety shall make the use of a virtual law enforcement simulator available for other law enforcement agencies in this state without a fee or charge. (General Appropriation Act footnote)
- 9/ The Department of Public Safety shall submit a report for review by the Joint Legislative Budget Committee before spending any monies from the Sexual Assault Kit Testing line item. The report shall include a plan for the allocation of the line item monies, the number of sexual assault kits in backlog by jurisdiction and the amounts and recipients of federal monies for the testing of sexual assault kits received directly by jurisdiction or distributed by the department. It is the intent of the Legislature that the department account for federal grant monies received by individual counties and municipalities when determining an allocation plan for the Sexual Assault Kit Testing line item. (General Appropriation Act footnote)
- 10/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 11/ Any monies remaining in the Department of Public Safety joint account on June 30, 2017 revert to the funds from which they were appropriated. The reverted monies shall be returned in direct proportion to the amounts appropriated. (General Appropriation Act footnote)

Operating Budget

The budget includes \$228,425,400 and 1,771.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$70,324,400
Automated Fingerprint Identification System (AFIS) Fund	2,910,200
Concealed Weapons Permit Fund	1,389,000
Crime Laboratory Assessment Fund (CLAF)	870,200
Crime Laboratory Operations Fund (CLOF)	13,597,300
Criminal Justice Enhancement Fund (CJEF)	2,726,200
Deoxyribonucleic Acid (DNA) Identification System Fund	4,969,600
Highway Patrol Fund	23,814,700
Highway User Revenue Fund (HURF)	95,368,400
Motorcycle Safety Fund	205,000
Parity Compensation Fund	2,129,400
Public Safety Equipment Fund	3,700
Risk Management Revolving Fund	1,263,700
Safety Enforcement and Transportation Infrastructure Fund (SETIF) DPS Subaccount	1,551,800
State Highway Fund	7,301,800

These amounts fund the following adjustments:

Cost Shift

The budget includes an increase of \$2,300,000 from the Highway Patrol Fund and an offsetting decrease of \$(1,300,000) from the DNA Identification System Fund and \$(1,000,000) from CLOF in FY 2017 for a cost shift. These monies were shifted to backfill lower-than-anticipated revenues in both the DNA Identification System Fund and CLOF. There is no net impact to the department's appropriation as a result of this shift.

Moving Program Shift

The budget includes an increase of \$136,200 and 1 FTE Position from the General Fund in FY 2017 for the transfer of the Moving Truck Violation Enforcement program from the Department of Weights and Measures. Of this amount, \$53,500 is a one-time appropriation to fund a consultant to help DPS address any consolidation or programmatic issues associated with the transfer. The Moving Truck Violation Enforcement program allows for the investigation and potential resolution of complaints, based on flat-rate moving estimates, levied against moving companies by consumers.

Pay Raise

The budget includes an increase of \$4,524,700 in FY 2017 for a 3% pay raise to all sworn officers and civilian staff

within the Highway Patrol Division. This amount consists of:

General Fund	4,278,000
Highway Patrol Fund	215,800
Risk Management Revolving Fund	30,900

PSPRS Rate Increase

The budget includes an increase of \$1,390,800 in FY 2017 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate. This amount consists of:

Concealed Weapons Permit Fund	2,500
CLAF	2,100
CJEF	8,300
Highway Patrol Fund	1,285,300
Parity Compensation Fund	24,200
Risk Management Revolving Fund	10,300
State Highway Fund	58,100

These monies fund an increase in the DPS employer contribution rate from 76.00% in FY 2016 to 77.96% in FY 2017.

Statewide Adjustments

The budget includes a decrease of \$(808,300) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(157,500)
AFIS Fund	(300)
Concealed Weapons Permit Fund	(4,900)
CLAF	(2,200)
CLOF	(63,300)
CJEF	(12,200)
DNA Identification System Fund	(27,700)
Highway Patrol Fund	(85,100)
HURF	(403,100)
Parity Compensation Fund	(10,300)
Public Safety Equipment Fund	700
Risk Management Revolving Fund	(5,600)
SETIF DPS Subaccount	(7,300)
State Highway Fund	(29,500)

(Please see the Agency Detail and Allocations section.)

ACTIC

The budget includes \$1,450,000 in FY 2017 for the operation of the Arizona Counter Terrorism Information Center (ACTIC). This amount consists of:

General Fund	750,000
State Aid to Indigent Defense Fund	700,000

These amounts are unchanged from FY 2016.

The FY 2017 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 119) continues to notwithstanding statute to allow DPS to expend monies from the State Aid to Indigent Defense Fund for ACTIC operating expenses.

Created in FY 2005, ACTIC is a joint effort between federal, state, and local law enforcement agencies to combat terrorism, gang violence, and other crimes through information sharing. The salaries of participants are funded by their respective agencies, but DPS pays for the operational costs of the 40,000 square foot building in which ACTIC is housed. These monies fund those costs.

Border Strike Task Force Ongoing

The budget includes \$6,778,800 and 48 FTE Positions from the General Fund in FY 2017 for creating the Border Strike Task Force (BSTF).

The FY 2017 General Appropriation Act provides funding for the establishment of a BSTF within DPS. The BSTF was initially established in September 2015 through the reallocation of 56 sworn officers from DPS' Southern Narcotics and Canine Districts. The monies in this line item will allow for the hiring of an additional 37 sworn officer positions, 2 pilots, and 9 support staff. Of the 37 sworn officer positions, 23 will be exclusively dedicated to the BSTF and 14 will patrol the highways of the border counties as part of DPS' Highway Patrol Division. The 2 pilots will operate an existing King Air plane that DPS acquired through the Federal 1033 Surplus program and a helicopter to be purchased with funds from the BSTF One-Time line item. Both will provide support to the BSTF and surveillance of criminal activity along the border.

At its June 16, 2016 meeting, the Joint Legislative Budget Committee gave a favorable review to the DPS expenditure plan for the BSTF Ongoing line item. The plan included funding for 37 FTE Positions including 25 BSTF positions (18 sworn officers and 7 support staff), 11 Highway Patrol sworn officers, and 1 paramedic/trooper position, as well as operating costs for canine units, vehicle maintenance, surveillance equipment, and an airplane hangar lease.

The BSTF is a multi-agency law enforcement task force that targets drug and human trafficking organizations and activities along the Arizona-Mexico border.

Border Strike Task Force One-Time

The budget includes \$18,600,000 in FY 2017 for the initial one-time costs of the BSTF. This amount consists of:

General Fund	14,600,000
Automobile Theft Authority Fund	3,000,000
Drug and Gang Prevention Resource Center Fund	1,000,000

The FY 2017 General Appropriation Act provides funding for one-time costs of the newly-established BSTF within DPS. These monies will be used for the purchase of patrol vehicles, a helicopter, surveillance equipment, officer weapons, safety equipment, radios, cameras, scopes, and other equipment necessary for the operation of the BSTF. The FY 2017 Criminal Justice BRB notwithstanding statute to allow DPS to expend monies from the Automobile Theft Authority Fund and Drug and Gang Prevention Resource Center Fund for costs associated with the BSTF. *(Please see the Automobile Theft Authority narrative for more information on the Automobile Theft Authority Fund.)*

At its June 16, 2016 meeting, the Joint Legislative Budget Committee gave a favorable review to the DPS expenditure plan for the BSTF One-Time line item. The plan included funding for a new twin-engine helicopter, a communication "master site," surveillance equipment for an existing King Air airplane, 38 law enforcement vehicles, Tri-Band radios for Highway Patrol officers in the 4 southern Highway Patrol Districts and new BSTF officers, improvements to an airplane hangar in Tucson, public safety equipment, canine units, and a contingency set-aside for cost overruns. The favorable review included the following provisions requiring DPS to:

- Report back to the Committee regarding the amount and plans for proceeds that are received as the result of the sale of an existing single-engine helicopter that will be replaced by the new twin-engine helicopter.
- Report on the utilization of the contingency set-aside and provide for review a plan for how monies will be allocated if DPS chooses to utilize them for anything other than what was reviewed.
- Prepare for review any modification to the expenditure plan that would result in the purchase of an airplane hangar.

Border Strike Task Force Local Support

The budget includes \$1,261,700 from the General Fund in FY 2017 for the first-time costs of BSTF Local Support.

The BSTF is a multi-agency task force established to target drug and human trafficking organizations and activities along the Arizona-Mexico border. Of the \$1,261,700 total appropriation, \$761,700 shall be used to fund 75% of the costs for 8 local law enforcement officers that will participate in the BSTF. The participating local law enforcement agency will be responsible for providing a 25% match to these amounts. The remaining \$500,000 shall be used for grants to local governments for the prosecution and imprisonment of individuals that are charged with drug trafficking, human smuggling, illegal immigration and other border-related crimes.

At its June 16, 2016 meeting, the Joint Legislative Budget Committee deferred reviewing the DPS expenditure plan for the BSTF Local Support line item until more information could be received.

GIITEM

The budget includes \$22,584,300 and 136.8 FTE Positions in FY 2017 for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). This amount consists of:

General Fund	22,446,600
GIITEM Border Security and Law Enforcement Subaccount	137,700

These amounts fund the following adjustments:

Pay Raise

The budget includes an increase of \$318,400 from the General Fund in FY 2017 for a 3% pay raise to all sworn officers and civilian staff within the Highway Patrol Division.

PSPRS Rate Increase

The budget includes an increase of \$137,700 from the GIITEM Border Security and Law Enforcement Subaccount in FY 2017 for an increase in the Public Safety Personnel Retirement System (PSPRS) employer contribution rate. These monies fund an increase in the DPS employer contribution rate from 76.00% in FY 2016 to 77.96% in FY 2017. The FY 2017 Criminal Justice BRB notwithstanding statutory expenditure restrictions for the GIITEM Border Security and Law Enforcement Subaccount thus allowing DPS to expend monies from the fund for the PSPRS rate increase.

Statewide Adjustments

The budget includes a decrease of \$(44,700) from the General Fund in FY 2017 for statewide adjustments.

The GIITEM line item is comprised of monies for the following GIITEM functions, including: 1) \$9,351,500 for gang enforcement, investigation, and interdiction; 2) \$10,029,400 for at least 50 sworn DPS positions to be used for immigration enforcement and border security and up to 50 DPS positions to expand GIITEM’s public awareness, investigation, and intelligence efforts; 3) \$2,603,400 for local gang and immigration enforcement grants; and 4) \$600,000 for crime analysts associated with the state gang intelligence database (GangNet).

Monies deposited in the GIITEM Fund can be used for employer sanctions, smuggling, gang, and immigration enforcement. Local grants are distributed to county sheriffs and do not require further approval by the county board of supervisors. The local entity provides at least 25% of the cost of services.

Current statute allocates the first \$1,600,000 in local immigration enforcement grant monies to a county with more than 3,000,000 people (Maricopa County) and the next \$500,000 to a county with less than 500,000 people but more than 300,000 people (Pinal County).

The remaining \$503,400 may be used for agreements with cities, counties, and other entities at a 3:1 match rate. Maricopa and Pinal County are excluded from the matching requirements.

A.R.S. § 41-1724C requires DPS to distribute the monies in the GIITEM Fund as soon after July 1 of every year as practicable. Prior to distribution, DPS must submit an expenditure plan to JLBC for review regarding any monies not identified in the previous expenditure plans. *(Please see Table 3 in the Other Issues section for more information on actual expenditures.)*

GIITEM Subaccount

The budget includes \$2,390,000 from the GIITEM Border Security and Law Enforcement Subaccount in FY 2017 for the GIITEM Subaccount, to be used for equipment and supplies for border security. This amount is unchanged from FY 2016.

The GIITEM Border Security and Law Enforcement Subaccount receives \$4 of a \$13 criminal fee. These revenues are estimated to total \$2,306,200 in FY 2017. The monies in the GIITEM Subaccount are for border security personnel and public safety equipment. The monies are to be provided directly to county sheriffs without approval by the respective Board of Supervisors. The authorizing legislation does not specify any particular distribution by county.

The FY 2017 Criminal Justice BRB also continues to require DPS to submit to the JLBC for review an expenditure plan for the GIITEM Subaccount for the coming fiscal year. At its June 16, 2016 meeting, the JLBC gave a favorable review to the proposed GIITEM Subaccount expenditure plan for FY 2017. The plan includes \$500,000 for detention liaison officers, \$490,000 for county sheriff deputies and municipal police department officers to augment the GIITEM Task Force's border district unit, \$350,000 for the Pima County Border Crimes Unit, and \$1,050,000 for grants to county sheriffs for border security. (Please see Table 3 in the Other Issues section for more information on actual expenditures.)

Law Enforcement Officer Virtual Training

The budget includes \$2,100,000 from the Concealed Weapons Permit Fund in FY 2017 for one-time funding of Law Enforcement Officer Virtual Training.

The budget includes a footnote that requires the virtual training equipment procured by DPS to do all of the following:

- Have the ability to display characters and scenario content simultaneously across an at least 300 degree screen environment with which the trainee can engage.
- Accurately replicate real-world ballistic characteristics of a projectile in flight.
- Be equipped with transducers to recreate sound vibrations.
- Include a stress component that includes a wireless device capable of delivering adjustable electric impulses.

The footnote also requires DPS to make the equipment available to all law enforcement agencies in the state without assessing a fee or charge.

The FY 2017 Criminal Justice BRB notwithstanding the statutory expenditure restrictions of the Concealed Weapons Permit Fund to allow DPS to expend monies to procure law enforcement officer virtual training equipment.

This line item provides one-time funding for the purchase of virtual training equipment for law enforcement officers.

Public Safety Equipment

The budget includes \$2,890,000 from the Public Safety Equipment Fund in FY 2017 to equip DPS officers. This amount is unchanged from FY 2016.

The Public Safety Equipment Fund receives \$4 of a \$13 surcharge on fines, violations and penalties for criminal offenses and civil motor vehicle violations. In addition, DPS receives another \$4 of the surcharge if its officer issued the citation. These revenue sources are subject to appropriation.

Additionally, the fund receives the first \$1,200,000 collected from an assessment of up to \$1,500 on driving under the influence (DUI) offenses. This \$1,200,000 is not subject to appropriation.

The Public Safety Equipment line item monies can be used to purchase vehicles, protective armor, electronic stun devices and other safety equipment.

Motor Vehicle Fuel

The budget includes \$5,454,600 in FY 2017 for Motor Vehicle Fuel. This amount consists of:

General Fund	4,384,200
CJEF	134,300
Highway Patrol Fund	298,400
HURF	637,700

These amounts are unchanged from FY 2016.

The Motor Vehicle Fuel line item centralizes monies appropriated to DPS for motor vehicle fuel. In addition to \$3,134,300 in Motor Vehicle Fuel line item monies expended in FY 2015, DPS expended \$660,900 from the General Fund and \$1,107,800 from non-appropriated monies for fuel from other parts of the DPS budget in FY 2015.

Civil Air Patrol

The budget includes \$150,000 from the General Fund in FY 2017 for funding of the Civil Air Patrol (CAP). Monies in this line item are used to partially offset the costs of operations and maintenance of aircraft used by CAP to aid in search and rescue and other emergency missions.

State funding for CAP goes back to at least FY 1953 when the Arizona Department of Civil Air Patrol was created by Laws 1952, Chapter 38. In 1970 a court decision required

the state to shift funding for CAP to a line item which was first included in the Arizona Department of Aeronautics, then the Arizona Department of Transportation, and finally the Department of Emergency and Military Affairs (DEMA). Prior to this year's appropriation, CAP last received state funding in FY 2008 in DEMA's budget in the amount of \$54,700.

Sexual Assault Kit Testing

The budget includes \$500,000 from the General Fund in FY 2017 for one-time funding of Sexual Assault Kit Testing.

A recent survey conducted by the Maricopa County Attorney's Office revealed a backlog of at least 2,300 sexual assault kits currently housed in municipal crime labs in Maricopa County. The monies in this line item will allow DPS to provide funding to local governments for the testing of sexual assault kits in backlog and will provide funding for DPS to input information derived from the testing of these kits into the national Combined DNA Index System database.

A footnote in the FY 2017 General Appropriation Act requires DPS to provide an expenditure plan for these monies to the JLBC for review prior to expenditure. The expenditure plan must also detail the number of sexual assault kits in backlog and the amounts and recipients of federal monies for the testing of sexual assault kits by jurisdiction.

Other Issues

Additional Legislation

HURF Cap

The FY 2017 Criminal Justice BRB continues to notwithstand the statutory spending provisions for HURF allowing DPS to spend more than the statutory cap of \$10,000,000.

SETIF Revenues

The FY 2017 Government BRB (Laws 2016, Chapter 121) creates the DPS Subaccount within SETIF and allocates 45% of all SETIF revenues to the subaccount. The remaining 55% in SETIF revenues are deposited into the newly-created Department of Transportation Subaccount. (Please see the *Arizona Department of Transportation narrative for more information.*)

Long-Term Budget Impacts: HURF Funding

The budget continues the previously approved \$30.0 million HURF shift in FY 2017. The FY 2015 budget reduced HURF funding from \$119.3 million to \$89.3 million and backfilled the reduction with a commensurate amount of General Fund monies. This reduction allowed for the additional \$30.0 million distribution from HURF entirely to local governments. Under permanent law, increased HURF funds are typically split evenly between local distributions and state highway construction.

The FY 2015 Revenue BRB, however, allocated the \$30.0 million entirely to local jurisdictions as follows: 33.231% to counties, 48.097% to cities and towns, 5.247% to cities with a population larger than 300,000 individuals, and 13.425% to counties with a population of more than 800,000 individuals. These monies were distributed among local jurisdictions in the same proportions as the local share of regular HURF allocations. The impact of this shift is displayed in *Table 1*.

The FY 2015 Revenue BRB continued the FY 2015 \$30.0 million distribution to local governments in FY 2016 and increased the level to \$60.0 million in FY 2017. However, the FY 2016 Revenue BRB (Laws 2015, Chapter 10) reduced the FY 2017 shift from the previously-approved \$60.0 million to \$30.0 million. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) continues this \$30.0 million shift in FY 2018.

The FY 2017 Revenue BRB also includes an additional \$30.0 million in one-time General Fund monies that will be allocated directly to counties, cities, and towns in percentages reflecting the current non-state distribution of HURF revenues. This appropriation in addition to the previously mentioned \$30.0 million HURF shift effectively holds local governments harmless in FY 2017 for the \$119.2 million that was initially appropriated to DPS from HURF in FY 2014 prior to the HURF shift. (Please see the *Highway User Revenue Fund Analysis section of the Arizona Department of Transportation narrative for more information.*)

The HURF appropriation to DPS increased by \$7.2 million in FY 2016 due to HURF funding its proportional share of the PSPRS employer contribution rate increase. In FY 2016 the PSPRS employer contribution rate increased from 57.81% to 76.0%. HURF funds approximately 47% of PSPRS positions within DPS, and as a result, HURF monies were utilized to fund 47% of the total fund costs associated with the PSPRS rate increase.

HURF receives revenues from transportation-related licenses, fees, and taxes such as the motor vehicle fuel

tax, vehicle license tax, vehicle registration, and driver's licenses. A.R.S. § 28-6537 and A.R.S. § 28-6993 cap the amount of highway user revenue monies distributed to DPS at \$10.0 million per year for both HURF and the State Highway Fund (the latter being a beneficiary of the HURF distribution formula). A series of session law provisions have notwithstanding these caps in most years since FY 2002, but in FY 2012 this provision was eliminated for the State Highway Fund. *Table 2* reflects DPS expenditures from HURF and the State Highway Fund. *(Please see ADOT Capital section for more information on the HURF distribution formula.)*

Table 1
Annual Impact of HURF Shift Proposal on Beneficiaries
(\$ in millions)

<u>Beneficiaries</u>	<u>\$ Increase</u>	<u>Revised Total</u>
Cities	16.0 ^{1/}	396.2
Counties	10.0	246.8
Controlled Access	4.0 ^{2/}	98.4
State Highway		
Construction	0.0	37.7
Total	30.0	779.1

^{1/} Includes \$1.6 million for Phoenix, Tucson, and Mesa.
^{2/} These monies are for distribution to Maricopa and Pima Counties.

Table 2
HURF and State Highway Fund Expenditures
(\$ in millions)

<u>Fiscal Year</u>	<u>HURF</u>	<u>State Highway Fund</u>	<u>Total</u>
2002	36.4	25.2	61.6
2003	54.4	28.3	82.7
2004	48.7	30.2	78.9
2005	52.2	32.7	84.9
2006	64.0	42.2	106.2
2007	10.0	10.0	20.0
2008	10.0	52.0	62.0
2009	84.9	41.1	126.0
2010	78.6	41.3	119.9
2011	79.2	41.5	120.7
2012	123.2	0.0	123.2
2013	119.1	6.7	125.8
2014	119.2	6.7	125.9
2015	89.3	6.7	96.0
2016	96.4	7.3	103.7
2017	96.0	7.3	103.3

Table 3

State Immigration Enforcement Assistance to Local Governments

DPS GIITEM Local Immigration Enforcement Grant Expenditures 1/

Agency	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Pima County Sheriff's Department	-	-	-	-	-	-
Phoenix Police Department	342,100	-	-	-	-	-
Border Detention Liaison Officers (See Chart Below)	441,400	-	-	-	-	-
Border County Officers (See Chart Below)	350,700	-	-	-	-	-
Maricopa County Sheriff's Office	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000 2/
DPS Expenditures in Support of Local Grants	695,800	327,900	428,600	131,700	503,400	-
Pinal County Sheriff's Department	500,000	500,000	500,200	500,000	500,000	500,000 2/
TOTAL	\$3,930,000	\$2,427,900	\$2,528,800	\$2,231,700	\$2,603,400	\$2,100,000

Year of Appropriation of Funding

FY 2011 3/	1,517,000 3/	-	-	-	-	-
FY 2012	2,413,000	189,300	-	-	-	-
FY 2013	-	2,238,600	363,100	-	-	-
FY 2014	-	-	2,165,700	-	-	-
FY 2015	-	-	-	2,231,700	-	-
FY 2016	-	-	-	-	2,603,400	-
FY 2017	-	-	-	-	-	2,603,400
TOTAL	\$3,930,000	\$2,427,900	\$2,528,800	\$2,231,700	\$2,603,400	\$2,603,400

Detention Liaison Officer Grants 4/

	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Cochise County Sheriff's Office	\$33,100	\$39,800	\$5,500	\$40,500	\$40,600	\$37,500
Graham County Sheriff's Office	21,100	31,200	15,200	-	37,300	-
Maricopa County Sheriff's Office	-	-	-	44,100	41,300	89,200
Pima County Sheriff's Office	43,900	44,500	56,700	91,900	94,000	87,300
Pinal County Sheriff's Office	46,300	58,700	-	40,000	46,300	47,700
Santa Cruz County Sheriff's Office	18,600	-	24,800	30,400	30,000	-
Yuma County Sheriff's Office	41,000	42,400	35,800	43,200	45,300	-
Department of Corrections	237,400	180,400	263,000	205,400	230,200	238,300
Total	\$441,400	\$397,000	\$401,000	\$495,500	\$565,000	\$500,000

Table 3 (Continued)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Estimate	Estimate
Border County Officers 4/						
Benson Police	\$63,700	\$63,000	\$36,300	41,600	77,000	191,600
Cochise County Sheriff's Office	-	-	-	44,300	56,000	64,200
Coolidge Police	46,600	62,900	66,200	115,000	120,000	-
Douglas Police	123,700	124,800	102,600	-	-	56,400
Eloy Police	-	-	-	63,300	48,000	66,700
Oro Valley Police	62,200	54,800	47,300	-	64,000	-
Pinal County Sheriff's Office	54,500	45,700	89,700	-	-	56,400
San Luis Police	-	-	-	-	-	44,500
Somerton Police	-	-	-	-	-	-
Yuma County Sheriff's Office	-	-	47,900	56,100	60,000	-
Unallocated	-	-	-	-	-	10,200
Total	\$350,700	\$351,200	\$390,000	\$320,300	\$425,000	\$490,000
Border Security and Law Enforcement Grants 4/						
Apache County Sheriff's Office	-	-	\$11,600	\$11,500	\$12,000	\$70,000
Cochise County Sheriff's Office	-	-	20,800	20,900	500,000	70,000
Coconino County Sheriff's Office	-	-	-	-	22,000	70,000
Gila County Sheriff's Office	-	-	8,400	8,600	10,000	70,000
Graham County Sheriff's Office	-	-	-	-	18,500	70,000
Greenlee County Sheriff's Office	-	-	-	1,700	2,000	70,000
La Paz County Sheriff's Office	-	-	3,200	3,300	3,500	70,000
MariCopa County Sheriff's Office	-	-	627,700	629,400	100,000	70,000
Mohave County Sheriff's Office	-	-	32,200	32,500	33,000	70,000
Navajo County Sheriff's Office	-	-	16,900	17,300	18,000	70,000
Pima County Sheriff's Department	-	-	156,600	158,900	50,000	70,000
Pinal County Sheriff's Office	-	-	61,100	62,800	100,000	70,000
Santa Cruz Sheriff's Office	-	-	7,500	7,900	34,000	70,000
Yavapai County Sheriff's Office	-	-	33,600	34,000	35,000	70,000
Yuma County Sheriff's Office	-	-	-	33,400	112,000	70,000
Total	\$0	\$0	\$979,600	\$1,022,200	\$1,050,000	\$1,050,000

GIITEM Subaccount Expenditures 5/6/17/8/9/10/

Agency	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Estimate	Estimate
Pima County Sheriff	\$500,000	\$500,000	\$350,000	\$350,000	\$350,000	\$350,000
General Fund Repayment	1,000,000	-	-	-	-	-
Border Detention Liaison Officers (See Chart Above)	-	397,000	401,000	495,500	565,000	500,000
Border County Officers (See Chart Above)	-	351,200	390,000	320,300	425,000	490,000
Border Security and Law Enforcement Grants (See Chart Above)	-	-	979,600	1,022,200	1,050,000	1,050,000
TOTAL	\$1,500,000	\$1,248,200	\$2,120,600	\$2,188,000	\$2,390,000	\$2,390,000

Table 3 (Continued)

County Assistance 11/		FY 2013		FY 2014		FY 2015		FY 2016		FY 2017	
Agency	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2015 Estimate	FY 2016 Estimate	FY 2017 Estimate		
Pinal County Sheriff	\$1,000,000	-	-	-	-	-	-	-	-	-	-
TOTAL	\$1,000,000	-	-	-	-	-	-	-	-	-	-
Border Strike Task Force Local Support 12/											
Agency	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2015 Estimate	FY 2016 Estimate	FY 2017 Estimate		
Unallocated	-	-	-	-	-	-	-	-	-	-	\$1,261,700
TOTAL	-	-	-	-	-	-	-	-	-	-	\$1,261,700
County Attorney Immigration Enforcement Distributions 12/14/											
Agency	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2015 Estimate	FY 2016 Estimate	FY 2017 Estimate		
Maricopa County Attorney	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	-	\$200,000	-	-	-	-
Maricopa County Sheriff	500,000	500,000	97,687	97,687	97,687	-	97,687	-	-	-	-
Pima County Attorney	97,687	97,687	-	-	-	-	-	-	-	-	-
Pima County Sheriff	97,687	97,687	-	-	-	-	-	-	-	-	-
Pinal County Attorney	37,447	37,447	37,447	37,447	37,447	-	37,447	-	-	-	-
Pinal County Sheriff	37,447	37,447	37,447	37,447	37,447	-	37,447	-	-	-	-
Yavapai County Attorney	21,030	21,030	21,030	21,030	21,030	-	21,030	-	-	-	-
Yavapai County Sheriff	21,030	21,030	-	-	-	-	-	-	-	-	-
Mohave County Attorney	19,949	19,949	19,949	19,949	19,949	-	19,949	-	-	-	-
Mohave County Sheriff	19,949	19,949	-	-	-	-	-	-	-	-	-
Yuma County Attorney	19,507	19,507	19,507	19,507	19,507	-	19,507	-	-	-	-
Yuma County Sheriff	19,507	19,507	-	-	-	-	19,507	-	-	-	-
Cochise County Attorney	13,089	13,089	-	-	-	-	-	-	-	-	-
Cochise County Sheriff	13,089	13,089	-	-	-	-	-	-	-	-	-
Coconino County Attorney	13,396	13,396	-	-	-	-	-	-	-	-	-
Coconino County Sheriff	13,396	13,396	13,396	13,396	13,396	-	13,396	-	-	-	-
Navajo County Attorney	10,708	10,708	10,708	10,708	10,708	-	10,708	-	-	-	-
Navajo County Sheriff	10,708	10,708	-	-	-	-	-	-	-	-	-
Apache County Attorney	7,127	7,127	7,127	7,127	7,127	-	7,127	-	-	-	-
Apache County Sheriff	7,127	7,127	-	-	-	-	7,127	-	-	-	-
Gila County Attorney	5,341	5,341	5,341	5,341	5,341	-	5,341	-	-	-	-
Gila County Sheriff	5,341	5,341	-	-	-	-	-	-	-	-	-
Santa Cruz County Attorney	4,726	4,726	4,726	4,726	4,726	-	4,726	-	-	-	-
Santa Cruz County Sheriff	4,726	4,726	-	-	-	-	-	-	-	-	-
Graham County Attorney	\$3,709	\$3,709	-	-	-	-	-	-	-	-	-
Graham County Sheriff	3,709	3,709	-	-	-	-	-	-	-	-	-
La Paz County Attorney	2,042	2,042	2,042	2,042	2,042	-	2,042	-	-	-	-
La Paz County Sheriff	2,042	2,042	-	-	-	-	-	-	-	-	-
Greenlee County Attorney	841	841	-	-	-	-	-	-	-	-	-
Greenlee County Sheriff	841	841	-	-	-	-	-	-	-	-	-
Unallocated	-	-	736,793	736,793	736,793	781,777	781,777	-	-	-	-
TOTAL	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$0	\$0	\$0	\$0

- 1/ Funded from non-lapsing \$2.6 million General Fund appropriation, which is part of a \$22.6 million total GIITEM General Fund appropriation to DPS in FY 2017. Beginning in FY 2011, statute allocated the first \$1.6 million to the Maricopa County Sheriff's Office and the next \$500,000 to the Pinal County Sheriff's Office.
- 2/ FY 2017 figures represent statutory appropriations only. Remaining allocations are to be determined.
- 3/ Includes \$1,003,200 in other GIITEM SLI monies in FY 2011.
- 4/ Funding for the Detention Liaison Officer Grants and the Border County Officers in FY 2012 is included in the annual \$2.6 million General Fund appropriation for Local Immigration Enforcement Grants. In FY 2013 - FY 2016 the monies were allocated from the GIITEM Subaccount. Funding for the Border Security and Law Enforcement Grants is provided from the GIITEM Subaccount.
- 5/ Initially funded from a \$2.1 million GIITEM Fund appropriation in FY 2012. Laws 2011, Chapter 308 created a \$13 surcharge on criminal fines and penalties and civil motor vehicle violations, \$4 of which is to be deposited into the GIITEM Fund Border Security and Law Enforcement Subaccount. These revenues totaled \$2,270,200 in FY 2015. The monies in the GIITEM Subaccount are for border security personnel and equipment. Additionally, the bill redirected the monies normally deposited into the Arizona Criminal Justice Commission's State Aid to Indigent Defense Fund, which totaled \$659,300, to the GIITEM Fund Border Security and Law Enforcement Subaccount in FY 2012. This did not continue in FY 2013.
- 6/ Laws 2011, Chapter 308 required that the first \$1,000,000 in criminal fee revenue received by the GIITEM Fund Border Security and Law Enforcement Subaccount in FY 2012, be used to repay the General Fund for a commensurate appropriation to the Pinal County Sheriff's Office in FY 2012.
- 7/ As required by Laws 2013, 1st Special Session, Chapter 5, the Joint Legislative Budget Committee (JLBC) reviewed DPS' FY 2014 GIITEM Subaccount expenditure plan on October 29, 2013.
- 8/ As required by Laws 2014, Chapter 12, JLBC reviewed DPS' FY 2015 GIITEM Subaccount expenditure plan on June 19, 2014.
- 9/ As required by Laws 2015, Chapter 17, JLBC reviewed DPS' FY 2016 GIITEM Subaccount expenditure plan on June 18, 2015.
- 10/ As required by Laws 2016, Chapter 119, JLBC reviewed DPS' FY 2017 GIITEM Subaccount expenditure plan on June 16, 2016.
- 11/ Funded from a one-time \$1,000,000 General Fund appropriation. The monies were used to purchase and maintain a helicopter. The funding was not continued in FY 2013.
- 12/ Funded by a General Fund appropriation.
- 13/ Amount represents appropriated amount to DPS in FY 2017. JLBC has not reviewed DPS' expenditure plan as of June 2016.
- 14/ Funding for this line item was not continued in FY 2016.
- 15/ The FY 2012, FY 2013, and FY 2014 budgets required ADOA to distribute \$200,000 to the County Attorney of a county with a population of 2,000,000 or more persons and \$500,000 to the County Sheriff of a county with a population of 2,000,000 or more persons. The FY 2014 distribution to a County Sheriff in a county with a population of 2,000,000 or more was returned pursuant to a court order. With JLBC approval, the remaining monies can be distributed to County Attorneys and County Sheriffs of counties with populations of less than 2,000,000 persons. At their April 10, 2014 meeting, the JLBC gave approval to ADOA's FY 2014 expenditure plan to distribute monies proportionate to population. ADOA's proposal did not allocate funding to any county which did not plan to expend the funds. As a result, ADOA did not distribute \$212,689 of the \$1,213,200 FY 2014 appropriation. JLBC's approval included a provision that ADOA distribute the monies if subsequently requested to do so by a county attorney or sheriff not currently scheduled to receive funds. ADOA did not seek JLBC approval of its FY 2012 or FY 2013 distribution.
- 16/ The initial plan as approved at the December 17, 2014 meeting of the JLBC allocated all but \$281,800 of the \$1,213,200 appropriation. Subsequent to the meeting, the \$500,000 allocation to the Maricopa County Sheriff's Office was returned due to a court order resulting in a total of \$781,800 in unallocated funds.
- 17/ The FY 2016 budget eliminated the County Attorney Immigration Enforcement line item appropriation.

Public Safety Personnel Retirement System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
SPECIAL LINE ITEMS			
EORP Fund Deposit	5,000,000	5,000,000	5,000,000 ^{1/2/}
Prescott Fire Employer Group Deposit	1,000,000	1,000,000	1,000,000 ^{3/}
AGENCY TOTAL	6,000,000	6,000,000	6,000,000
FUND SOURCES			
General Fund	6,000,000	6,000,000	6,000,000
SUBTOTAL - Appropriated Funds	6,000,000	6,000,000	6,000,000
Other Non-Appropriated Funds	12,125,100	10,885,400	11,212,000
TOTAL - ALL SOURCES	18,125,100	16,885,400	17,212,000

AGENCY DESCRIPTION — The Public Safety Personnel Retirement System (PSPRS) provides retirement, survivors, health, and disability benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters. In addition, PSPRS staff administers the Correctional Officers Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP), which provide the same benefits to specified populations at the state and local level. PSPRS is not subject to appropriation. The EORP was closed to new enrollees as of January 1, 2014, at which time newly-elected officials are to be enrolled in the Elected Officials' Defined Contribution Retirement System (EODC System).

EORP Fund Deposit

The budget includes \$5,000,000 from the General Fund in FY 2017 as part of the closure of the Elected Officials' Retirement Plan (EORP). This amount is unchanged from FY 2016.

Laws 2013, Chapter 217 made several changes relating to the closure of the defined benefit EORP and in creation of a new defined contribution plan, the Elected Officials Defined Contribution Retirement System (EODC System). Chapter 217 annually appropriates \$5,000,000 from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost and to amortize the unfunded accrued liability of the now closed EORP. Because the appropriation is in permanent statute, monies in this line item are not included in the General Appropriation Act.

Chapter 217 made several additional changes relating to the closure of the defined benefit EORP and in creation of the new defined contribution plan, the EODC System, with the major changes as follows:

1. Permanently establishes a 13% employee contribution rate for members of the now closed EORP.
2. Requires from January 1, 2014 through June 30, 2044, a level 23.5% employer contribution rate for employees in elected official positions, regardless of the date of appointment or election. For existing members of EORP, this contribution is paid entirely to the EORP Fund. For EODC System members, 6% is retained by the defined contribution system as an employer contribution, with the remaining 17.5% being paid to the EORP Fund.
3. Establishes an 8% employee contribution rate for all EODC System members, which is to be matched by the 6% employer contribution rate, with the funds to be deposited into the individual member's retirement account.

Chapter 217, in determining the level 23.5% employer contribution rate, and the annual EORP Fund deposit of \$5,000,000, assumed that a previously enacted reduction of Permanent Benefit Increases (PBIs) would be upheld as constitutional. Due to the ruling in *Fields v. Elected Officials Retirement Plan*, these assumptions may need to be analyzed further to account for additional PBI

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

^{2/} Laws 2013, Chapter 217 appropriated \$5,000,000 annually from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost plus an amount to amortize the unfunded accrued liability.

^{3/} The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 133) appropriated \$1,000,000 annually from the General Fund to the employer account of the Prescott Fire Department group from FY 2015 through FY 2019 to offset increased pension liability.

payments. (See the *Consolidated Retirement Report* section for more information.)

Prescott Fire Employer Group Deposit

The budget includes \$1,000,000 from the General Fund in FY 2017 for deposit into the employer account of the Prescott Fire Department group. This amount is unchanged from FY 2016.

In June 2013, 19 firefighters employed by the Prescott Fire Department died in the line of duty while fighting the Yarnell Hill Fire. Of the 19, 6 were classified as permanent employees and were enrolled in PSPRS. As such, their survivors qualify to receive ongoing payments equal to 100% of the employees' average monthly wages, including overtime. The increased liability resulting from these benefit payments is funded from the employer account of the Prescott Fire Department through an increase in employer contribution rates.

To offset the increased pension liabilities resulting from the 6 firefighters, the FY 2015 budget appropriated \$1,000,000 from the General Fund for deposit into the employer account of the Prescott Fire Department from FY 2015 through FY 2019. As a result, monies in this line item are not included in the annual General Appropriation Act in future years.

Of the remaining 13 firefighters who were classified as seasonal employees and initially considered ineligible for membership in PSPRS, 3 were posthumously enrolled in PSPRS in 2015 after the Prescott Fire Department's local board determined that those firefighters met the criteria for membership. In June 2016, an additional firefighter was posthumously enrolled in PSPRS. Based on information provided by PSPRS, the total multi-year liability to the employer account of the Prescott Fire Department associated with these 4 additional enrollees is approximately \$2.6 million.

See the *Consolidated Retirement Report* section for more information on PSPRS legislation, membership, and actuarial data.

Arizona Department of Racing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	40.5	0.0	0.0
Personal Services	1,476,200	0	0
Employee Related Expenditures	616,400	0	0
Professional and Outside Services	448,300	0	0
Travel - In State	52,200	0	0
Travel - Out of State	6,500	0	0
Other Operating Expenditures	243,200	0	0
Equipment	5,200	0	0
OPERATING SUBTOTAL	2,848,000	0	0
SPECIAL LINE ITEMS			
Arizona Breeders' Award	234,900	0	0
County Fairs Livestock and Agricultural Promotion	1,779,500	0	0
AGENCY TOTAL	4,862,400	0	0
FUND SOURCES			
General Fund	2,014,400	0	0
<u>Other Appropriated Funds</u>			
Racing Regulation Fund	2,848,000	0	0
SUBTOTAL - Other Appropriated Funds	2,848,000	0	0
SUBTOTAL - Appropriated Funds	4,862,400	0	0
Other Non-Appropriated Funds	49,900	0	0
TOTAL - ALL SOURCES	4,912,300	0	0

AGENCY DESCRIPTION — The Arizona Department of Racing regulated the pari-mutuel horse and greyhound racing industries through the supervision of race meetings, screening of license applicants, collection of taxes and fees, and assessment of fines or other penalties. The Arizona Boxing and Mixed Martial Arts Commission was responsible for licensing, investigating, and regulating professional boxing, Toughman, and nontraditional fighting contests within Arizona. Beginning in FY 2016, the responsibilities of the Department of Racing were transferred to the Department of Gaming.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) established the Division of Racing within the Department of Gaming as of July 3, 2015. While the FY 2016 General Appropriation Act appropriated a separate budget for the Department of Racing, Chapter 19 transferred all appropriated monies of the Department of Racing to the Department of Gaming. The FY 2017 General Appropriation Act appropriated monies to the Division of Racing in a Special Line Item within the Department of Gaming. *(Please see the Department of Gaming narrative for more information.)*

Radiation Regulatory Agency

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	33.5	34.5	34.5 ^{1/2/}
Personal Services	847,900	847,900	847,900
Employee Related Expenditures	354,900	354,900	348,400
Professional and Outside Services	20,400	26,000	26,000
Travel - In State	28,700	28,700	28,700
Travel - Out of State	9,500	9,500	9,500
Other Operating Expenditures	329,200	322,200	323,700
Equipment	31,900	37,300	37,300
OPERATING SUBTOTAL	1,622,500	1,626,500	1,621,500
SPECIAL LINE ITEMS			
Nuclear Emergency Management Fund	695,200	819,700	789,700 ^{3/4/}
AGENCY TOTAL	2,317,700	2,446,200	2,411,200 ^{5/}
FUND SOURCES			
General Fund	1,466,500	1,595,000	1,563,100
<u>Other Appropriated Funds</u>			
Radiation Regulatory Fee Fund	578,700	578,700	576,500
State Radiologic Technologist Certification Fund	272,500	272,500	271,600
SUBTOTAL - Other Appropriated Funds	851,200	851,200	848,100
SUBTOTAL - Appropriated Funds	2,317,700	2,446,200	2,411,200
Other Non-Appropriated Funds	32,900	32,900	32,900
Federal Funds	268,200	268,200	268,200
TOTAL - ALL SOURCES	2,618,800	2,747,300	2,712,300

AGENCY DESCRIPTION — The department regulates the use, storage, and disposal of sources of radiation. This includes licensing or certifying users, inspecting x-ray equipment, developing emergency response capability, and monitoring environmental radiation.

Operating Budget

The budget includes \$1,621,500 and 29 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$773,400
Radiation Regulatory Fee Fund	576,500
State Radiologic Technologist Certification Fund	271,600

Statewide Adjustments

The budget includes a decrease of \$(5,000) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(1,900)
Radiation Regulatory Fee Fund	(2,200)
State Radiologic Technologist Certification Fund	(900)

(Please see the Agency Detail and Allocations section.)

These amounts fund the following adjustments:

^{1/} Includes 5.5 FTE Positions in FY 2017 appropriated by Laws 2015, Chapter 132.

^{2/} Includes 5.5 GF FTE Positions funded from Special Line Items in FY 2017.

^{3/} Pursuant to A.R.S. § 26-306.02, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations; any unexpended monies must be used, however, to reduce the assessment and appropriation in future years.

^{4/} Laws 2015, Chapter 132 appropriated \$819,663 and 5.5 FTE Positions from the General Fund in FY 2016 and \$789,663 in FY 2017 for the Nuclear Emergency Management Fund.

^{5/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Nuclear Emergency Management Fund

The budget includes \$789,663 and 5.5 FTE Positions from the General Fund in FY 2017 for the Nuclear Emergency Management Fund (NEMF). These amounts fund the following adjustments:

NEMF Decrease

The budget includes a decrease of \$(30,000) from the General Fund in FY 2017 for the NEMF Special Line Item.

Laws 2015, Chapter 132 appropriated \$819,663 and 5.5 FTE Positions from the General Fund in FY 2016 and \$789,633 and 5.5 FTE Positions in FY 2017. As a result, these monies do not appear in the FY 2017 General Appropriation Act. The Radiation Regulatory Agency, Department of Emergency and Military Affairs, and Department of Agriculture receive monies from this bill. *(Please see the Department of Emergency and Military Affairs and the Department of Agriculture narratives for more information.)*

The Legislature is required to biennially assess a fee against each group of public service and municipal corporations operating the Palo Verde Nuclear Generating Station. The fee is set at a level to offset the General Fund appropriation to the NEMF.

Monies in the NEMF are used for the development and maintenance of a state plan for off-site responses to an emergency caused by an accident at a commercial nuclear generating station. NEMF monies are also used to provide for the equipment, personnel, facilities, training, and testing necessary to comply with federally prescribed criteria.

Monies appropriated to the NEMF are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that monies left unexpended or unencumbered at the end of the fiscal year shall be used to offset the next year's assessment and appropriation.

Other Issues

Additional Legislation

Fee Authority Continuation

The FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125) continues the fee raising authority and exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2017. The bill continues an intent clause that limits additional revenues to \$561,000.

State Real Estate Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	37.0	37.0	37.0
Personal Services	1,378,700	1,612,600	1,612,600
Employee Related Expenditures	587,900	656,200	645,600
Professional and Outside Services	97,100	166,700	166,700
Travel - In State	13,000	20,000	20,000
Travel - Out of State	4,200	10,000	10,000
Other Operating Expenditures	311,300	458,600	478,900
Equipment	60,600	61,100	61,100
AGENCY TOTAL	2,452,800	2,985,200	2,994,900^{1/}
FUND SOURCES			
General Fund	2,452,800	2,985,200	2,994,900
SUBTOTAL - Appropriated Funds	2,452,800	2,985,200	2,994,900
Other Non-Appropriated Funds	59,500	185,100	185,100
TOTAL - ALL SOURCES	2,512,300	3,170,300	3,180,000

AGENCY DESCRIPTION — The department issues licenses for real estate, cemetery, and membership campground sales. The department also regulates the real estate industry, including licensees, developers, subdividers, and real estate schools. The department collects various filing and licensing fees, which are deposited into the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation. Beginning in FY 2017, the responsibilities relating to the dispute resolution process for condominiums and planned communities are transferred from the Department of Fire, Building and Life Safety to the State Real Estate Department.

Operating Budget

The budget includes \$2,994,900 and 37 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Fire, Building and Life Safety Consolidation

The budget includes an increase of \$18,800 from the General Fund in FY 2017 related to the elimination of the Department of Fire, Building and Life Safety. The FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) transfers the dispute resolutions process for condominiums and planned communities from the Department of Fire, Building and Life Safety to the State Real Estate Department effective July 1, 2016. *(Please see the Department of Fire, Building and Life Safety narrative for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(9,100) from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Residential Utility Consumer Office

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	11.0	11.0	11.0
Personal Services	588,700	757,700	757,700
Employee Related Expenditures	206,600	245,800	241,900
Professional and Outside Services	500	2,400	2,400
Travel - In State	1,700	8,600	8,600
Travel - Out of State	17,500	7,000	7,000
Other Operating Expenditures	181,400	168,500	168,800
OPERATING SUBTOTAL	996,400	1,190,000	1,186,400
SPECIAL LINE ITEMS			
Professional Witnesses	28,700	145,000	145,000 ^{1/}
AGENCY TOTAL	1,025,100	1,335,000	1,331,400^{2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Residential Utility Consumer Office Revolving Fund	1,025,100	1,335,000	1,331,400
SUBTOTAL - Other Appropriated Funds	1,025,100	1,335,000	1,331,400
SUBTOTAL - Appropriated Funds	1,025,100	1,335,000	1,331,400
TOTAL - ALL SOURCES	1,025,100	1,335,000	1,331,400

AGENCY DESCRIPTION — The Residential Utility Consumer Office (RUCO) serves as an advocate for residential customers of public utilities in rate hearings held before the Arizona Corporation Commission. Through its technical staff and expert consultants, RUCO analyzes utility company data to determine appropriate positions to take and present on behalf of residential ratepayers. The RUCO Director is appointed by the Governor.

Operating Budget

The budget includes \$1,186,400 and 11 FTE Positions from the RUCO Revolving Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(3,600) from the RUCO Revolving Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Professional Witnesses

The budget includes \$145,000 from the RUCO Revolving Fund in FY 2017 for Professional Witnesses. This amount is unchanged from FY 2016.

Monies in this line item are used to fund expert witness testimony at utility rate hearings.

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Board of Respiratory Care Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	154,600	176,500	176,500
Employee Related Expenditures	56,800	79,200	78,500
Professional and Outside Services	3,000	3,000	3,000
Travel - In State	1,200	300	300
Travel - Out of State	0	1,000	1,000
Other Operating Expenditures	48,000	39,000	39,900
Equipment	1,200	1,100	1,100
AGENCY TOTAL	264,800	300,100	300,300^{1/}

FUND SOURCES

Other Appropriated Funds

Board of Respiratory Care Examiners Fund	264,800	300,100	300,300
SUBTOTAL - Other Appropriated Funds	264,800	300,100	300,300
SUBTOTAL - Appropriated Funds	264,800	300,100	300,300
TOTAL - ALL SOURCES	264,800	300,100	300,300

AGENCY DESCRIPTION — The board licenses and regulates respiratory care practitioners. A respiratory therapist performs inhalation therapy and respiratory therapy, which includes administering pharmacological, diagnostic, and therapeutic agents, as directed by a physician.

Operating Budget

The budget includes \$300,300 and 4 FTE Positions from the Board of Respiratory Care Examiners Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 from the Board of Respiratory Care Examiners Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Arizona State Retirement System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	246.9	250.9	250.9
Personal Services	11,941,100	13,025,000	13,025,000
Employee Related Expenditures	4,774,900	5,118,800	5,027,300
Professional and Outside Services	3,776,500	4,092,400	4,092,400
Travel - In State	35,600	30,000	30,000
Travel - Out of State	56,100	49,000	49,000
Other Operating Expenditures	2,468,800	2,745,300	2,801,000
Equipment	435,200	651,100	389,500
OPERATING SUBTOTAL	23,488,200	25,711,600	25,414,200
SPECIAL LINE ITEMS			
ASRS Plan Design Changes	40,900 ^{1/}	0	0
Automation Upgrades	1,736,300 ^{1/}	2,270,000 ^{1/}	2,070,000 ^{2/}
Laws 2011, Ch. 26 Rate Change Administration Procedures	18,100 ^{1/}	0	0
Laws 2013, Ch. 216 Public Retirement Systems; Ineligible Employees	82,800 ^{1/3/}	0 ^{3/}	0 ^{3/}
AGENCY TOTAL	25,366,300	27,981,600	27,484,200 ^{4/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Long-Term Disability Trust Fund Administration Account	2,287,300	2,800,000	2,800,000
State Retirement System Administration Account	23,079,000	25,181,600 ^{5/}	24,684,200
SUBTOTAL - Other Appropriated Funds	25,366,300	27,981,600	27,484,200
SUBTOTAL - Appropriated Funds	25,366,300	27,981,600	27,484,200
Other Non-Appropriated Funds	84,258,500	87,805,200	78,165,000
TOTAL - ALL SOURCES	109,624,800	115,786,800	105,649,200

AGENCY DESCRIPTION — The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

Operating Budget

The budget includes \$25,414,200 and 250.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
State Retirement System Administration Account	\$22,614,200
Long-Term Disability (LTD) Trust Fund Administration Account	2,800,000

These amounts fund the following adjustments:

- 1/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.
- 2/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. (General Appropriation Act footnote)
- 3/ Laws 2013, Chapter 216 appropriated \$502,400 and 1 FTE Position from the State Retirement System Administration Account in FY 2014 for modifications regarding ineligible employees. The budget maintains 1 FTE Position and \$72,400 in the Operating Budget to continue these modifications.
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 5/ Of this amount, \$870,800 is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations until June 30, 2017. (General Appropriation Act footnote)

Remove One-Time Funding

The budget includes a decrease of \$(216,600) from the State Retirement System Administration Account in FY 2017 to remove one-time funding for ASRS membership data protection. This decrease is related to a reduction of one-time purchases of equipment for new FTE Positions and enhanced information technology security in FY 2016.

Statewide Adjustments

The budget includes a decrease of \$(80,800) from the State Retirement System Administration Account in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Automation Upgrades

The budget includes \$2,070,000 from the State Retirement System Administration Account in FY 2017 for Automation Upgrades. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(200,000) from the State Retirement System Administration Account in FY 2017 for the fourth year of a 4-year project to consolidate and upgrade an ASRS business application system with a

more current Java-based Web application. The 4-year budget of the project is a total of \$10,214,500, as follows:

- Year 1: \$1,390,000
- Year 2: \$4,484,500
- Year 3: \$2,270,000
- Year 4: \$2,070,000

The project received approval through the Project Investment Justification (PIJ) process from the Arizona Strategic Enterprise Technology (ASET) Office, and from the Information Technology Authorization Committee (ITAC) in 2012. As part of this review, ASRS is required to give an annual update on the project to ITAC.

The project was originally planned to last 5 years, for a total cost of \$10,214,500. Due to an improved methodology used to implement the technology modernizations, the project is now expected to last 4 years. As a result, the FY 2015 budget shifted the funding that would have occurred in the fifth year of the project into the second year of the project. The FY 2016 budget readjusted funding to match estimated project costs in Year 3. The FY 2017 budget matches estimated project costs in Year 4.

See the [Consolidated Retirement Report](#) section for more information on ASRS legislation, membership, and actuarial data.

Department of Revenue

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	880.8 ^{1/}
Personal Services	30,453,400	28,451,200	28,451,200
Employee Related Expenditures	13,545,900	12,503,000	12,163,200
Professional and Outside Services	6,292,000	9,575,400	9,570,100
Travel - In State	236,200	291,000	291,000
Travel - Out of State	122,500	116,000	116,000
Other Operating Expenditures	9,262,700	10,691,700	10,734,000
Equipment	2,772,900	2,071,300	2,071,300
OPERATING SUBTOTAL	62,685,600	63,699,600	63,396,800
SPECIAL LINE ITEMS			
BRITS Operational Support	6,014,400	7,538,900	7,497,500
Income Tax Fraud Prevention	0	3,150,000	3,150,000 ^{2/3/}
TPT Information Technology	0	1,230,700	0
TPT Simplification	1,000,000	990,600	970,400
Unclaimed Property Administration and Audit	1,070,500	1,218,500	1,218,500 ^{4/}
Veterans' Income Tax Settlements	0	0	2,000,000 ^{5/}
AGENCY TOTAL	70,770,500	77,828,300	78,233,200 ^{6/7/}
FUND SOURCES			
General Fund	45,637,600	30,343,900	31,998,300
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	24,215,700	46,407,500	45,158,700
Liability Setoff Program Revolving Fund	378,600	398,000	397,900
Tobacco Tax and Health Care Fund	538,600	678,900	678,300
SUBTOTAL - Other Appropriated Funds	25,132,900	47,484,400	46,234,900
SUBTOTAL - Appropriated Funds	70,770,500	77,828,300	78,233,200
Other Non-Appropriated Funds	4,011,200	3,017,100	3,017,100
TOTAL - ALL SOURCES	74,781,700	80,845,400	81,250,300

AGENCY DESCRIPTION — The Department of Revenue (DOR) administers and enforces the collection of personal and corporate income, sales, withholding, luxury and estate taxes. The department administers state property tax laws through the 15 county assessors. The department does not collect transportation related fees and taxes, nor the insurance premium tax.

^{1/} Includes 70 GF FTE Positions funded from Special Line Items in FY 2017.

^{2/} The department may not transfer any monies to or from the Income Tax Fraud Prevention line item without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{3/} On or before November 1, 2016, the department shall report the results of private fraud prevention investigation services during FY 2016 to the Joint Legislative Budget Committee. The report shall include the total number of fraudulent returns prevented and the total dollar amount of fraudulent returns prevented during FY 2016. (General Appropriation Act footnote)

^{4/} If the total value of properties retained by unclaimed property contract auditors exceeds \$1,218,500, the excess amount is transferred from the state General Fund to the DOR Administrative Fund, established by A.R.S. § 42-1116.01, and appropriated to the department for contract auditor fees. (General Appropriation Act footnote)

^{5/} Laws 2016, Chapter 125 appropriated \$2,000,000 from the General Fund for veterans' income tax settlement payments.

^{6/} The department shall report the department's General Fund revenue enforcement goals for FY 2017 to the Joint Legislative Budget Committee on or before September 30, 2016. The department shall provide an annual progress report to the Joint Legislative Budget Committee as to the effectiveness of the department's overall Enforcement and Collections Program for FY 2017 on or before September 30, 2017. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2017, including the amount of projected and actual enforcement collections for all tax types. (General Appropriation Act footnote)

^{7/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$63,396,800 and 810.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$23,871,800
DOR Administrative Fund	38,448,800
Liability Setoff Program Revolving Fund	397,900
Tobacco Tax and Health Care Fund	678,300

These amounts fund the following adjustments:

One-Time Named Claimants Funding

The budget includes a decrease of \$(5,323.09) from the General Fund in FY 2017 for the elimination of one-time funding of prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Statewide Adjustments

The budget includes a decrease of \$(297,500) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(280,600)
DOR Administrative Fund	(16,200)
Liability Setoff Program Revolving Fund	(100)
Tobacco Tax and Health Care Fund	(600)

(Please see the Agency Detail and Allocations Section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes \$7,497,500 and 51 FTE Positions in FY 2017 for operational support of BRITS. These amounts consist of:

General Fund	2,006,100
DOR Administrative Fund	5,491,400

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(41,400) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(39,500)
DOR Administrative Fund	(1,900)

Monies in this line item are used for annual server and printer replacement costs, increased BRITS data storage requirements, and information technology personnel to operate and maintain the BRITS system. BRITS is the

state's computer system for collecting and processing tax data.

Income Tax Fraud Prevention

The budget includes \$3,150,000 from the General Fund in FY 2017 for Income Tax Fraud Prevention. This amount is unchanged from FY 2016.

This funding initially appeared in the FY 2016 operating budget. The FY 2016 amount was transferred to this line item for ease of comparison. *(Please see the FY 2016 Appropriations Report for more information.)*

These monies are used to contract with a vendor to provide fraud prevention investigation services, make programming changes to the Taxpayer Accounting System (TAS), and provide audit and investigative support.

TPT Information Technology

The budget includes no funding from the DOR Administrative Fund in FY 2017 for programming changes to TAS. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,230,700) from the DOR Administrative Fund in FY 2017 for the elimination of one-time funding for temporary Information Technology (IT) staff to make programming changes in TAS for Transaction Privilege Tax (TPT) simplification.

As part of the TPT simplification, Laws 2013, Chapter 255 and Laws 2014, Chapter 263 require DOR to operate a statewide electronic TPT filing system to receive TPT payments. This electronic system will make DOR the single source for taxpayers to apply for licenses, file returns, and make payments for all state, county and municipal TPT and sales taxes.

This system was initially scheduled to be available in January 2015, but has been delayed due to extensive programming changes needed to establish the system. DOR expects the system to be fully available and to become the single source for TPT filing and reporting in Fall 2016.

Monies in this line item were used to hire temporary IT staff to make programming changes in TAS, which will allow DOR to complete the electronic TPT filing system.

TPT Simplification

The budget includes \$970,400 and 19 FTE Positions from the General Fund in FY 2017 for TPT Simplification responsibilities. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(20,200) from the General Fund in FY 2017 for statewide adjustments.

While this funding was initially included in the operating budget in FY 2015, the FY 2016 monies were appropriated in a separate line item. The FY 2015 amounts are displayed as a part of this line item for ease of comparison. *(Please see the FY 2015 Appropriations Report for more information.)*

Laws 2013, Chapter 255 and Laws 2014, Chapter 263 created a unified TPT audit and collections system under the auspices of DOR. As a result, DOR will assume the responsibility for the audit and collection of TPT taxes from all municipalities including the 14 "Non-Program" cities which currently administer their own TPT taxes. These monies will allow DOR to fund the additional staffing associated with the new TPT oversight responsibilities.

Unclaimed Property Administration and Audit

The budget includes \$1,218,500 from the DOR Administrative Fund in FY 2017 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2016.

Monies in this line item are used for the administrative costs of unclaimed or abandoned property. Contract auditors retain 10.25% to 12.5% of the value of properties they recover. This amount is currently estimated at \$1,218,500.

Laws 2016, Chapter 239 requires DOR to establish procedures to monitor the performance of contract auditors and issue a Request for Information by January 1, 2017 to explore the feasibility of audit contracts that are not contingent on the recovery of unclaimed property.

Veterans' Income Tax Settlements

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) appropriates \$2,000,000 from the General Fund in FY 2017 for Veterans' Income Tax Settlements. This amount will be deposited into the newly created Veterans' Income Tax Settlement Fund,

which allows DOR to grant settlement payments to refund incorrectly withheld income taxes.

The FY 2017 Revenue BRB creates the Veterans' Income Tax Settlement Fund and allows DOR to distribute settlement payments to Native American veterans for state individual income tax incorrectly withheld from military pay between September 1, 1993 and December 31, 2005. Members of an Indian tribe who are domiciled on an Indian reservation are not subject to state income tax, and military service men and women do not relinquish their domicile status while on assignment out of state.

Additionally, 5% of the fund balance at the beginning of each fiscal year can be used by both DOR and the Department of Veterans' Services for costs to administer the program. On or before October 1 of each year during CY 2017, CY 2018, and CY 2019, DOR shall report to the Legislature on the amount of withholdings subject to payments and the number of veterans affected. Any remaining monies in the fund on June 30, 2019 will revert to the General Fund.

Other Issues

FY 2016 Supplemental

The budget includes an FY 2016 supplemental appropriation of \$5,323.09 from the General Fund for unpaid claims.

Additional Legislation

Income Tax Credit Reporting Requirement

The FY 2017 Revenue BRB permanently requires the Department of Revenue to report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the amount of individual income tax credits and corporate income tax credits claimed for a given fiscal year within 3 months of the end of that fiscal year. This report was previously included as a footnote in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8), and only included individual income tax credits.

DOR Local Cost Sharing

The FY 2017 Revenue BRB continues the legislative intent statement that local fees authorized by A.R.S. § 42-5041B, do not exceed \$20,755,385 and are to be allocated between cities and towns, counties, the Maricopa Association of Governments and the Pima Association of Governments based on the prorated share of all revenues

distributed to them (excluding Highway User Revenue Fund allocations.)

Tax Amnesty

The FY 2017 Revenue BRB establishes a tax amnesty program which requires DOR to waive all penalties and interest payments for tax liabilities for tax years 2013 and before if the unpaid taxes are not under audit. Taxpayers may choose to pay off tax liabilities at once in FY 2017 or over 3 years from FY 2017 to FY 2019.

Luxury Tax Revenue Allocation

The FY 2017 Revenue BRB retroactively extends the allocation of luxury tax revenues to the Corrections Fund to July 1, 2015. Pursuant to A.R.S. § 42-3104, a portion of alcohol and tobacco revenues are deposited in the Corrections Fund. In FY 2015, the Corrections Fund received \$30.7 million from alcohol and tobacco tax revenues. The majority of Corrections Fund monies go to the Arizona Department of Corrections to offset General Fund prison spending. Without this statutory change, the luxury tax revenues that will be allocated to the Corrections Fund would have instead been distributed to the General Fund.

Tobacco Tax Stamps

The FY 2017 Revenue BRB amends the discount rate on the purchase of tobacco tax stamps from 96.0% of the face value of the stamps to 96.48%, grants an administrative allowance of 3.52 cents on tobacco tax stamps with a \$0 tax rate, grants an administrative allowance of 3.52 cents for tobacco tax stamps sold on tribal lands with a tax rate greater than \$0 if the tax payment is not precollected, and specifies that rebates on precollected payments for tax stamps sold on tribal lands shall be equal to the full face value of the stamps.

Tobacco Tax/Master Settlement Agreement

The budget continues to transfer \$436,500 from the Traditional Medicaid Services line item in AHCCCS in FY 2017 for DOR staff to help enforce the provisions of the Master Settlement Agreement. These monies are provided in a footnote in the AHCCCS budget. This transfer funds 6 FTE Positions to perform luxury tax enforcement and audit duties. The FTE Position increase is not reflected in DOR's appropriation total. *(Please see the AHCCCS section for more information regarding these transfers.)*

Private TPT Collectors

The FY 2016 Revenue BRB (Laws 2015, Chapter 10) allows DOR to hire contracted collectors to collect TPT accounts receivable in FY 2016 and FY 2017. The department may

use up to \$2.0 million of revenues collected by the contractors to pay for services rendered. DOR has decided not to hire contracted collectors. The FY 2016 budget assumed the contracted collectors would generate \$32.6 million in General Fund revenues in FY 2016 and \$13.0 million in General Fund revenues in FY 2017 (net of fees). The budgeted revenue projections have been reduced accordingly to account for this lack of revenue.

APF - Enterprise Tax System Replacement Assessment

The budget includes a fund transfer from the Liability Setoff Revolving Fund to the Automation Projects Fund in FY 2017 for vendor services to assess the replacement of DOR's tax system. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

School Facilities Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	944,400	993,600	993,600
Employee Related Expenditures	327,600	336,400	330,200
Professional and Outside Services	139,200	140,000	140,000
Travel - In State	22,900	36,000	36,000
Other Operating Expenditures	160,300	166,500	166,900
Equipment	35,200	0	0
OPERATING SUBTOTAL	1,629,600	1,672,500	1,666,700
SPECIAL LINE ITEMS			
Access Our Best Public Schools Fund Deposit	0	23,900,000	0
Access Our Best Public Schools Funding	0	23,900,000	0
Building Renewal Grants	15,128,600	31,667,900	31,667,900
New School Facilities	858,200	2,249,600	24,253,200 ^{1/2/}
New School Facilities Debt Service	160,739,300	171,109,400	170,006,600 ^{3/}
Public School Credit Enhancement Transaction Costs	0	0	500,000 ^{4/5/6/}
AGENCY TOTAL	178,355,700	254,499,400	228,094,400 ^{1/8/}
FUND SOURCES			
General Fund	178,355,700	230,599,400	228,094,400
<u>Other Appropriated Funds</u>			
Access Our Best Public Schools Fund	0	23,900,000	0
SUBTOTAL - Other Appropriated Funds	0	23,900,000	0
SUBTOTAL - Appropriated Funds	178,355,700	254,499,400	228,094,400
Other Non-Appropriated Funds	87,743,500	90,646,800	89,073,400
TOTAL - ALL SOURCES	266,099,200	345,146,200	317,167,800

AGENCY DESCRIPTION — The School Facilities Board (SFB) is composed of 9 gubernatorial appointments and the Superintendent of Education. The board administers the New School Facilities Fund, the Building Renewal Grant Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts. In addition, SFB Staff provides support to the Credit Enhancement Eligibility Board, which operates the Arizona Public School Credit Enhancement program for district and charter schools.

- 1/ Pursuant to A.R.S. § 15-2041, the amount appropriated for New School Construction shall be used only for facilities that are to be constructed for school districts that received final approval from the School Facilities Board on or before March 1, 2016. (General Appropriation Act footnote)
- 2/ If, after reviewing revised enrollment projections for a union high school district project approved on or before March 1, 2016, the School Facilities Board determines the awarded project is no longer required pursuant to the A.R.S. § 15-2041E, the sum of \$16,705,000 appropriated to the New School Facilities line item in FY 2017 shall revert to the state General Fund. The School Facilities Board may adjust the amount reverted to deduct any monies distributed to the union high school district for architectural and engineering fees, project management services and preconstruction services that were spent before the School Facilities Board's determination the awarded project is no longer required. (General Appropriation Act footnote)
- 3/ At least 30 days before any monies are transferred out of the New School Facilities Debt Service Line Item, the School Facilities Board shall report the proposed transfer to the Director of the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 4/ Laws 2016, Chapter 129 appropriated \$500,000 from the General Fund for public school credit enhancement transaction costs.
- 5/ The sum of \$500,000 is appropriated from the state General Fund in FY 2017 to the School Facilities Board for one-time funding for transaction costs associated with the Arizona Public School Credit Enhancement Program established by A.R.S. § 15-2155.
- 6/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations, except that all monies remaining unexpended and unencumbered on June 30, 2018 revert to the state General Fund.
- 7/ Pursuant to A.R.S. § 35-142.01, any reimbursement received by or allocated to the School Facilities Board under the federal Qualified School Construction Bond program in FY 2017 must be deposited in or revert to the state General Fund. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$1,666,700 and 17 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(5,800) from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations Section.)*

Access Our Best Public Schools Fund Deposit

The budget includes no funding from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit. This amount funds the following adjustments:

Eliminate Deposit

The budget includes a decrease of \$(23,900,000) from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit.

The Access Our Best Public Schools (AOBPS) Fund was created in FY 2016. The fund consisted of monies appropriated by the Legislature and grants, gifts, and donations. The fund is administered by SFB and subject to legislative appropriation, except for donations.

The FY 2017 Credit Enhancement Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 129) repealed the fund, effective September 1, 2017. *(See Additional Legislation for more information.)*

This line item reflects the deposit of General Fund monies into the AOBPS Fund, while the next line item is the appropriation of AOBPS monies out of the AOBPS Fund.

Access Our Best Public Schools Funding

The budget includes no funding from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. This amount funds the following adjustments:

AOBPS Fund Decrease

The budget includes a decrease of \$(23,900,000) from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. This adjustment corresponds to the reduced AOBPS General Fund Deposit.

The FY 2017 Credit Enhancement BRB transfers \$23,900,000 from the AOBPS Fund to the newly-established Arizona Public School Credit Enhancement Fund in FY 2017 and repeals the AOBPS Fund, effective

September 1, 2017. *(Please see Additional Legislation for more information.)*

An FY 2016 General Appropriation Act footnote and the FY 2016 K-12 Education Budget Reconciliation Bill (BRB) specified that monies in the AOBPS Fund are to be made available to public schools that are members of the Arizona Public School Achievement District for the following purposes: 1) The expansion of existing schools; 2) New school construction; or 3) Serve as the guarantor for debt financing. The FY 2016 appropriation required Joint Legislative Budget Committee (JLBC) review prior to the expenditure of any monies, and the Executive Branch is required to recommend proposed legislation to codify the process for debt financing guarantees. Statutory language for the fund (A.R.S. § 15-2042) requires at least 50% of the projects that receive monies from the fund be in low socioeconomic areas. The FY 2016 expenditure plan was never submitted to the JLBC for review.

This line item is the appropriation of AOBPS monies out of the AOBPS Fund, while the previous line item reflects the deposit of General Fund monies into the AOBPS Fund.

Building Renewal Grants

The budget includes \$31,667,900 from the General Fund in FY 2017 for Building Renewal Grants. This amount is unchanged from FY 2016.

The budget includes a supplemental one-time increase of \$15,000,000 from the General Fund in FY 2016 for Building Renewal Grants. The budget continues this one-time increase of \$15,000,000 from the General Fund in FY 2017. *(Please see Other Issues for more information.)*

The Building Renewal Grant Fund was created in FY 2009 to provide grant-based funding for building renewal projects. The fund consists of legislative appropriations and is administered by SFB.

SFB distributes monies to school districts to fund "primary" building renewal projects. SFB prioritizes the projects with emphasis given to school districts that have provided routine preventative maintenance on their facility and can provide a match of monies provided by the fund. "Primary" building renewal funding is for projects required to meet the minimum school facility adequacy guidelines.

Pursuant to A.R.S. § 15-2022, SFB is required to transfer excess funds in the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund to the extent that the transfer does not affect or disrupt any

approved new construction projects. NSF Fund revenues are derived from legislative appropriations and lease-purchase proceeds. SFB estimates the EDC Fund to have a \$0 balance at the beginning of FY 2017, absent any other changes.

The EDC Fund is used in a similar manner as the Building Renewal Grants program, where districts apply to SFB for funding to correct facilities emergencies that pose health or safety concerns. If there are insufficient monies in the EDC Fund for district requests, A.R.S. § 15-907 allows a district to levy an additional primary property tax to fund the repairs, with the approval of the respective County Board of Supervisors.

New School Facilities

The budget includes \$24,253,200 from the General Fund in FY 2017 for New School Facilities. This amount funds the following adjustments:

Agua Fria Union High School District Project

The budget includes an increase of \$16,705,000 from the General Fund in FY 2017 for additional space for grades 9-12 in the Agua Fria Union High School District (UHSD). The project is to be funded in FY 2017 and FY 2018. Agua Fria will construct a new 200,000 square foot high school with capacity for 1,600 students. The total project cost is \$33,410,000 (\$16,705,000 in FY 2017 and \$16,705,000 in FY 2018). There is no additional funding for land or site conditions.

In addition, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 155) appropriates funding for this project in FY 2018.

The budget includes footnotes reverting \$16,705,000 to the General Fund in both FY 2017 and FY 2018 if SFB determines that the awarded project for the Agua Fria Union High School District is no longer required in accordance with A.R.S. § 15-2041 based on revised enrollment projections.

Chandler Unified School District Project

The budget includes an increase of \$6,373,600 from the General Fund in FY 2017 for additional space for grades 7-12 in the Chandler Unified School District (USD). The project is to be funded in FY 2017 and FY 2018. Chandler will construct 15,420 of additional square feet, which will provide added capacity for 685 students. This is an expansion of Camille Casteel High School, which opened in fall 2015. The first phase of the school was constructed by Chandler USD using local monies. The total project cost is \$12,747,200 (\$6,373,600 in FY 2017 and

\$6,373,600 in FY 2018). There is no additional funding for land or site conditions.

In addition, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 155) appropriates funding for this project in FY 2018.

Benson Unified School District Project

The budget includes a decrease of \$(1,075,000) from the General Fund in FY 2017 for the second year of funding.

An amount of \$1,174,600 of funding in FY 2017 will continue construction of a new 17,190 square foot school with capacity for 191 students at Benson USD. The total project cost, including land and site conditions, is \$3,424,200. The project is funded as follows: FY 2016 funding of \$2,249,600, which included \$1,174,600 for construction, \$825,000 for land, and \$250,000 for site conditions; and FY 2017 funding of \$1,174,600 for construction.

Background – The New School Facilities line item provides funding for school districts to build new K-12 school facilities. The board distributes the monies to school districts as work is completed on approved projects. The amounts allocated to each school district are determined by statute. A school district qualifies for new construction funding when the current districtwide square feet per student falls below the statutory minimum. Funding is then provided to the district at a statutorily prescribed dollar amount per square foot. For individual projects, the board may modify the square footage per student or the cost per square foot under certain circumstances.

The dollar amount per square foot is adjusted annually based on a construction market index identified by the JLBC. At its December 2015 meeting, JLBC approved a 0% adjustment in the cost per square foot amounts. This inflation adjustment is based on a longitudinal measurement of construction costs since the last time the Committee adopted an adjustment. *(Please see Table 1 for FY 2017 statutory funding guidelines.)*

<u>Type of School</u>	<u>Square Feet Per Student</u>	<u>Funding Per Square Foot</u> ^{1/2/}
K-6	90	\$136.66
7-8	100	\$144.27
9-12 (<1,800 pupils)	134	\$167.05
9-12 (≥1,800 pupils)	125	\$167.05

^{1/} Increased by 5% for rural school districts.
^{2/} FY 2017 amounts. Adjusted annually for inflation.

In addition to state funding, districts can generate local funding for new school construction projects by holding a Class B bond election (A.R.S. § 15-1021). Class B bonds are designed to supplement, not supplant, funding received from SFB. Space funded with Class B bond proceeds, therefore, is generally not included in the calculation for determining if a school district qualifies for funding from the board. As of the end of FY 2015, there were \$4.5 billion of school district bonds outstanding.

New School Facilities Debt Service

The budget includes \$170,006,600 from the General Fund in FY 2017 for New School Facilities Debt Service. This amount funds the following adjustments:

Lease-Purchase Payment

The budget includes a decrease of \$(128,500) from the General Fund in FY 2017 for decreased lease-purchase payments. This reflects the variations in SFB's existing lease-purchase schedule.

Refinancing Agreement

The budget includes a decrease of \$(974,300) from the General Fund in FY 2017 due to savings from the FY 2016 refinancing agreement.

The FY 2016 K-12 Education BRB authorized SFB to enter into a refinancing agreement provided that the agreement must: 1) reduce SFB's lease-purchase payments by a combined total of at least \$7,000,000 in FY 2016 through FY 2024 and 2) not vary lease-purchase payment reduction by more than \$1,000,000 in any single fiscal year during that period. At its June 2015 meeting, the JCCR favorably reviewed a refinancing agreement, which reduced SFB's lease-purchase payments by a combined total of \$15,088,700 in FY 2016 through FY 2024. *(Please see the Other Issues for more information.)*

Background – In FY 2003 - FY 2005, FY 2008, FY 2009, and FY 2011, SFB entered into lease-purchase agreements to finance the costs of new school construction. For each agreement, SFB issued Certificates of Participation (COPs) that are typically repaid over a period of 15 years. At the end of FY 2017, the outstanding amount of General Fund lease-purchase principal to be paid will be \$624,487,700.

The FY 2017 budget includes \$9,938,100 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2017. The lease-purchase agreement associated with the QSCBs requires the state to appropriate the entire debt service amount for the payment, as opposed to deducting the expected federal subsidy from the payment. The state is

expected to receive a federal subsidy of \$3,976,500 in FY 2017 related to the lease-purchase payment.

However, this amount may be reduced by an unknown amount due to sequestration. Pursuant to A.R.S. § 35-142.01, these funds will be deposited as revenue into the state General Fund, thereby leaving a net debt service obligation of \$5,961,600.

Public School Credit Enhancement Transaction Costs

The FY 2017 Credit Enhancement BRB (Laws 2016, Chapter 129) appropriates one-time funding of \$500,000 from the General Fund in FY 2017 for Public School Credit Enhancement Transaction Costs.

The FY 2017 Credit Enhancement BRB created the Public School Credit Enhancement Program and included funding of \$500,000 from the General Fund in FY 2017 for transaction costs associated with the program. This appropriation is non-lapsing, except that all monies remaining unexpended and unencumbered on June 30, 2018 revert to the General Fund.

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- FY 2016 Ex-Appropriation
- Long-Term Budget Impacts
- K-12 Capital Bonding
- Class B Approvals
- Additional Legislation

FY 2016 Supplemental

The budget includes a one-time supplemental appropriation for \$15,000,000 from the General Fund in FY 2016 for Building Renewal Grants.

FY 2016 Ex-Appropriation

The FY 2017 budget includes a one-time ex-appropriation of \$(1,278,700) from the General Fund in FY 2016 as part of the refinancing agreement reviewed by JCCR in June 2015. *(See the New School Facilities Debt Service section above for additional information.)*

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, SFB's General Fund costs are projected to decrease by \$(16,919,500) in FY 2018 below FY 2017 and \$(58,553,100) in FY 2019 below FY 2018. These estimates are based on:

Debt Service Changes – The long-term estimates make 2 adjustments for SFB debt service: existing changes in lease-purchase payments and savings from the refinancing agreement authorized by the FY 2016 K-12 BRB.

SFB debt service is expected to decrease by \$(244,900) in FY 2018 and \$(35,474,500) in FY 2019. The significant decrease in FY 2019 is due to the retirement of a FY 2014 refinancing agreement, (which affected issuances that originally occurred during FY 2003 – FY 2005).

New School Construction – The estimates assume no additional funding will be provided for new school facilities beyond the Agua Fria UHSD 9-12 space and the Chandler USD 7-12 space. In FY 2018, new school construction spending would decline by \$(1,174,600) with the completion of the Benson USD project. In FY 2019, new school construction spending would then decline by \$(23,078,600) with the completion of the Agua Fria UHSD and Chandler USD projects.

Long-term budget estimates are subject to change depending on SFB's future awards of new school construction.

The Building Renewal Grants line item is expected to decrease by \$(15,000,000) in FY 2018 due to the removal of one-time funding. Funding will remain unchanged in FY 2019.

Public School Credit Enhancement Transaction Costs line item is expected to decrease by \$(500,000) in FY 2018 due to the removal of one-time funding. Funding will remain unchanged in FY 2019.

K-12 Capital Bonding

A.R.S. § 15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation to be paid for with local property tax revenues. Article IX, Sections 8 and 8.1 of the Arizona Constitution limit non-unified and unified school district bonded indebtedness to no more than 15% or 30% of the district's assessed valuation, respectively.

However, A.R.S. § 15-1021 sets statutory limits below the constitutional limits for "Class B" bonds (for those issued after December 31, 1999). School district Class B bonding is limited to 10% and 20% of property values for non-unified and unified districts, respectively.

The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4, which include new construction, building renovations, furniture, equipment, technology, and pupil transportation vehicles. In addition, bonds issued for furniture, equipment and technology have a maximum maturity of 5 years.

As of the end of FY 2015, 128 school districts have outstanding voter-approved bonds. The total amount of voter-approved bonds outstanding at the end of FY 2015 was approximately \$4.5 billion.

Class B Bond Approvals

A.R.S. § 15-2002 requires each school district to report Class B bond approvals to SFB by December 1 of each year and requires SFB to annually report to JLBC by December 31 on all Class B bond approvals by school districts in that year. SFB submitted its annual report to JLBC on December 31, 2015. However, due to a lack of school district reporting, the data contained in the SFB submission was incomplete. Based on JLBC Staff estimates, there were 14 districts with Class B bond approvals in 2015 for a total of \$937.1 million.

Additional Legislation

New School Funding Reimbursement

The K-12 Education BRB (Laws 2016, Chapter 124) allows a district to use SFB New School Facilities Funding to reimburse itself for SFB-approved new construction that the district funded initially with non-SFB monies. This applies only to monies appropriated to the SFB for New School Facilities during FY 2017 and FY 2018.

Public School Credit Enhancement Program

The Credit Enhancement BRB creates the Arizona Public School Credit Enhancement Program. The program is established to assist achievement district schools in obtaining financing by guaranteeing the payment of principal and interest.

The Credit Enhancement BRB:

- Defines program eligibility for traditional district schools and charter schools. Requires an "A" letter grade, sound financial plan, and verifiable enrollment demand.

- Creates the Credit Enhancement Eligibility Board to approve school applications and operate the program. The board consists of the Governor, the Treasurer, and the ADOA Director.
- Directs SFB to provide staff to support the board.
- Creates the Arizona Public School Credit Enhancement Fund, which may be used to make payments of principal and interest on guaranteed financing of achievement district schools.
- Transfers \$23,900,000 from the Access Our Best Public Schools Fund to the Arizona Public School Credit Enhancement Fund during FY 2017.
- Allows the Credit Enhancement Board to use \$80,000,000 of program funding obligations (PFOs) from the Treasurer's operating fund balance for deposit in the Arizona Public School Credit Enhancement Fund. PFOs are to be sold by the board to the State Treasurer in order to allow the State Treasurer to earn interest on the operating balance monies deposited into the Credit Enhancement Fund.
- Requires SFB Staff, in collaboration with the board, to submit a quarterly report on the implementation of the program, including details on program participation, guaranteed financings, and any delinquent financings.

Adjacent Ways Verification

Laws 2016, Chapter 48 requires SFB to validate adjacent ways projects that cost greater than \$50,000 before a school district makes an adjacent ways expenditure.

Laws 2016, Chapter 48:

- Requires SFB to validate the following:
 - The project proposed is in compliance with state laws relating to adjacent ways projects; and
 - The proposal selected by the school district does not contain additional work that is not listed in the adjacent ways proposal submitted by the school district.
- Requires each adjacent ways project proposal funded through an adjacent ways property tax assessment to be filed with SFB and include the project cost estimate.
- Requires the school district to include expenditures from the Adjacent Ways Fund in their annual financial report.

Department of State - Secretary of State

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	141.1	141.1	141.1 ^{1/}
Personal Services	4,910,500	4,568,800	5,282,100
Employee Related Expenditures	2,203,500	1,985,400	2,269,100
Professional and Outside Services	218,400	228,800	228,800
Travel - In State	9,800	8,400	8,400
Travel - Out of State	32,500	31,300	31,300
Other Operating Expenditures	3,581,700	3,650,200	4,368,200
Equipment	41,500	100,800	100,800
OPERATING SUBTOTAL	10,997,900	10,573,700	12,288,700 ^{2/}
SPECIAL LINE ITEMS			
Election Services	3,537,500	10,556,400 ^{3/}	2,672,500 ^{4/5/}
Help America Vote Act (HAVA)	1,714,600	2,941,500	2,941,100 ^{6/7/}
Special Election	0	9,300,000 ^{8/}	0
Library Grants-in-Aid	530,000	651,400	651,400 ^{9/}
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
AGENCY TOTAL	16,877,000	34,120,000	18,650,700 ^{10/}
FUND SOURCES			
General Fund	14,468,900	30,436,500	14,969,200
<u>Other Appropriated Funds</u>			
Election Systems Improvement Fund	1,714,600	2,941,500	2,941,100
Records Services Fund	693,500	742,000	740,400
SUBTOTAL - Other Appropriated Funds	2,408,100	3,683,500	3,681,500
SUBTOTAL - Appropriated Funds	16,877,000	34,120,000	18,650,700
Other Non-Appropriated Funds	644,000	1,251,000	1,251,000
Federal Funds	2,783,500	3,727,700	3,727,700
TOTAL - ALL SOURCES	20,304,500	39,098,700	23,629,400

1/ Includes 10 GF FTE Positions funded from Special Line Items in FY 2017.

2/ Included in the operating lump sum appropriation of \$12,288,700 for FY 2017 is \$5,000 for the purchase of mementos and items for visiting officials. (General Appropriation Act footnote, as adjusted for statewide allocations and JLBC reviewed transfer of monies from the Election Services line item to the SOS operating budget)

3/ The General Appropriation Act includes an FY 2016 supplemental appropriation of \$6,130,000 from the General Fund for reimbursing county elections divisions for the expenses incurred for the administration of the 2016 Presidential Preference Election. The General Appropriation Act requires a county to be reimbursed in the amount of actual expenses, subject to several limits. (See FY 2016 Supplemental section for more information.)

4/ Any transfer to or from the amount appropriated for the Election Services line item requires review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

5/ All monies in the Election Services line item shall be used only to pay for the statewide election publicity pamphlet and as pass-through monies to county election divisions for the reimbursement of the costs of elections. (General Appropriation Act footnote)

6/ The FY 2017 appropriation from the Election Systems Improvement Fund for the Help America Vote Act is available for use pursuant to A.R.S. § 35-143.01C and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, until June 30, 2018. (General Appropriation Act footnote)

7/ The Secretary of State shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before December 31, 2016 the actual amount and purpose of expenditures from the Election Systems Improvement Fund established by A.R.S. § 41-129 in FY 2016 and the expected amount and purpose of expenditures from the fund for FY 2017. (General Appropriation Act footnote)

8/ This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Laws 2015, 1st Special Session, Chapter 2, as amended by Laws 2016, Chapter 3)

9/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

10/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

AGENCY DESCRIPTION — The Secretary of State is an elected Constitutional Officer. The Department of State is responsible for recordings and filings under the Uniform Commercial Code (U.C.C.); coordinating statewide elections; receiving required filings from legislators, state officials, judges, candidates for office, campaign committees, and lobbyists; receiving filings of administrative rules, intergovernmental agency agreements, and official executive orders/proclamations; registering trade names, trademarks and limited partnerships; appointing notaries public; and certifying certain telemarketing and charitable solicitation organizations. In addition, the Department of State is the archival authority and designated repository for historical records and documents of state and local governments, as well as a designated federal document regional repository.

Operating Budget

The budget includes \$12,288,700 and 131.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$11,548,300
Record Services Fund	740,400

These amounts fund the following adjustments:

Elections Staff Operating Budget Shift

The budget includes an increase of \$1,035,600 from the General Fund in FY 2017 and a corresponding decrease to the Election Services line item to shift the Personal Services and Employee Related Expenditures of permanent Elections Division staff to the SOS operating budget from the Election Services line item. There is no net change in agency resources.

Elections Activities Funding Transfer

The budget includes an increase of \$712,000 from the General Fund in FY 2017 and a corresponding decrease to the Election Services line item to pay for elections activities not included in the Election Service line item restriction footnote (see Footnote 5). This transfer was favorably reviewed at the June 16, 2016 Joint Legislative Budget Committee meeting. There is no net change in agency resources.

Statewide Adjustments

The budget includes a decrease of \$(32,600) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(31,000)
Record Services Fund	(1,600)

(Please see the Agency Detail and Allocations section.)

Election Services

The budget includes \$2,672,500 and 10 FTE Positions from the General Fund in FY 2017 for Election Services. These amounts fund the following adjustments:

Elections Staff Operating Budget Shift

The budget includes a decrease of \$(1,035,600) from the General Fund in FY 2017 and a corresponding increase to the SOS operating budget to shift the Personal Services and Employee Related Expenditures of permanent Elections Division staff to the SOS operating budget from the Election Services line item. There is no net change in agency resources.

Elections Activities Funding Transfer

The budget includes a decrease of \$(712,000) from the General Fund in FY 2017 from the Election Services line item and a corresponding increase to the SOS operating budget to pay for elections activities not included in the Election Service line item restriction footnote. This transfer was favorably reviewed at the June 16, 2016 Joint Legislative Budget Committee meeting. There is no net change in agency resources.

Remove PPE Supplemental Appropriation

The budget includes a decrease of \$(6,130,000) from the General Fund in FY 2017 for removing the one-time reimbursement supplemental costs of the March 22, 2016 Presidential Preference Election (PPE). *(Please see the Other Issues section for more information on PPE Elections and the FY 2016 Supplemental Appropriation.)*

Statewide Adjustments

The budget includes a decrease of \$(6,300) from the General Fund in FY 2017 for statewide adjustments.

This line item funds election-related activities, including voter registration and the certification of candidates, voting devices and the results of statewide elections. Funding is also used to publish the publicity pamphlet on state ballot propositions.

For traditional state elections, statute requires the Secretary of State (SOS) to: 1) reimburse counties for the costs of printing, labeling, and postage for sample ballots; 2) pay the cost of any recount of votes; 3) reimburse the County Recorder for the costs of certifying petition and referendum signatures; and 4) print and mail a publicity pamphlet to every household with a registered voter for any initiative or referendum.

For FY 2017, this line item includes funding for the Primary Election to be held on August 30, 2016 and General Election to be held on November 8, 2016 in FY 2017.

The FY 2017 budget included a new footnote, which limited funding in the Election Services line item to be used only to pay for the statewide election publicity pamphlet and as pass-through monies to county election divisions for the reimbursement of the costs of elections. Use of the line item for elections activities beyond the statewide publicity pamphlet and reimbursement to counties requires review by the Joint Legislative Budget Committee.

Because the footnote did not include certain election activities that had historically been funded from the line item, SOS requested to transfer funds from the line item for FY 2017. A transfer of \$712,000 from the General Fund from the Election Services line item to the SOS operating budget for 10 such elections activities was favorably reviewed by the Joint Legislative Budget Committee at its June 2016 meeting.

(Please see the Other Issues section for more information on PPE Elections, the FY 2016 Supplemental, and FY 2016 Election Services Line Item Changes.)

Help America Vote Act (HAVA)

The budget includes \$2,941,100 from the Election Systems Improvement Fund in FY 2017 for the Help America Vote Act (HAVA) (P.L. 107-252). This amount funds the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(400) from the Election Systems Improvement Fund in FY 2017 for statewide adjustments.

HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections. Assuming the Secretary of State spends the full \$2.9 million appropriation in FY 2016, approximately \$2.6 million in HAVA monies would be available in FY 2017, with no funding available for FY 2018.

Special Election

The budget includes no funding from the General Fund in FY 2017 for a statewide special election. This amount funds the following adjustments:

Special Election

The budget includes a decrease of \$(9,300,000) from the General Fund in FY 2017 for the one-time costs of the May 17, 2016 special election.

Laws 2015, 1st Special Session, Chapter 2 as amended by Laws 2016, Chapter 3, appropriated \$9,300,000 from the General Fund to pay for a statewide special election in FY 2016. Chapter 2 requires that a special election be held on May 17, 2016 to consider: 1) Proposition 123, a constitutional amendment to provide for increased State Land Trust distributions and other changes relating to education finance as proposed in HCR 2001; and 2) Proposition 124, a constitutional amendment to allow the Legislature to change the Public Safety Personnel Retirement System from a permanent benefit increase structure to a compounding annual cost of living adjustment. This appropriation for the special election is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Library Grants-in-Aid

The budget includes \$651,400 from the General Fund in FY 2017 for Library Grants-in-Aid. This amount is unchanged from FY 2016.

Monies in this line item are used to fund a portion of the state maintenance of effort that is required for receipt of federal dollars under the Library Services and Technology Act (LSTA). Receipt of LSTA monies is dependent on the state's ability to meet a maintenance-of-effort requirement, which is tied to the state contribution made in each of the 3 prior years.

Statewide Radio Reading Service for the Blind

The budget includes \$97,000 from the General Fund in FY 2017 for Statewide Radio Reading Service for the Blind. This amount is unchanged from FY 2016.

These monies are used to provide information access services for blind and visually impaired individuals. Services include radio information broadcasts, a telephone and web-based news reading service, and internet radio broadcasting for individuals who are outside the range of the radio broadcast.

Other Issues

Presidential Preference Election

Prior to 2012, A.R.S. § 16-250 required the Secretary of State to reimburse counties at a rate of \$1.25 per active registered voter in that county on January 1 of the PPE year. Laws 2012, Chapter 361 required the Secretary of State to reimburse counties for 100% of the costs incurred for each PPE. PPE elections differ from all-mail and traditional elections in that they have a separate ballot for each recognized political party and no other election may appear on the PPE ballot.

The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12) repealed the 100% reimbursement rate established in Laws 2012, Chapter 361 and returned the reimbursement rate to \$1.25 per active registered voter, the rate established in statute prior to Laws 2012, Chapter 361. For the 2016 PPE, however, the Legislature elected to provide a one-time appropriation to counties at a higher reimbursement rate. (See FY 2016 Supplemental section for more information.)

FY 2016 Supplemental

The budget includes an FY 2016 supplemental appropriation of \$6,130,000 from the General Fund for reimbursing county elections divisions for the expenses incurred for the administration of the 2016 Presidential Preference Election. The budget requires a county to be reimbursed in the amount of actual expenses, subject to the following limits:

- Counties with an active voter registration as of January 1, 2016 of 450,000 or more to be reimbursed at a rate of \$2.50 per active registered voter or at the estimated cost provided to SOS before October 30, 2015, whichever is less;
- Counties with an active voter registration of between 35,000 and 450,000 at a rate of \$3.00 or at the estimated cost provided to SOS before October 30, 2015, whichever is less;
- Counties with an active voter registration of less than 35,000 at a rate of \$3.50; or at the estimated cost provided to SOS before October 30, 2015, whichever is less.

The supplemental appropriation (Laws 2016, Chapter 117, Section 125) also required the following:

- SOS may not reimburse for regular pay and employer related expenses for permanent county employees or maintenance of infrastructure, machinery and equipment.

- SOS may only reimburse for costs prescribed in the Accounting Manual issued by the Department of Administration General Accounting Office in effect on January 1, 2016
- SOS is required to submit a report on the reimbursements to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting by October 1, 2016 on the PPE reimbursements.

In addition, the budget includes an intent clause stating that the appropriation and reimbursement rates for the 2016 PPE do not set a precedent that the costs of administering any process to select party nominees for a presidential election held after March 22, 2016 will be reimbursed by the state at any particular level.

FY 2016 Changes to the Election Services Line Item

In FY 2016, the Election Services line item includes \$1,035,600 from the General Fund for the Personal Services and Employee Related Expenditures of SOS Elections staff.

In FY 2016, SOS chose to use this line item to fund upgrades to and replacement of the Election Management and Election Night Reporting Systems and the Campaign Finance Database. SOS uses the Election Management System to track candidate and other information as required and the Election Night Reporting System is the publically accessible vote counting system available for each election. Updates to these systems are projected to cost \$772,300 and be available by the fall 2016 elections in FY 2017.

The Campaign Finance Database will be used to track campaign contributions for state, county, and local elections. The Campaign Finance Database is projected to cost \$490,000 and will be completed during FY 2016. Both the Elections Systems and Campaign Finance database will include ongoing maintenance costs beyond FY 2016.

The total cost for staff and automation projects during FY 2016 is \$1,739,100, leaving \$2,687,300 for the PPE.

In total, PPE costs of the \$1.25 reimbursement to counties and state level expenditures were expected to be \$4,877,900. This compares to the \$2,687,300 of remaining funds for the PPE from the Election Services line item, for a shortfall of \$2,190,600. However, the Legislature elected to provide a one-time appropriation to counties at a higher reimbursement rate to fully reimburse counties for PPE costs at a cost of \$6,130,000. (See FY 2016 Supplemental section for more information.)

State Boards' Office

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	0.0
Personal Services	70,000	132,900	0
Employee Related Expenditures	30,900	46,500	0
Professional and Outside Services	10,400	1,100	0
Other Operating Expenditures	43,300	35,300	0
Equipment	200	0	0
AGENCY TOTAL	154,800	215,800	0
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Special Services Revolving Fund	154,800	215,800	0
SUBTOTAL - Other Appropriated Funds	154,800	215,800	0
SUBTOTAL - Appropriated Funds	154,800	215,800	0
TOTAL - ALL SOURCES	154,800	215,800	0

AGENCY DESCRIPTION — The office serves to centralize services and pool resources of small regulatory boards. Examples of shared items include office space and equipment, as well as accounting, clerical, administrative, and telephone services. The office is under the Management Services Division of the Arizona Department of Administration, but is supported by transfers of appropriated funds from the participating boards.

Operating Budget

The budget includes no funding from the Special Services Revolving Fund in FY 2017 for the operating budget. This amount funds the following adjustments:

Agency Consolidation

The budget includes a decrease of \$(215,800) from the Special Services Revolving Fund in FY 2017 to consolidate the State Boards' Office and the Arizona Department of Administration Central Services Bureau.

Other Issues

Additional Legislation

Agency Consolidation

The Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128) merges the State Boards' Office with the Arizona Department of Administration (ADOA) Central Services Bureau. It also designates the ADOA Central Services Bureau allocation in the Special Services Revolving Fund as an appropriated fund source. *(Please see the ADOA narrative for more information.)*

State Board of Tax Appeals

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4.0	4.0	4.0
Personal Services	170,500	179,000	179,000
Employee Related Expenditures	48,700	44,600	44,600
Travel - In State	300	400	400
Other Operating Expenditures	41,600	42,400	42,600
Equipment	2,800	0	0
AGENCY TOTAL	263,900	266,400	266,600^{1/}
FUND SOURCES			
General Fund	263,900	266,400	266,600
SUBTOTAL - Appropriated Funds	263,900	266,400	266,600
TOTAL - ALL SOURCES	263,900	266,400	266,600

AGENCY DESCRIPTION — The board consists of 3 members appointed by the Governor. The board provides an independent appeals process for taxpayers with disputes relating to income, sales, use, estate, and luxury tax decisions from the Department of Revenue and resolves jurisdictional disputes between municipalities regarding the imposition of transaction privilege and use taxes.

Operating Budget

The budget includes \$266,600 and 4 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 from the General Fund in FY 2017 for statewide adjustments. *(Please see Agency Detail and Allocations section.)*

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

State Board of Technical Registration

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.0	25.0	25.0
Personal Services	909,200	987,700	987,700
Employee Related Expenditures	386,100	410,200	402,000
Professional and Outside Services	127,600	309,100	1,109,100
Travel - In State	5,000	5,000	5,000
Travel - Out of State	13,100	13,100	13,100
Other Operating Expenditures	398,800	397,500	399,500
Equipment	4,600	0	0
AGENCY TOTAL	1,844,400	2,122,600	2,916,400^{1/2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Technical Registration Fund	1,844,400	2,122,600	2,916,400
SUBTOTAL - Other Appropriated Funds	1,844,400	2,122,600	2,916,400
SUBTOTAL - Appropriated Funds	1,844,400	2,122,600	2,916,400
Other Non-Appropriated Funds	16,300	20,400	20,400
TOTAL - ALL SOURCES	1,860,700	2,143,000	2,936,800

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of architects, engineers, geologists, home inspectors, land surveyors, and landscape architects.

Operating Budget

The budget includes \$2,916,400 and 25 FTE Positions from the Technical Registration Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

E-Licensing and Case Management System

The budget includes a one-time increase of \$800,000 from the Technical Registration Fund in FY 2017 for e-licensing and case management system. Monies from this appropriation will be used for the development and transfer of data to the agency's e-licensing database system to allow for on-line registration and payment. (Please see General Appropriation Act footnote.)

Statewide Adjustments

The budget includes a decrease of \$(6,200) from the Technical Registration Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Additional Legislation

Elimination of Registration for Assayers and Drug Laboratory Site Remediation Firms

Laws 2016, Chapter 352 eliminates the requirement for assayers and drug laboratory site remediation firms to be professionally registered with the Board of Technical Registration. Chapter 352 also transfers all unexpended and unencumbered monies attributable to drug laboratory site remediation firm registration fees from the Technical Registration Fund to the Hazardous Waste Management Fund. Revenue from fees relating to drug laboratory site remediation firm registration totaled \$93,500 in FY 2015. (Please see the Department of Environmental Quality for more information.)

Geologist Registration

Laws 2016, Chapter 371 makes professional registration with the Board of Technical Registration optional for geologists.

^{1/} The appropriation includes \$800,000 for an e-licensing and case management system. Before the expenditure of these monies, the State Board of Technical Registration shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Office of Tourism

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	28.0	28.0	28.0
Personal Services	1,362,200	1,776,300	1,776,300
Employee Related Expenditures	509,500	701,300	701,300
Professional and Outside Services	3,706,300	2,539,100	2,539,100
Travel - In State	8,600	12,500	12,500
Travel - Out of State	82,300	100,000	100,000
Other Operating Expenditures	1,409,600	1,979,800	1,981,400
Equipment	25,200	1,400	1,400
OPERATING SUBTOTAL	7,103,700	7,110,400	7,112,000
SPECIAL LINE ITEMS			
Arizona Promotion	2,000,000	0	0
AGENCY TOTAL	9,103,700	7,110,400	7,112,000^{1/}
FUND SOURCES			
General Fund	9,103,700	7,110,400	7,112,000
SUBTOTAL - Appropriated Funds	9,103,700	7,110,400	7,112,000
Other Non-Appropriated Funds	15,606,600	13,779,000	13,779,000
TOTAL - ALL SOURCES	24,710,300	20,889,400	20,891,000

AGENCY DESCRIPTION — The office is responsible for promoting tourism within the state, which includes planning and developing an information campaign, advertising, exhibitions, and operating a visitors' center. The agency receives a transfer from the Arizona Sports and Tourism Authority (AZSTA), a portion of tribal gaming contributions, and General Fund appropriations to the Tourism Fund.

Operating Budget

The budget includes \$7,112,000 and 28 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,600 from the General Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Other Issues

Funding Sources

The Office of Tourism receives funding from 3 primary sources: 1) a General Fund appropriation to fund the agency's operating budget; 2) a transfer from AZSTA, generated from partial allocations of a bed tax and car rental tax in Maricopa County (A.R.S. § 5-835), to fund

Maricopa County tourism promotion; and 3) a portion of tribal gaming contributions (A.R.S. § 5-601.02) to fund statewide tourism promotion. (For further details on agency revenues, please see Table 1.)

Additional Legislation

Special Sporting Event Promotion

Laws 2016, Chapter 366 provides an annual General Fund appropriation of \$1,500,000 from FY 2022 through FY 2051 to the State Treasurer for distribution to the Office of Tourism if certain conditions are met. The funds are to be used to promote an auto racing sporting event. Prior to the release of any monies, between December 31, 2016 and December 31, 2020, the eligible auto racing sporting event must spend at least \$100,000,000 on land acquisitions, construction, improvements, or renovations of their facilities. Once these investments are made, the bill requires the eligible auto racing sporting event to receive JLBC certification of their expenditures. After certification is received, the Treasurer is then

^{1/} General Appropriation Act funds are appropriated as a Lump Sum in the form of a deposit to the Tourism Fund.

appropriated \$1,500,000 in General Fund monies annually for distribution to the Office of Tourism from FY 2022 through FY 2051, or a total General Fund cost of \$45,000,000.

Additionally, the bill requires the Office of Tourism to provide an annual report on or before October 1 to the JLBC that includes the amounts and purposes of all expenditures made from these monies in the previous fiscal year. *(Please see the State Treasurer narrative for more information.)*

Office of Tourism Revenues ^{1/}				
<u>Sources of Funding</u>	<u>Fund</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
<u>General Fund Appropriation</u>				
• General Fund appropriation to be used administering the Office of Tourism and promoting tourism	General Fund	\$9,103,700	\$7,110,400	\$7,112,000
<u>Sports and Tourism Authority</u>				
• Partial allocation of 1% of bed tax and 3.25% car rental tax (Prop. 302 - 2000)	Tourism Fund	7,553,100	7,479,000	8,350,400
<u>Tribal Gaming</u>				
• 8% of state's share of gaming proceeds, after distribution to Department of Gaming (Prop. 202 - 2002)	Tourism Fund	<u>6,292,500</u>	<u>6,501,400 ^{2/}</u>	<u>6,631,400 ^{2/}</u>
Total		\$22,949,300	\$21,090,800	\$22,093,800

^{1/} The numbers displayed represent revenues to the agency and may not correspond directly with the agencies' actual expenditure or appropriation amounts.

^{2/} The Tribal Gaming amounts for FY 2016 and FY 2017 are JLBC estimates.

Department of Transportation

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,548.0	4,548.0	4,552.0 ^{1/}
Personal Services	99,780,600	106,835,400	106,976,500
Employee Related Expenditures	45,780,000	47,928,900	46,481,700
Professional and Outside Services	6,030,700	5,781,000	5,100,500
Travel - In State	644,800	643,000	649,100
Travel - Out of State	176,600	177,000	177,000
Other Operating Expenditures	45,666,600	40,636,400	40,937,600
Equipment	4,679,200	3,694,000	3,695,400
OPERATING SUBTOTAL	202,758,500	205,695,700	204,017,800
SPECIAL LINE ITEMS			
Attorney General Legal Services	2,895,600	2,895,600	3,577,700
Fraud Investigation	766,600	767,000	767,000
Highway Maintenance	135,915,000	138,882,700	140,593,200 ^{2/}
New Third Party Funding	570,600	631,800	629,600
Phoenix Area Freeway Lighting	0	0	1,500,000
Statewide Drainage Structures	0	0	4,300,000
Vehicles and Heavy Equipment	18,507,000	18,545,500	18,474,600
AGENCY TOTAL	361,413,300	367,418,300	373,859,900^{3/-10/}
FUND SOURCES			
General Fund	900	50,400	50,400
<u>Other Appropriated Funds</u>			
Air Quality Fund	67,900	74,200	161,700
Driving Under the Influence Abatement Fund	88,500	153,200	152,200
Highway User Revenue Fund	528,900	652,700	649,700
Motor Vehicle Liability Insurance Enforcement Fund	1,690,700	1,082,600	1,308,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,878,700	1,875,500	1,868,300
State Aviation Fund	1,623,500	1,622,900	1,615,800
State Highway Fund	335,576,400	341,903,200	348,128,300
Transportation Department Equipment Fund	18,507,000	18,545,500	18,474,600
Vehicle Inspection and Certificate of Title Enforcement Fund	1,450,800	1,458,100	1,450,200
SUBTOTAL - Other Appropriated Funds	361,412,400	367,367,900	373,809,500
SUBTOTAL - Appropriated Funds	361,413,300	367,418,300	373,859,900
Other Non-Appropriated Funds	52,736,100	107,448,800	107,448,800
Federal Funds	1,827,800	1,441,000	1,441,000
TOTAL - ALL SOURCES	415,977,200	476,308,100	482,749,700

1/ Includes 1,162 OF FTE Positions funded from Special Line Items in FY 2017.

2/ Of the total amount appropriated, \$140,593,200 in FY 2017 for Highway Maintenance is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, except that all unexpended and unencumbered monies of the appropriation revert to their fund of origin, either the State Highway Fund established by A.R.S. § 28-6991 or the Safety Enforcement and Transportation Infrastructure Fund established by A.R.S. § 28-6547, on August 31, 2017. (General Appropriation Act footnote)

3/ It is the intent of the Legislature that the department not include any administrative overhead expenditures in duplicate driver license fees charged to the public. (General Appropriation Act footnote)

4/ Of the total amount appropriated, the Department of Transportation shall pay \$16,773,800 in FY 2017 from all funds to the Department of Administration for its Risk Management payment. (General Appropriation Act footnote)

5/ The Department of Transportation shall submit an annual report to the Joint Legislative Budget Committee on progress in improving Motor Vehicle Division wait times and vehicle registration renewal by mail turnaround times in a format similar to prior years. The report is due on or before July 31, 2017 for FY 2017. (General Appropriation Act footnote)

AGENCY DESCRIPTION — The Department of Transportation (ADOT) has jurisdiction over state roads, state airports, and the registration of motor vehicles and aircraft.

Operating Budget

The budget includes \$204,017,800 and 3,390 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$50,400
Air Quality Fund	161,700
Driving Under the Influence Abatement Fund	152,200
Highway User Revenue Fund	452,600
Motor Vehicle Liability Insurance Enforcement Fund	1,209,800
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	1,308,300
State Aviation Fund	1,615,800
State Highway Fund	197,703,900
Vehicle Inspection and Certificate of Title Enforcement Fund	1,363,100

These amounts fund the following adjustments:

Light Rail Oversight

The budget includes an increase of \$88,000 from the Air Quality Fund in FY 2017 for the rail transit state safety oversight grant match. A federal code change prohibits Valley Metro from continuing to provide the state match for the program. The Government Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 121) allows ADOT to review, approve, oversee and enforce federal light rail requirements.

Vehicle for Hire Program

The budget includes an increase of \$233,500 and 4 FTE Positions from the Motor Vehicle Liability Insurance Enforcement Fund in FY 2017 to transfer the regulation of taxis, limousines and livery vehicles from the defunct Department of Weights and Measures to ADOT, pursuant

to Laws 2015, Chapter 244. *(Please see the Other Issues section for more information on the Weights and Measures Division.)*

Attorney General Consolidation

The budget includes a decrease of \$(682,100) from the State Highway Fund in FY 2017 to shift funding from the operating budget to the Attorney General Legal Services line item, consolidating all Attorney General resources into a single line item. There is no net change in agency resources.

One-Time Named Claimants Funding

The budget includes a decrease of \$(3,487) from the State Highway Fund in FY 2017 for the elimination of one-time funding of prior year unpaid claims. *(Please see the Named Claimants discussion in ADOA Other Issues.)*

Statewide Adjustments

The budget includes a decrease of \$(1,313,800) in FY 2017 for statewide adjustments. This amount consists of:

Air Quality Fund	(500)
Driving Under the Influence Abatement Fund	(1,000)
Highway User Revenue Fund	(1,400)
Motor Vehicle Liability Insurance Enforcement Fund	(6,800)
Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	(7,200)
State Aviation Fund	(7,100)
State Highway Fund	(1,281,900)
Vehicle Inspection and Certificate of Title Enforcement Fund	(7,900)

(Please see the Agency Detail and Allocations section.)

- 6/ The Department of Transportation shall contract with an independent third-party consultant for the duration of the Motor Vehicle Division legacy system replacement project. On or before February 1, 2017, the independent third-party consultant shall submit an annual progress report for review by the Joint Legislative Budget Committee. The annual report shall evaluate and assess the project's success in meeting and incorporating the tenets of the project investment justification, including the goals and objectives, technology approach, deliverables and outcomes, project scope and timeline. The report shall also address any potential project deficiencies as well as the incorporation of the Auditor General's April 2015 recommendations. (General Appropriation Act footnote)
- 7/ On or before July 31, 2017, the department shall report to the Director of the Joint Legislative Budget Committee on the cost to link local governments, state agencies and other users with the new Motor Vehicle Division automated system. (General Appropriation Act footnote)
- 8/ On or before August 1, 2016, the department shall report to the Director of the Joint Legislative Budget Committee on the state's share of fees retained by the Service Arizona vendor in the prior fiscal year. The report shall also include the amount spent by the Service Arizona vendor on behalf of the state in the prior fiscal year, as well as a list of the projects funded with those monies. (General Appropriation Act footnote)
- 9/ All expenditures made by the Department of Transportation for Attorney General Legal Services shall be funded only from the Attorney General Legal Services line item. Monies in Department of Transportation line items intended for this purpose shall be transferred to the Attorney General Legal Services line item before expenditure. (General Appropriation Act footnote)
- 10/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Attorney General Legal Services

The budget includes \$3,577,700 from the State Highway Fund in FY 2017 for Attorney General Legal Services. This amount funds the following adjustments:

Attorney General Consolidation

The budget includes an increase of \$682,100 from the State Highway Fund in FY 2017 to shift funding from the operating budget to the Attorney General Legal Services line item, consolidating all Attorney General resources into a single line item. There is no net change in agency resources. This policy issue is consistent with a new General Appropriation Act footnote requiring all Attorney General expenditures be made from the Attorney General line item. (See footnote 9.)

Monies in this line item reimburse the Attorney General for costs of providing legal services to the department, such as litigating cases, reviewing legal documents and proposed administrative rules, and issuing legal opinions.

Fraud Investigation

The budget includes \$767,000 and 10 FTE Positions from the State Highway Fund in FY 2017 for Fraud Investigation. These amounts are unchanged from FY 2016.

Monies in this line item are used for investigation of fraudulent driver licenses and motor vehicle documents.

Highway Maintenance

The budget includes \$140,593,200 and 932 FTE Positions in FY 2017 for Highway Maintenance. These amounts consist of:

Safety Enforcement and Transportation Infrastructure Fund - Department of Transportation Subaccount	560,000
State Highway Fund	140,033,200

These amounts fund the following adjustments:

Highway Maintenance Workload

The budget includes an increase of \$1,710,500 from the State Highway Fund in FY 2017 to maintain and operate 149 new lane miles.

In addition to the \$140,593,200 included for Highway Maintenance, the Proposition 400 Maricopa County half-cent sales tax extension makes another \$13,100,000 available in FY 2017 for landscape maintenance, trash

pick-up, sweeping, and litter education from the non-appropriated Maricopa Regional Area Road Fund.

Monies in this line item are used to maintain the state highway system, including pavements, bridges, landscaping, drainage, signals, lights, fences, signs, striping, and snow removal. The monies also fund the freeway management system and the traffic operations center.

New Third-Party Funding

The budget includes \$629,600 and 20 FTE Positions in FY 2017 for New Third-Party Funding. These amounts consist of:

Highway User Revenue Fund	197,100
Motor Vehicle Liability Insurance Enforcement Fund	98,900
State Highway Fund	246,500
Vehicle Inspection and Certificate of Title Enforcement Fund	87,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,200) in FY 2017 for statewide adjustments. This amount consists of:

Highway User Revenue Fund	(1,600)
Motor Vehicle Liability Insurance Enforcement Fund	(600)

Monies in this line item provide funding to review authorized third-party transactions for accuracy. The funding also provides support for authorized third-parties, which allow customers to receive Motor Vehicle Division services at non-ADOT locations.

Phoenix Area Freeway Lighting

The budget includes \$1,500,000 from the State Highway Fund in FY 2017 for Phoenix area freeway lighting to relamp 3,500 fixtures.

Monies in this line item fund the maintenance of approximately 15,000 freeway lights in the Phoenix Metropolitan area. Due to wire theft, system aging, system expansion and other factors, an estimated 22% of freeway lights in Phoenix were inoperable in FY 2013.

Statewide Drainage Structures

The budget includes \$4,300,000 from the State Highway Fund in FY 2017 for statewide drainage structures.

Monies in this line item fund the removal of silt in pipes, culverts and drainage structures. Drainage structures prevent flooding and degradation of the state highway system. In FY 2017, the funding will be used to hydro-vacuum 3,147 culverts and pipes and add lining to 1,024 corroded pipes.

Vehicles and Heavy Equipment

The budget includes \$18,474,600 and 200 FTE Positions from the Transportation Department Equipment Fund in FY 2017 for Vehicles and Heavy Equipment. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(70,900) from the Transportation Department Equipment Fund in FY 2017 for statewide adjustments.

Monies in this line item allow the department to maintain and replace the department's fleet and perform motor pool services for other state agencies.

Other Issues

Fund Transfers

The budget includes a FY 2017 transfer of \$1,100,000 from the Motor Vehicle Liability Insurance Enforcement Fund to the Safety Enforcement and Transportation Infrastructure Fund. This transfer resolves a shortfall in the Safety Enforcement and Transportation Infrastructure Fund. In FY 2015, \$710,000 was transferred from the Motor Vehicle Liability insurance Enforcement Fund to the Safety Enforcement and Transportation Infrastructure Fund for the same purpose.

To ensure future shortfalls in the Safety Enforcement and Transportation Infrastructure Fund are shared equally between the Department of Public Safety (DPS) and ADOT, the FY 2017 Government BRB creates a DPS Subaccount and an ADOT Subaccount within the Safety Enforcement and Transportation Infrastructure Fund and allocates 45% of revenues to the DPS Subaccount and 55% of revenues to the ADOT Subaccount.

FY 2016 Supplemental

The budget includes an increase of \$3,487 from the State Highway Fund in FY 2016 to pay a named claimant bill related to ADOT. The supplemental appropriation was made in Laws 2016, Chapter 45.

Additional Legislation

Vehicle Inspection and Title Enforcement Fund

Laws 2016, Chapter 276 changes the name of the Vehicle Inspection and Title Enforcement Fund established by A.R.S. § 28-2012 to the Vehicle Inspection and Certificate of Title Enforcement Fund.

Division of Weights and Measures

Laws 2015, Chapter 244 establishes the Weights and Measures Services Division within the Arizona Department of Agriculture as of July 1, 2016. All authority, powers, duties and responsibilities previously granted to the Department of Weights and Measures are transferred to the new Division within the Arizona Department of Agriculture, with the exception of responsibilities relating to taxis, limousines and livery vehicles, which are transferred to ADOT.

As of October 2015, the Department of Weights and Measures has completed the agency consolidation process through a series of Interagency Service Agreements with the Arizona Department of Agriculture, DPS, and ADOT. The Director of the Arizona Department of Agriculture will serve as the Interim Director for the Weights and Measures Services Division until the formal dissolution of the Department of Weights and Measures occurs on July 1, 2016.

REAL ID Extension

Laws 2015, Chapter 294 required ADOT to comply with federal driver license standards in the REAL ID Act of 2005. Absent this legislative action, Arizona driver licenses would have no longer been accepted at federally regulated facilities, such as airports and federal buildings. By issuing Arizonans a voluntary travel ID that will be available as both a driver license and identification card, the new federal documentation requirements will be met. To facilitate Arizona's compliance with federal law while ADOT develops the new travel IDs, the U.S. Department of Homeland Security granted Arizona an extension and will accept existing Arizona driver licenses until September 30, 2020.

Special Plates

In order to establish a special plate, a statutorily designated entity must pay a \$32,000 implementation fee. Of the \$25 annual fee for the special plate, \$8 is deposited in the State Highway Fund and \$17 is a donation to the specified charity. In FY 2015, the special plate program generated \$5,100,000 for the State Highway Fund and \$10,750,000 for charities.

As shown in *Table 1*, there are 54 special plate types with 373,760 vehicles supporting special plate charities. Revenue for many of the special plates is combined in ADOT's Statewide Special Plates Fund. Financial information for the rest of the special plates not included in ADOT's Statewide Special Plates Fund is found in individual agencies. When a state agency oversees a special plate fund, it appears in that agency's budget. If not, it appears in ADOT's Statewide Special Plate Fund.

The following 4 special plates were added in 2016:

- Regionally Accredited Institution of Higher Education (Laws 2016, Chapter 174)
- Historic Federal Highway Preservation (Laws 2016, Chapter 182)
- First Responder (Laws 2016, Chapter 182)
- Play Unified (Laws 2016, Chapter 182)

Table 1

Name	Special License Plates ^{1/2/3/}	
	Included in Statewide Special Plates Fund?	Number of Plates Issued in 2015
Veteran	-	65,910
AZ Professional Football Club	Yes	59,738
Military Support/Scholarship	Yes	33,005
AZ Highways	-	23,647
Collegiate - University of Arizona	-	22,757
Collegiate - AZ State University	-	17,160
Child Abuse Prevention	-	16,611
Spaying and Neutering of Animals	-	13,934
Families of Fallen Police Officers	-	12,685
Breast & Cervical Cancer	-	12,120
Golden Rule	-	11,294
AZ Centennial	Yes	10,003
In God We Trust	-	9,015
AZ Professional Baseball Club	Yes	8,923
Environmental	-	8,737
AZ Sportsmen for Wildlife	-	7,778
Agricultural Youth Organization	Yes	6,819
Transplantation Awareness	Yes	5,253
Fire Fighter	-	4,339
AZ Professional Basketball Club	Yes	4,231
Collegiate - NAU	-	2,643
Navajo Nation	-	2,179
Character Education	-	1,845
Choose Life	-	1,374
Keep AZ Beautiful (anti-litter)	Yes	1,369
Women Veteran	-	1,320
Extraordinary Educators	Yes	1,301
Childhood Cancer Research	Yes	1,117
Fraternal Order of Police	-	888
Hunger Relief	Yes	874
AZ Motorsports Commemorative	Yes	802
AZ Masonic Fraternity	Yes	664
White Mountain Apache Tribe	-	523
San Carlos Apache	-	494
Global Graduate Management	Yes	474
Gold Star Family	-	375
Farm Vehicle	-	364
AZ Public Broadcast Television	Yes	330
Youth Development Organization	Yes	312
AZ Historical Society	-	147
Girls' Youth Organization	Yes	142
University of Phoenix	-	133
National Guard	-	127
Legion of Valor	-	4
Collegiate - Community College	Yes	0
AZ Professional Golf	Yes	0
AZ Professional Hockey Club	Yes	0
Health Sciences Educational	Yes	0
Volunteer Firefighters	Yes	0
Don't Tread on Me	-	0
Regionally Accredited Institution	Yes	0
Historic Federal Highway	Yes	0
First Responder	Yes	0
Play Unified	Yes	0
Total		373,760

^{1/} Excludes 174,065 motorcycle safety special plates and 84,506 off-highway vehicle decals.
^{2/} Other special plates excluded: Amateur Radio Operator, Personalized Street Rod, Former Prisoner of War, Purple Heart Medal Recipient, Disability, Hearing Impaired, Classic Car, Congressional Medal of Honor, Energy Efficient (alternative fuel), Historic Vehicle, Honorary Foreign Consul, Horseless Carriage, Midwestern University, Pearl Harbor Survivor, and U.S. Marine Corps.
^{3/} The Emergency Medical Services and Multiple Sclerosis Awareness special plates did not raise sufficient funds to implement the plates.

State Treasurer

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.4	30.4	30.4
Personal Services	1,687,700	1,697,000	1,697,000
Employee Related Expenditures	642,600	717,400	703,600
Professional and Outside Services	193,800	180,900	180,900
Travel - In State	600	2,000	2,000
Travel - Out of State	3,500	0	0
Other Operating Expenditures	250,800	250,800	250,800
OPERATING SUBTOTAL	2,779,000	2,848,100	2,834,300
SPECIAL LINE ITEMS			
Virtual Border Fence	0	12,100 ^{1/}	0
Justice of the Peace Salaries	1,205,100	1,205,100	1,205,100
Law Enforcement/Boating Safety Fund Grants	1,894,000	2,183,800	2,183,800
AGENCY TOTAL	5,878,100	6,249,100	6,223,200^{2/}
FUND SOURCES			
General Fund	1,205,100	1,205,100	1,205,100
<u>Other Appropriated Funds</u>			
Border Security Trust Fund	0	12,100	0
Law Enforcement and Boating Safety Fund	1,894,000	2,183,800	2,183,800
State Treasurer Empowerment Scholarship Account Fund	40,000	79,700	79,400
State Treasurer's Management Fund	197,600	196,600	195,600
State Treasurer's Operating Fund	2,541,400	2,571,800	2,559,300
SUBTOTAL - Other Appropriated Funds	4,673,000	5,044,000	5,018,100
SUBTOTAL - Appropriated Funds	5,878,100	6,249,100	6,223,200
Other Non-Appropriated Funds	4,495,400	4,495,400	4,495,400
TOTAL - ALL SOURCES	10,373,500	10,744,500	10,718,600

AGENCY DESCRIPTION — The State Treasurer is an elected Constitutional Officer. The primary responsibilities of the office are to receive and keep custody over all monies belonging to the state that are not required to be kept by another entity, to pay warrants of the Arizona Department of Administration, and to keep an account of all monies received and disbursed. The office also invests state monies and operates the Local Government Investment Pool (LGIP) for the benefit of participating units of local government.

Operating Budget

The budget includes \$2,834,300 and 30.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
State Treasurer Empowerment Scholarship Account (ESA) Fund	\$79,400
State Treasurer's Management Fund	195,600
State Treasurer's Operating Fund	2,559,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(13,800) in FY 2017 for statewide adjustments. This amount consists of:

State Treasurer ESA Fund	(300)
State Treasurer's Management Fund	(1,000)
State Treasurer's Operating Fund	(12,500)

^{1/} Laws 2015, Chapter 231 appropriated all revenues collected by the Border Security Trust Fund in FY 2015 and FY 2016 to the Joint Border Security Advisory Committee for the purposes of administering and managing the construction and maintenance of a border fence. This amount is estimated to be \$12,100.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

(Please see the Agency Detail and Allocations section.)

The State Treasurer ESA Fund is funded with monies retained from students' ESAs pursuant to A.R.S. § 15-2402C. That law allows the Arizona Department of Education (ADE) to retain 5% of each student's ESA funding for program administration, which for FY 2016 would have been as much as \$1,355,000 (an estimated \$27,100,000 ESA cost for the year X 5%). A.R.S. § 15-2402C requires ADE to transfer one-fifth of the 5% to the State Treasurer ESA Fund for the costs of ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. *(Please see the Arizona Department of Education narrative for more information on ESAs.)*

Virtual Border Fence

The budget includes no funding in FY 2017 for the development of a fence along the Arizona-Mexico border. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(12,100) from the Border Security Trust Fund in FY 2017 for the elimination of one-time funding.

Laws 2015, Chapter 231 appropriates all monies received by the Border Security Trust Fund in FY 2015 and FY 2016 to the Border Security Advisory Committee for the construction and maintenance of a fence along the Arizona-Mexico border. This amount is estimated to be approximately \$12,100. Prior to this bill, Laws 2012, Chapter 247 appropriated all of the monies received by the fund in FY 2012 and FY 2013 for the construction of a border fence, although only \$11,333 has been expended to date. At its November 9, 2015 meeting, the Border Security Advisory Committee approved an allocation of \$219,212 from the Border Security Trust Fund for a grant to the Cochise County Sheriff's Office for thermal imaging, GPS, and other equipment that will be utilized by the Southeastern Arizona Border Region Enforcement team, a multi-agency task force, and the Cochise County Sheriff's Office Ranch Patrol unit to track illegal drug and other illegal activity on the Arizona-Mexico border.

Justice of the Peace Salaries

The budget includes \$1,205,100 from the General Fund in FY 2017 for the Justice of the Peace (JP) Salaries Special Line Item. This amount is unchanged from FY 2016.

A.R.S. § 22-117 requires the state to pay 19.25% of the salary for each Justice of the Peace, with the county paying the remainder. This provision does not apply to

Maricopa County, which pays 100% of its JP costs. A.R.S. § 22-117 also limits the amount that the state can reimburse to the counties to the amount appropriated.

Justice of the Peace salaries are based on a proportion of the annual compensation for a Superior Court judge as determined by the guidelines for Judicial Productivity Credits (JPCs) outlined in statute. JPCs are calculated every 2 years and are based on the total and type of cases that a Justice of the Peace hears and whether or not the Justice receives clerical help. An annual average JPC total is compared against the salary ranges in statute to determine an individual Justice's compensation.

Law Enforcement/Boating Safety Fund Grants

The budget includes \$2,183,800 from the Law Enforcement and Boating Safety Fund (LEBSF) in FY 2017 for the administration of the Law Enforcement/Boating Safety Fund grants. This amount is unchanged from FY 2016.

A.R.S. § 5-383 requires the State Treasurer to administer LEBSF monies. However, the allocation determinations are made by the Arizona Game and Fish Commission. The Treasurer disburses monies to county law enforcement agencies in Apache, Coconino, Gila, La Paz, Maricopa, Mohave, Navajo, and Yuma Counties in accordance with the distribution formula developed by the Arizona Game and Fish Commission. The FY 2015 and year-to-date FY 2016 allocations are included in *Table 1*. The distributions are less than the appropriations due to insufficient revenues.

Table 1

Allocation of LEBSF Grants

<u>County</u>	<u>FY 2015</u>	<u>FY 2016 Thru May 17th</u>
Apache	\$ 54,900	\$ 44,100
Coconino	182,400	142,200
Gila	181,600	145,500
La Paz	336,700	272,500
Maricopa	352,400	285,500
Mohave	538,800	430,700
Navajo	62,700	50,300
Yuma	<u>184,400</u>	<u>148,200</u>
Total	\$1,893,900	\$1,519,000

Other Issues

Additional Legislation

Special Sporting Event Promotion

Laws 2016, Chapter 366 provides an annual General Fund appropriation of \$1,500,000 from FY 2022 through FY

2051 to the State Treasurer for distribution to the Office of Tourism if certain conditions are met. The funds are to be used to promote an auto-racing sporting event. Prior to the release of any monies, between December 31, 2016 and December 31, 2020, the eligible auto-racing sporting event must spend at least \$100,000,000 on land acquisitions, construction, improvements, or renovations of their facilities. Once these investments are made, the bill requires the eligible auto-racing sporting event to receive JLBC certification of their expenditures. After certification is received, the Treasurer is then appropriated \$1,500,000 in General Fund monies annually for distribution to the Office of Tourism from FY 2022 through FY 2051, or a total General Fund cost of \$45,000,000.

Additionally, the bill requires the Office of Tourism to provide an annual report on or before October 1 to the JLBC that includes the amounts and purposes of all expenditures made from these monies in the previous fiscal year. *(Please see the Office of Tourism narrative.)*

Distributions of Land Fund Revenues

The FY 2017 Government Budget Reconciliation Bill (Laws 2016, Chapter 121) requires the State Board of Investment and the State Treasurer to take all actions necessary for the distributions of monies from the State Land Trust Permanent Fund to recipient funds as outlined in the Arizona Constitution and statute. If either the State Board of Investment or the State Treasurer fails to make these distributions, the Governor, Speaker of the House, or Senate President may file an action with the Supreme Court to obtain a writ of mandamus or other appropriate action to compel the effected party to make the distributions.

The bill also includes a legislative intent clause directing the State Treasurer to comply with the results of the Proposition 123 election. As approved by the voters in May 2016, Proposition 123 increases the annual Permanent Fund distributions from 2.5% to 6.9% for FY 2017 through FY 2025. *(Please see the State Land Department section for more information.)*

Governor's Office on Tribal Relations

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	20,600	28,000	28,000
Employee Related Expenditures	10,600	10,600	10,600
Professional and Outside Services	100	0	0
Travel - In State	1,700	1,500	1,500
Other Operating Expenditures	21,200	17,300	17,400
AGENCY TOTAL	54,200	57,400	57,500^{1/}
FUND SOURCES			
General Fund	54,200	57,400	57,500
SUBTOTAL - Appropriated Funds	54,200	57,400	57,500
Other Non-Appropriated Funds	19,400	14,800	14,800
TOTAL - ALL SOURCES	73,600	72,200	72,300

AGENCY DESCRIPTION — The agency assists and supports tribal nations and communities and enhances government-to-government relations between the tribal nations in this state.

Operating Budget

The budget includes \$57,500 and 3 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$100 from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Additional Legislation

Agency Reorganization

Laws 2016, Chapter 150, as permanent law, repeals the 20-member Arizona Commission of Indian Affairs (CIA), and establishes the Governor's Office on Tribal Relations (Office); effective July 1, 2016. All unspent and unencumbered appropriated monies and other assets, liabilities and obligations of the CIA are transferred to the Office, effective July 1, 2016. The Office is continued for 8 years, until July 1, 2024.

Chapter 150 requires the Governor to appoint the Office director. The Office is to assist state agencies in

implementing tribal consultation and outreach activities. Chapter 150 requires each state agency to:

1. Develop and implement tribal consultation policies to guide the agency's work and interaction with the federally-recognized Tribal Nations of Arizona;
2. Seek input from appropriate elected or appointed tribal officials before undertaking any action or policy that will, or is reasonably believed to, have the potential to affect a tribal community or its members;
3. Integrate input generated from tribal consultation into the agency's decision-making processes to achieve mutually acceptable solutions;
4. Designate a state member to assume responsibility for the agency's implementation of the tribal consultation policies and to act as the principal point of contact for tribal affairs;
5. By October 1 of each year review the agency's tribal consultation policies and submit an electronic progress report with performance measures to the Office. Requires the Office to make the report available to tribal leaders and legislators.

Chapter 150 requires the Office to prepare a report that summarizes state agencies' annual progress reports and details their progress and challenges in implementing tribal consultation policies. Chapter 150 requires the Office to submit the report to the Legislature during a joint session held on Indian nations and tribes legislative

^{1/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

day (Legislative Day). Chapter 150 specifies Legislative Day as Wednesday of the first week (formerly it was Tuesday of the second week) of each Regular Legislative Session. Chapter 150 requires the Senate to host Legislative Day in odd-numbered years and the House of Representatives in even-numbered years. Chapter 150 requires the hosting chamber to hold a joint session of the Legislature.

Chapter 150 requires the Governor to meet with tribal leaders in a state-tribal summit to address issues of mutual concern, at least once a year.

Chapter 150 allows the Office to continue to: accept, receive and spend fees collected at the Arizona Indian Town Hall to defer expenses for the Town Hall; promote increased participation by American Indians in local and state affairs; and, initiate or assist programs on tribal land only on the request or with approval of the tribal nation.

In addition, Chapter 150 also allows the Office to:

1. Apply for, accept, receive and spend public and private gifts or grants of monies and property for the implementation of internal operations and forums for American Indian people to impart their knowledge on statewide issues;
2. Recommend and provide technical assistance on health care delivery systems for organizations serving American Indian people based on currently available state, federal and private monies;
3. Assist in evaluating, consolidating and coordinating activities relating to the education of American Indian students;
4. Serve as an informational clearinghouse and provide training on cross-cultural situations;
5. Receive annual notice from the Director of the State Museum on the discovery of American Indian human remains, funerary objects, sacred ceremonial objects or objects of cultural patrimony;
6. Work in conjunction with state agencies involved in economic development to design and initiate programs to stimulate economic growth of the American Indian population;
7. Establish an executive committee or other committees, as necessary.

Chapter 150 repeals the Indian Affairs Commission Publications Fund and transfers all unexpended and unencumbered monies remaining in the fund to the Office. Chapter 150 transfers the Arizona Indian Town Hall Fund from the CIA to the Office.

Arizona Board of Regents

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,547,200	1,463,800	1,463,800
Employee Related Expenditures	536,000	543,800	543,800
Professional and Outside Services	24,300	54,500	54,500
Other Operating Expenditures	3,245,000	290,400	290,400
OPERATING SUBTOTAL	5,352,500	2,352,500	2,352,500
SPECIAL LINE ITEMS			
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Performance Funding	5,000,000	5,000,000	5,000,000 ^{1/2/3/4/}
Student Financial Assistance	10,041,200	10,041,200	10,041,200
Western Interstate Commission Office	137,000	141,000	141,000
WICHE Student Subsidies	4,094,000	4,090,000	4,090,000
AGENCY TOTAL	24,928,400	21,928,400	21,928,400
FUND SOURCES			
General Fund	24,928,400	21,928,400	21,928,400 ^{5/6/}
SUBTOTAL - Appropriated Funds	24,928,400	21,928,400	21,928,400
Other Non-Appropriated Funds	8,276,700	12,454,100	9,604,000
Federal Funds	250,100	1,786,600	915,800
TOTAL - ALL SOURCES	33,455,200	36,169,100	32,448,200

AGENCY DESCRIPTION — Article 11 of the Arizona Constitution creates the Arizona Board of Regents (ABOR). ABOR governs the 3 state institutions comprising the Arizona University System: Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). The board is legally, fiscally, and strategically responsible for the state universities.

- 1/ The Arizona Board of Regents shall allocate the \$5,000,000 appropriation for performance funding to the 3 universities under its jurisdiction in accordance with a performance funding model to be adopted by the board that is substantially similar to what the board used in allocating the performance funding appropriation for FY 2016. (General Appropriation Act footnote)
- 2/ It is the intent of the Legislature that the Arizona Board of Regents adopt a performance funding model and report to the Joint Legislative Budget Committee the final allocation of the \$5,000,000 performance funding lump sum appropriation on or before July 1, 2016. The formula shall be consistent with board objectives previously adopted in the board's enterprise plan. The performance funding model shall use select performance metrics that include, at a minimum, the increase in degrees awarded, the increase in completed student credit hours and the increase in externally generated research and public service funding. The formula may give added weight to degrees related to science, technology, engineering and mathematics, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy. (General Appropriation Act footnote)
- 3/ It is further the intent of the Legislature that the Arizona Board of Regents use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities under the jurisdiction of the Arizona Board of Regents. (General Appropriation Act footnote)
- 4/ Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit an expenditure plan for review to the Joint Legislative Budget Committee. The expenditure plan shall include any tuition revenue amounts that are greater than the appropriated amounts and all retained tuition and fee revenue expenditures for the current fiscal year. The additional revenue expenditure plan shall provide as much detail as the university budget requests. (General Appropriation Act footnote)
- 5/ When determining any statewide adjustments, the Joint Legislative Budget Committee staff shall use the overall allocation of state General Fund and appropriated tuition monies for each university in determining that university's specific adjustment. (General Appropriation Act footnote)
- 6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$2,352,500 and 25.9 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Arizona Teachers Incentive Program

The budget includes \$90,000 from the General Fund in FY 2017 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2016.

Laws 1990, Chapter 340 mandated that ABOR establish and administer a loan program for students of deaf and blind education at the UA College of Education. Students may earn forgiveness for their loans by teaching in an Arizona deaf and blind program for a time equal to their period of loan support. In FY 2015, ATIP distributed \$50,000 in loans among 10 students, as well as \$40,000 to the UA College of Education for deaf and blind instructional resources.

Arizona Transfer Articulation Support System

The budget includes \$213,700 from the General Fund in FY 2017 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2016.

A.R.S. § 15-1824 establishes ATASS as a joint initiative, among the public community colleges and universities, to facilitate efficient transfer of course curricula and credits. ATASS is also developing a shared statewide student and financial information database. The tribal colleges and community college districts overall contributed \$277,200 to the system in FY 2015 and are projected to also contribute \$277,200 in both FY 2016 and FY 2017.

Performance Funding

The budget includes \$5,000,000 from the General Fund in FY 2017 for the Performance Funding line item. This amount is unchanged from FY 2016.

The FY 2016 appropriation of \$5,000,000 to ABOR was distributed as follows:

- \$2,348,800 to ASU - Tempe/Downtown Phoenix (DPC)
- \$165,300 to ASU - East
- \$190,900 to ASU - West
- \$1,090,000 to NAU
- \$1,205,000 to UA - Main

The FY 2016 performance funding allocation is identical to that of FY 2015 and FY 2014. The FY 2017 budget includes a footnote that requires ABOR to allocate these funds similar to the FY 2016 distribution.

The FY 2013 General Appropriation Act (Laws 2012, Chapter 294) included an initial \$5,000,000 for performance funding that was reallocated from university base budgets to ABOR to fund the line item. These monies were allocated as follows:

- \$2,192,000 to ASU - Tempe/DPC
- \$156,300 to ASU - East
- \$271,700 to ASU - West
- \$1,035,000 to NAU
- \$1,345,000 to UA - Main

Only the FY 2013 performance funding monies were appropriated directly to each university. They have since become part of their base budgets and therefore are not included in this line item. Another \$5,000,000 was appropriated to this line item in the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1) and continued in subsequent budgets. Continuing General Appropriation Act footnotes since FY 2014 have directed ABOR to allocate this additional funding in accordance with a performance funding model similar to the previous year. Unlike the first \$5,000,000 that became part of universities' base budgets, the second \$5,000,000 has been retained in ABOR's budget at the beginning of each fiscal year to be redistributed again in a manner similar to the performance funding model of the prior year.

In summary, the FY 2013 - FY 2017 budgets have provided a total increase of \$10,000,000 from the General Fund for performance funding. Of that amount, \$5,000,000 has been allocated to individual campuses and included in their base budgets and \$5,000,000 remains in ABOR. *(Please see the Background below and the Footnotes section for more information.)*

Background – The FY 2013 Higher Education Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 301) required ABOR and the universities to adopt a performance funding model by July 1, 2012. The model uses performance metrics that include the increase in degrees awarded, the increase in completed student credit hours, and the increase in externally generated research and public service funding, and may give added weight to degrees related to science, technology, engineering and mathematics, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy.

Continuing General Appropriation Act footnotes have required that:

- ABOR report the final allocation of performance funding to the JLBC by July 1 of each year;
- The allocation model be similar to that used in the previous fiscal year (which ultimately ties the funding allocation to the FY 2014 model); and
- Take into account the metrics outlined in a separate footnote stating legislative intent.

A budget footnote since FY 2014 requires that ABOR use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities.

In their FY 2017 budget requests, the universities did not use the performance model and instead proposed an alternate funding formula that is tied to resident student enrollment. The FY 2017 budget adopts resident student enrollment as the basis of allocating the \$8,200,000 of additional resources distributed to the universities in FY 2017. *(Please see University Additional Resources and Resident Student Funding in the Other Issues section for more information.)*

Student Financial Assistance

The budget includes \$10,041,200 from the General Fund in FY 2017 for Student Financial Assistance. This amount is unchanged from FY 2016.

Pursuant to A.R.S. § 15-1642, monies in this line item match financial aid tuition surcharges collected from university students. The Arizona Financial Aid Trust (AFAT) fee is 1% of the full-time resident undergraduate tuition rate, or \$70-\$103 in FY 2016, depending on the university. All students pay roughly the same fee, except part-time students, who pay half the regular fee. The FY 2017 Higher Education BRB (Laws 2016, Chapter 130) continues to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2017.

AFAT retains 25% of all annual receipts as an endowment. ABOR distributes the remaining monies, proportionally to each university's respective contribution, to provide immediate assistance for needy in-state students. In FY 2015, AFAT disbursed \$20,686,900. *(Please see Table 9 for additional information on financial aid.)*

Western Interstate Commission Office

The budget includes \$141,000 from the General Fund in FY 2017 for the Western Interstate Commission Office. This amount is unchanged from FY 2016.

Monies in this line item pay the state's share of administrative expenditures for the Western Interstate Commission on Higher Education (WICHE), in accordance with A.R.S. § 15-1742. The WICHE central office sets the administrative fee.

WICHE Student Subsidies

The budget includes \$4,090,000 from the General Fund in FY 2017 for WICHE student subsidies. This amount is unchanged from FY 2016.

Monies in this line item provide subsidies to Arizona students participating in the WICHE Professional Student Exchange Program (PSEP). Since the Arizona University System does not currently offer programs in dentistry, optometry, osteopathy, podiatry, or veterinary medicine, PSEP allows interested students to enroll in these programs at private in-state institutions or other public western universities.

In FY 2016, ABOR is providing subsidies to 169 Arizona students, which is (3) fewer than FY 2015. Participating students receive admissions preference and subsidized tuition. A.R.S. § 15-1745 requires graduates to practice 1 year in Arizona, or 6 months in an under-served Arizona community, for each year of WICHE support. Participants who fail to meet their service requirements must repay 100% of their subsidies, plus interest.

The WICHE central office determines subsidy amounts for each program through negotiations with participating institutions. As rough guidance, WICHE subsidies are intended to cover the difference between resident and non-resident tuition at a public university or approximately half the private university tuition rate.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts: 2003 Research Infrastructure Refinancing
- Long-Term Budget Impacts: FY 2015 Operating Increase
- Payment Deferral
- Proposition 123

- Health Insurance Trust Fund: FY 2016 Supplemental, FY 2017 Adjustment
- University Additional Resources
- Resident Student Funding
- Tuition Revenues
- 2003 Research Infrastructure Refinancing
- One-Time Funding
- Education Learning and Accountability System
- Additional Legislation
- University System Summary Tables

Long-Term Budget Impacts: 2003 Research Infrastructure Refinancing

As part of the budget's 3-year spending plan, ABOR's General Fund costs are projected to increase \$4.2 million in FY 2018 above 2017 and decrease \$(900) in FY 2019 below FY 2018. These estimates are based on increases in the level of state appropriations required to cover Research Infrastructure debt service costs in FY 2018 and FY 2019 relative to FY 2017. The universities refinanced their Research Infrastructure payments in 2014 and 2015, with the largest annual savings occurring in FY 2015 through FY 2017. *(Please see 2003 Research Infrastructure Refinancing for more information.)*

Long-Term Budget Impacts: FY 2015 Operating Increase

The FY 2015 budget increased General Fund support for university operations by \$4.5 million. Of that amount, ASU received \$2.0 million, NAU \$500,000, and UA \$2.0 million. A footnote in the FY 2015 General Appropriation Act continued this appropriation in FY 2016 and FY 2017.

The 3-year spending plan associated with the FY 2017 budget assumes continuation of this \$4.5 million appropriation in FY 2018 and FY 2019.

Payment Deferral

The budget includes \$200,000,000 from the General Fund in FY 2016 for a one-time supplemental to eliminate the universitywide payment deferral. In FY 2009, payment of \$100,000,000 of the state's General Fund appropriation to the universities was deferred until FY 2010. Each university's share of the deferral was proportional to its level of General Fund support. In FY 2010, the amount of payments deferred until FY 2011 increased to \$200,000,000. Since that time, the deferral has been carried over each year: \$200,000,000 of the universities' General Fund appropriations each year has been used to cover the amount of payments that were deferred from the prior year.

The amounts that had been deferred from each campus and the corresponding FY 2016 supplemental are as follows:

ASU - Tempe/DPC	\$ (74,760,400)
ASU - East	(5,750,200)
ASU - West	<u>(10,064,800)</u>
ASU Subtotal	\$ (90,575,400)
NAU	\$ (30,494,800)
UA - Main	\$ (62,153,100)
UA - HSC	<u>(16,776,700)</u>
UA Subtotal	\$ (78,929,800)
Total	\$(200,000,000)

The \$200,000,000 FY 2016 supplemental provides the universities a total appropriation that covers their full payment during FY 2016, rather than delaying \$200,000,000 of the payments until FY 2017.

The elimination of the payment deferral improves the cash position of the universities by accelerating the receipt of their annual General Fund appropriations. Under the deferral, each university did not receive its share of the \$200,000,000 until September 30 of the subsequent fiscal year. Going forward, the universities will receive those monies alongside the rest of their General Fund appropriations, which are paid out monthly during the current fiscal year.

Each university has discretion over the use of its deferral payoff monies, subject to approval of its overall budget plans as submitted to ABOR.

Proposition 123

As a beneficiary of the Arizona State Land Trust, ABOR receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into "permanent funds" on behalf of the universities, pursuant to Article X, Section 7 of the Arizona Constitution.

ABOR distributes state land trust monies to the universities from 6 funds. These distributions are allocated to the universities in accordance with A.R.S. § 15-1662, 15-1663, and ABOR Policy 3-606. The universities' land trust monies are non-appropriated. ABOR may expend them "as it deems expedient," with 1 exception: the Universities Land Fund. This fund is comprised of the University Land Code and the UA Land - 1881 Fund. All proceeds in the Universities Land Fund, including the UA Land - 1881 Fund, are distributed proportionately among the 3 universities based upon the total student credit hours in the fall semester of the previous year. The Universities Land Fund provides matching funds for the interest earned on nonpublic

endowment monies donated to attract and retain faculty, otherwise known as the Eminent Scholars Program.

In addition to lease revenues, ABOR received \$2,139,100 in monies distributed by the Treasurer from its permanent fund in FY 2015, as shown below in *Table 1*.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, ABOR will receive \$4,450,700 in additional revenue from the Treasurer’s distributions in FY 2016 and an estimated total of \$8,118,000 from the Treasurer’s distributions in FY 2017. Pursuant to A.R.S. § 15-1663, ABOR may expend these new revenues without additional legislative appropriation. *(Please see the Department of Education - Endowment Earnings section for more information.)*

Table 1

State Land Trust Distributions: Universities^{1/}

	FY 2015 2.5% Distribution	FY 2016 Additional Funds: Prop 123	FY 2017 6.9% Distribution
Military Institute	\$ 12,800	\$ 24,600	\$ 41,600
Normal Schools	82,100	163,600	285,800
A&M Colleges	228,000	443,300	754,700
School of Mines	258,000	501,200	853,600
Universities Land Fund	1,558,200	3,318,000	6,182,300
University Land Code	429,000	851,300	1,483,800
U of A Land – 1881	<u>1,129,200</u>	<u>2,466,700</u>	<u>4,698,500</u>
Total	2,139,100	4,450,700	8,118,000

^{1/} Excludes income from the rental/lease of the universities’ state land trust property.

^{2/} Only the University of Arizona receives monies from the School of Mines Fund.

Health Insurance Trust Fund: FY 2016 Supplemental, FY 2017 Adjustment

The Health Insurance Trust Fund (HITF) is used to administer state employee health insurance benefit plans. Funding consists of employer and employee medical and dental insurance contributions. At the end of FY 2015, HITF had a balance of \$339,800,800. Recent budgets have included a number of measures to reduce the HITF balance.

One method to reduce the HITF balance is to adjust the employer/employee contribution strategy. Because of

the recent trend of HITF receipts exceeding annual costs, the FY 2016 budget included \$(16,200,000) of statewide General Fund savings related to reducing state agency health insurance contribution rates.

In calculating the reduction allocations to the agencies, the JLBC Staff used ADOA employer premium contribution rate estimates for calendar year 2016 as well as payroll data, which outlined the percentage of total health insurance premiums paid by the General Fund for each agency. The total General Fund reduction to the Universities was \$(6,055,600). *(Please see Table 2 for the FY 2016 General Fund reduction by university.)*

After further review, however, the JLBC Staff determined that the payroll data overstated the percentage of university health insurance premiums paid by the General Fund. As a result, the budget includes a \$4,076,000 universitywide supplemental for FY 2016 to lower the total General Fund reduction from \$(6,055,600) to \$(1,979,600) in FY 2016 based on the universities’ self-reported allocation of health care contributions between the General Fund and Tuition and Other Funds.

To make the issue budget neutral from a General Fund perspective, the budget also includes a transfer of \$4,076,000 from HITF to the General Fund.

By overstating the share of health insurance premiums paid by university General Fund dollars, the original FY 2016 budget had understated the share paid by Tuition and Other Funds. Therefore, while the original FY 2016 reduction allocated to the universities’ General Fund appropriation was too large, the corresponding reduction allocated to Tuition and Other Funds was too low. The FY 2017 budget does not revise the appropriation authority for Tuition and Other Funds, however, because the universities ultimately determine the share of tuition that is expended as appropriated, rather than non-appropriated, money.

The state’s health insurance plans operate on a calendar year basis, so the revised \$(1,979,600) savings for 6 months of FY 2016 are annualized to \$(3,959,200) for the full year of FY 2017. As a result, the budget increases the universities’ FY 2017 General Fund appropriation by \$2,096,400, bringing the original \$(6,055,600) reduction enacted in FY 2016 to \$(3,959,200) in FY 2017. This General Fund increase appears as part of a back of the bill statewide adjustment.

To ensure that future adjustments appropriately take into account the universities’ funding structure, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) stipulates that when determining any statewide

Table 2

University HITF General Fund Reductions FY 2016 - FY 2017

	Budgeted FY 2016 Reductions	Revised FY 2016 Reductions	FY 2016 Supplemental (Difference)	FY 2017 Adjustments (vs. original FY 2016)	Resulting FY 2017 Reduction
ASU	\$(3,402,200)	\$(1,119,000)	\$2,283,200	\$1,153,000	\$(2,249,200)
NAU	(61,800)	(21,600)	40,200	21,000	(40,800)
UA	(2,591,600)	(839,000)	1,752,600	922,400	(1,669,200)
Total	\$(6,055,600)	\$(1,979,600)	\$4,076,000	\$2,096,400	\$(3,959,200)

adjustments, the JLBC Staff shall use the overall allocation of state General Fund and appropriated tuition monies for each university in determining that university's specific adjustment.

(Please see the HITF section in the Arizona Department of Administration narrative for more information.)

University Additional Resources

The 3-year spending plan associated with the enacted FY 2016 budget included \$8.2 million from the General Fund in FY 2017 for additional resources. The FY 2017 Baseline allocated this funding proportionate to the university system reduction in FY 2016, which was based on each university's share of the system's total student count.

The FY 2017 budget instead allocates the \$8.2 million based upon each university's share of statewide resident

student enrollment. This allocation methodology reflects the funding approach ABOR proposed in its FY 2017 budget request. (Please see Resident Student Funding narrative below for more information.)

Table 3 provides a comparison of the additional resources each university receives under the resident based calculation of the FY 2017 budget, compared to the original Baseline allocation. Based on the average of fall and spring enrollment as disclosed in the Auditor General's FY 2015 FTE Student Enrollment Report, the university system enrolled 90,843 full-time equivalent resident students in FY 2015. Of this amount, 48,460 (53.3%) were enrolled at ASU, 17,002 (18.7%) were enrolled at NAU, and 25,381 (27.9%) were enrolled at UA. As a result, ASU receives 53.3%, or \$4.4 million, of the total \$8.2 million. NAU receives 18.7%, or \$1.5 million, and UA receives 27.9%, or \$2.3 million.

Table 3

FY 2017 University Additional Resources

	FY 17 Baseline: Total Student Enrollment		FY 17 Budget: Resident Student Enrollment			FY 17 Budget vs. Baseline
	% of Total System ^{1/}	Funding Amount	% of Total System ^{2/}	% of University ^{3/}	Funding Amount	Funding Difference
ASU - Tempe/DPC	45.7%	\$3,745,500	44.2%	82.8%	\$3,623,300	\$(122,200)
ASU - East	3.6%	298,000	4.0%	7.5%	328,700	30,700
ASU - West	4.5%	367,500	5.1%	9.7%	422,200	54,700
ASU Total	53.8%	4,411,000	53.3%	100.0%	4,374,200	(36,800)
NAU	17.5%	1,433,200	18.7%	100.0%	1,534,800	101,600
UA - Main	28.2%	2,314,300	25.1%	89.7%	2,055,300	(259,000)
UA - HSC	0.5%	41,500	2.9%	10.3%	235,700	194,200
UA Total	28.7%	2,355,800	27.9%	100.0%	2,291,000	(64,800)
University Total	100.0%	\$8,200,000	100.0%		\$8,200,000	\$0

^{1/} FY 2017 Baseline allocations were proportionate to FY 2016 funding reduction allocations, which were based on each university's total student count.

^{2/} Universities' share of resident enrollment based on the average of the FY 2015 spring and fall resident student enrollment counts at each university as published by the Auditor General.

^{3/} The Auditor General's report does not provide enrollment information by campus. As a result, each university's share of the additional resources is divided among its campuses based on adjusted 45 day FY 2015 FTE counts provided by ABOR.

Resident Student Funding

Contrary to a FY 2016 General Appropriation Act footnote, ABOR did not use its adopted performance funding model in developing and submitting the universities' FY 2017 budget requests. Instead, ABOR requested state funding based on the number of resident students enrolled at each campus.

ABOR states that in FY 2016, the average education cost per resident undergraduate student at a state university is \$15,600, of which the state General Fund is estimated to contribute \$5,300 per student, tuition and fees cover \$6,600, and the universities pay the remaining \$3,700. The Universities primarily cover this amount by charging non-resident students tuition and fees beyond the average education cost.

ABOR requested additional state funding to increase the state share of resident students, with a goal that the state would eventually bear 50% of the total educational costs.

The budget adopts a resident based funding allocation for the \$8.2 million in additional systemwide funding, but otherwise maintains the current performance-funding allocations as well as the footnote requirement that ABOR adopt a performance based funding model when developing and submitting university budget requests. *(Please see Performance Funding and University Additional Resources narratives above for more information).*

Tuition Revenues

The FY 2017 Higher Education BRB amends A.R.S. § 15-1626A to require the universities to deposit tuition and fee revenues into separate tuition and fee revenue subaccounts for each university beginning in FY 2019.

Currently, statute allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR pursuant to A.R.S. § 15-1626A. These "locally" retained tuition monies are considered non-appropriated and are deposited into accounts labeled as "Designated" funds. The Designated Fund for each university includes the retained tuition and fees as well as monies from other sources.

Any remaining tuition collections are remitted to the Treasurer before being disbursed back to the universities into "Collections" funds as part of the appropriated budget. As with the non-appropriated tuition monies in the Designated Funds, tuition revenues in the appropriated Collections Funds are mixed with other revenue sources such as state land trust monies and

miscellaneous receipts. While Financial Aid and Debt Service are primarily non-appropriated, general operating expenses appear in both appropriated and non-appropriated budgets.

By requiring that the universities to keep tuition and fee monies separate from other revenue sources, the FY 2017 Higher Education BRB is intended to make the university funding structure more transparent.

The Higher Education BRB also amends A.R.S. § 55-146 to eliminate the requirement that the universities remit appropriated tuition revenues to the Treasurer, also effective beginning FY 2019. This provision does not change the current split between appropriated and non-appropriated tuition monies.

Total FY 2017 tuition and fees are projected to be \$2.1 billion. Of this amount, \$1.2 billion is appropriated while \$948.3 million is non-appropriated.

2003 Research Infrastructure Refinancing

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated for FY 2008 to FY 2031 monies to the universities each year for lease-purchase capital financing of research infrastructure projects such as installations and facilities for the continuance and growth of scientific and technological research activities.

The budget includes an increase of \$2.9 million from the General Fund in FY 2017 to amend research infrastructure lease-purchase payments to their actual debt service obligations.

In 2013, ABOR refinanced the Certificates of Participation (COPs) for the 2003 research infrastructure appropriation. Section 134 of the FY 2015 General Appropriation Act reduced individual campus appropriations to reflect the new debt service obligations in FY 2015 to FY 2017, resulting in total savings across all 3 universities of \$(5.6) million in FY 2015, \$(8.1) million in FY 2016 and \$(4.3) million in FY 2017.

In the spring of 2016, ABOR provided debt service schedules reflecting subsequent refinancing of the lease-purchase payments for ASU and NAU. These schedules further reduced the universities' total payment obligations through FY 2031 by \$(17.8) million, including an additional \$(951,900) decrease in ASU's FY 2017 payments. As a result, the FY 2017 Higher Education BRB amends the FY 2015 General Appropriation Act to increase savings across all 3 universities to \$(5.2) million, rather than \$(4.3) million, in FY 2017.

Table 4**Adjustments to Appropriation for Refinance of University Research Infrastructure Facilities**

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017 Adjustment</u>	<u>FY 2017</u>
ASU	\$ (522,600)	\$(3,045,900)	\$ (235,800)	\$(3,281,700)
NAU	(408,500)	(406,800)	(1,246,400)	(1,653,200)
UA	(4,659,800)	(4,659,400)	4,384,800	(274,600)
Total	\$(5,590,900)	\$(8,112,100)	\$2,902,600	\$(5,209,500)

The \$2.9 million increase in the FY 2017 budget reflects the additional costs in FY 2017 (as revised) beyond those of FY 2016. Of this amount, the General Fund appropriations are adjusted \$(235,800) for ASU, \$(1,246,400) for NAU, and \$4,384,800 for UA in FY 2017 compared to FY 2016. Since Section 134 of the FY 2015 General Appropriation Act, as amended by the FY 2017 Higher Education BRB, reduces individual campus appropriations in FY 2017, the additional savings do not appear in the FY 2017 General Appropriation Act. *(Please see Table 4 for more information.)*

The FY 2017 Higher Education BRB also amends A.R.S. § 15-1670 to adjust the original debt service appropriation for FY 2018 through FY 2031 to reflect lower debt service payments as a result of the lease-purchase refinancing. *(Please see Table 5 for more information.)*

The average annual savings of the new debt service appropriation for all remaining payments compared to the original appropriation is \$(2.0) million. The majority of the savings come from ASU and NAU. *(Please see Capital Outlay - Arizona Board of Regents section for additional information.)*

One-Time Funding

Section 149 of the FY 2017 General Appropriation Act appropriates \$19.0 million to the universities from the General Fund in FY 2017 for one-time operating expenditures or capital improvements. Of this amount, \$8.0 million is appropriated to UA, \$7.0 million to ASU, and \$4.0 million to NAU.

A General Appropriation Act requires the universities to report the intended use of the monies to the Joint Legislative Budget Committee by August 1, 2016. The footnote also requires review by the Joint Committee on Capital Review for any these monies that are used for capital projects.

These monies are included in the General Fund budget of each university's individual agency section. *(Please see the individual university sections for more information.)*

Table 5**FY 2018 – 2031 Research Infrastructure Appropriations**

<u>Fiscal Year</u>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	<u>Total</u>
2018	\$ 13,481,000	\$ 5,896,500	\$ 14,249,300	\$ 33,626,800
2019	13,478,700	5,896,200	14,251,000	33,625,900
2020	13,456,300	5,899,500	14,250,200	33,606,000
2021	13,458,700	4,879,500	14,251,500	32,589,700
2022	13,451,900	5,039,800	14,248,900	32,740,600
2023	13,462,100	5,301,500	14,252,500	33,016,100
2024	13,468,200	5,302,900	14,255,300	33,026,400
2025	13,459,300	4,885,500	14,247,300	32,592,100
2026	13,453,900	4,884,500	14,248,400	32,586,800
2027	13,450,100	4,884,300	14,251,300	32,585,700
2028	13,436,200	4,894,000	14,254,100	32,584,300
2029	13,430,800	4,888,400	14,251,500	32,570,700
2030	13,423,500	4,892,000	14,252,500	32,568,000
2031	<u>13,428,800</u>	<u>4,889,300</u>	<u>14,255,800</u>	<u>32,573,900</u>
2018 - 2031	188,339,500	72,433,900	199,519,600	460,293,000

^{1/} FY 2018 – 2031 research infrastructure General Fund appropriations as specified in A.R.S. § 15-1670, as amended by the FY 2017 Higher Education BRB.

Education Learning and Accountability System

The FY 2016 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15) levied fees of \$6 per Full-Time Student Equivalent (FTSE) from Arizona's public universities and community colleges to support the ongoing operation and development of the Education Learning and Accountability System (ELAS) at the Department of Education (ADE).

The FY 2017 budget eliminates these fees and provides all funding for the ELAS project from General Fund appropriations.

(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)

Additional Legislation

AmeriCorps Tuition

Laws 2016, Chapter 11 classifies individuals who have participated in the AmeriCorps or Volunteers in Service to America programs for at least one year in Arizona as eligible to receive in-state tuition rates.

Commercial Paper

Laws 2016, Chapter 238 authorizes ABOR to issue commercial paper on behalf of the universities to provide short-term financing for any capital project expense.

The repayment of commercial paper is classified as a current expense, and both ABOR and the state are relieved of any outstanding obligations at the end of the current fiscal year if ABOR fails to make payments on its issuances.

ABOR's commercial paper issuances may have a maturity of no more than 270 days, but ABOR may issue commercial paper to repay obligations on previously issued commercial paper.

ABOR must include the projected debt service on any capital improvement plans temporarily financed with commercial paper in the debt ratios included in the universities' capital improvement plans. For any projects funded by commercial paper that ABOR does not expect to replace with permanent financing, ABOR must calculate debt service using an assumed financing term of 30 years.

University System Summary Tables

The University Summary Tables address the following:

- Total Spending Authority
- Tuition Distribution
- Tuition Rates
- Financial Aid
- Enrollment

Total Spending Authority

In total, the Universities' total projected spending authority in FY 2017 is \$5.28 billion, including \$698.5 million from the General Fund and \$2.18 billion of tuition/fee collections. This latter amount is not adjusted for any FY 2017 tuition rate changes. Table 6 summarizes the FY 2017 expenditure authority amounts for the Arizona University System.

Tuition Distribution

A.R.S. § 15-1626 authorizes ABOR to allocate tuition monies between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities. The latter includes

Table 6

FY 2017 Summary of Spending Authority

	Appropriated Funds			Non-Appropriated Funds		Total
	General Fund	Collections Fund ^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds ^{2/}	
ABOR	\$ 21,928,400	\$ 0	\$ 0	\$ 915,800	\$ 9,604,000	\$ 32,448,200
ASU-Tempe/DPC	253,541,200	551,220,900	0	286,349,700	1,066,208,200	2,157,320,000
ASU-East	22,575,300	35,722,900	2,000,000	8,377,200	20,447,300	89,122,700
ASU-West	29,281,100	44,241,400	1,600,000	12,608,400	53,429,200	141,160,100
NAU	105,227,000	145,286,600	0	82,890,700	237,598,400	571,002,700
UA-Main	197,059,600	361,149,600	0	229,509,200	998,744,300	1,786,462,700
UA-Health Sciences	68,859,800	44,053,800	0	97,536,300	287,239,200	497,689,100
Total	\$698,472,400	\$1,181,675,200	\$3,600,000	\$718,187,300	\$2,673,270,600	\$5,275,205,500

- 1/ Appropriated share of tuition and mandatory registration fees comprise \$1,167,985,600 of the total Collections Fund spending authority. The remaining authority is derived from miscellaneous fees. This amount excludes FY 2017 tuition rate changes.
- 2/ Expenditures of non-appropriated tuition and mandatory registration fees for debt service and building maintenance are excluded from the Other Funds amounts, which ultimately understates the estimated total university system spending authority for FY 2017. The total expenditures of non-appropriated tuition are estimated to be \$1,000,315,300 in FY 2017 and are reflected in Table 7. This amount excludes FY 2017 tuition rate changes.
- 3/ General Fund appropriations include \$19.0 million in one-time operating or capital expenditure appropriation.

financial aid, facilities (plant fund), debt service, and some of their operating budget. Total tuition collections for the Arizona University System equal an estimated \$2.13 billion in FY 2016 and \$2.18 billion in FY 2017 (please see Table 7). The FY 2017 amount is not adjusted for any FY 2017 tuition rate changes.

Tuition Rates

ABOR approved FY 2017 tuition rates on April 7, 2016.

- Over the previous 7 years, NAU has maintained a guaranteed tuition model for incoming freshman. NAU is increasing tuition by 3.9% for new undergraduate resident students.
- UA began a similar program in FY 2015. UA is increasing tuition by 3.2% for new resident undergraduate students.
- For FY 2016, ASU resident undergraduate students did not see a tuition increase, but were charged a one-year \$320 tuition surcharge fee (representing a 3.2% increase to tuition and mandatory fees). This surcharge is reduced to \$270 in FY 2017, but total tuition and fees for resident undergraduates are increasing 1.5% in FY 2017.

Table 8 only includes major tuition categories. A comprehensive list can be found on the [ABOR website](#).

Financial Aid

The Arizona University System distributed \$2.2 billion in financial aid in FY 2015. Of the \$2.2 billion total financial aid distributions in FY 2015, the federal government financed \$986 million and university institutional sources provided \$744 million. The latter includes tuition collections set aside for financial aid. (Please see Table 9 for details.)

Enrollment

Between fall 2014 and fall 2015, university enrollment increased from 146,611 FTE to 157,877, or 7.7%, as displayed in Table 10. Spring enrollment is traditionally lower than the fall.

	Tuition Revenue Allocation		
	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
<u>Appropriated</u>			
Operating Budget	\$1,022,249,500	\$1,181,675,200 ^{1/}	\$1,181,675,200 ^{2/}
<u>Non-Appropriated</u> ^{3/}			
Operating Budget	\$ 204,303,400	\$ 279,041,800	\$ 300,617,200
Financial Aid	468,836,100	545,622,700	572,183,500
Plant Fund	33,463,300	30,768,700	32,987,700
Debt Service	<u>86,312,800</u>	<u>92,826,900</u>	<u>94,526,900</u>
<i>Subtotal</i>	<i>\$ 792,915,600</i>	<i>\$ 948,260,100</i>	<i>\$1,000,315,300</i>
Total	\$1,815,165,100	\$2,129,935,300	\$2,181,990,500

^{1/} This amount reflects appropriated tuition collections and fees as allocated by ABOR and favorably reviewed by the JLBC at its December 2015 meeting.

^{2/} The appropriated tuition and fees amount is the FY 2016 amount carried forward and does not reflect FY 2017 tuition adjustments that will be considered by ABOR in the spring of 2016.

^{3/} The source for these non-appropriated amounts are the universities' FY 2017 budget requests from October 2015.

Table 8

**Arizona University System
FY 2017 Undergraduate and Graduate Tuition ^{1/}**

	<u>Resident Undergraduate</u>		<u>Resident Graduate</u>		<u>Non-Resident Undergraduate</u>		<u>Non-Resident Graduate</u>	
	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>
ASU	\$10,640 ^{2/}	1.5%	\$11,756	1.3%	\$26,470 ^{3/}	4.0%	\$28,862	4.0%
NAU	\$10,764	3.9%	\$9,989	4.0%	\$24,144	3.4%	\$21,976	3.4%
UA	\$11,769	3.2%	\$12,383	2.8%	\$34,967	7.2%	\$32,135	5.8%

^{1/} Reflects tuition rates for new students at NAU and UA and all classes at ASU. NAU and UA provide a guaranteed tuition rate for each incoming class, whereas ASU does not.

^{2/} FY 2016 one-year \$320 surcharge reduced to \$270 in FY 2017. Overall tuition and fee increase of 1.5% for ASU undergraduate resident students.

^{3/} ABOR approved a rate of \$28,270 for international undergraduate students at ASU.

Table 9

**FY 2015 Financial Aid Distribution by Source
(\$ in Thousands) ^{1/}**

	<u>Federal</u>	<u>State</u> ^{2/}	<u>Institutional</u> ^{3/}	<u>Private/Other</u> ^{4/}	<u>Total</u>
Grants	\$245,493.1	\$1,018.3	\$560,972.0	\$201,759.5	\$1,009,242.9
Loans	733,679.4	147.3	41.5	266,130.9	999,999.1
Employment	<u>7,172.1</u>	<u>0.0</u>	<u>183,475.0</u>	<u>0.0</u>	<u>190,647.1</u>
Total	\$986,344.6	\$1,165.6	\$744,488.5	\$467,890.4	\$2,199,889.0 ^{5/}

^{1/} Information provided by ABOR.

^{2/} State sources of aid include revenues from the Commission for Postsecondary Education.

^{3/} Institutional sources of aid include revenues from: Local Retention, the Collegiate License Plate Fund, Foundation funds, and Financial Aid Carry Forward from previous years.

^{4/} Private/Other sources of aid include AFAT, which is a combination of both state and institutional sources of aid.

^{5/} Numbers do not add due to rounding.

Table 10

Arizona University System 45th Day Enrollment ^{1/}

	<u>Fall 2014</u>	<u>Spring 2015</u>	<u>Fall 2015</u>	<u>Spring 2016</u>	<u>Fall 2014 to Fall 2015 % Change</u>	<u>FY 2014 – 2015 Residents</u> ^{2/}
	ASU- Tempe/ DPC	68,612	66,770	73,956	72,556	7.8%
ASU-East	5,687	5,744	6,565	6,490	15.4%	3,641
ASU-West	6,610	7,282	7,992	7,873	20.9%	4,678
NAU	25,743	24,865	27,212	26,400	5.7%	17,002
UA-Main	37,131	36,672	38,593	37,515	3.9%	22,770
UA-Health Sciences	<u>2,828</u>	<u>3,343</u>	<u>3,559</u>	<u>3,528</u>	<u>25.8%</u>	<u>2,611</u>
Total	146,611	144,676	157,877	154,362	7.7%	90,843

^{1/} Adjusted FTE does not include students with excess credit hours.

^{2/} FY 2014-2015 resident enrollment numbers are based on the average of each university's FY 2015 fall and spring resident student enrollment counts as published by the Auditor General. Campus specific values are imputed using the share of each campus' adjusted 45-day FY 2015 FTE counts as provided by ABOR as a percentage of each university's overall adjusted FTE count.

Arizona State University - Tempe/DPC

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6,142.9	6,552.6	6,552.6 ^{1/}
Personal Services	399,828,900	410,189,100	410,189,100
Employee Related Expenditures	117,102,300	127,385,500	126,504,900
Professional and Outside Services	43,980,700	39,315,500	39,315,500
Travel - In State	176,700	26,000	26,000
Travel - Out of State	3,418,800	2,658,700	2,658,700
Other Operating Expenditures	35,728,200	49,977,900	53,601,200
Equipment	25,119,700	22,183,500	22,183,500
OPERATING SUBTOTAL	625,355,300	651,736,200	654,478,900 ^{2/}
SPECIAL LINE ITEMS			
Biomedical Informatics	2,746,600	2,808,600	2,800,400
Downtown Phoenix Campus	122,968,000	127,251,400	127,209,500
Elimination of Payment Deferral	0	74,760,400 ^{3/}	0
One-Time Funding	0	0	7,000,000 ^{4/}
Parity Funding	38,843,100	0	0
Research Infrastructure Lease-Purchase Payment	13,032,400	10,509,100	10,273,300 ^{5/}
School of Civic and Economic Thought and Leadership	0	0	3,000,000 ^{6/}
AGENCY TOTAL	802,945,400	867,065,700	804,762,100 ^{1/8/9/}
FUND SOURCES			
General Fund	290,102,200	315,844,800	253,541,200 ^{10/-12/}
<u>Other Appropriated Funds</u>			
University Collections Fund	512,843,200	551,220,900	551,220,900 ^{13/}
SUBTOTAL - Other Appropriated Funds	512,843,200	551,220,900	551,220,900
SUBTOTAL - Appropriated Funds	802,945,400	867,065,700	804,762,100
Other Non-Appropriated Funds	883,302,200	1,033,435,300	1,066,208,200
Federal Funds	281,606,600	286,349,700	286,349,700
TOTAL - ALL SOURCES	1,967,854,200	2,186,850,700	2,157,320,000

AGENCY DESCRIPTION — Established in 1885, Arizona State University (ASU) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). As a primary research institution, ASU offers 308 Baccalaureate, Master's, Doctoral and first professional degree programs, and 95 undergraduate and graduate certificate programs to 73,168 full- and part-time students at its Tempe Campus. The Downtown Phoenix Campus (DPC), budgeted as a unit of the Tempe Campus, offers 73 degree programs and 24 certificate programs to 23,714 full- and part-time students.

1/ Includes 111.7 GF and 859.2 OF FTE Positions funded from Special Line Items in FY 2017.

2/ Includes \$2,000,000 appropriated by the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) for university operating expenditures in FY 2017.

3/ The FY 2017 General Appropriation Act includes a one-time FY 2016 supplemental General Fund appropriation of \$74,760,400 for the elimination of ASU - Tempe/DPC's share of the universitywide payment deferral.

4/ The sum of \$19,000,000 is appropriated from the state General Fund in FY 2017 to the Arizona Board of Regents for distribution for capital improvements or operating expenditures in the following amounts: 1) Arizona State University \$7,000,000, 2) Northern Arizona University \$4,000,000, 3) University of Arizona \$8,000,000. On or before August 1, 2016, the universities shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in this section for capital improvements, the universities shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)

5/ A.R.S. § 15-1670 appropriates \$13,555,000 from the General Fund in FY 2017 to finance lease-purchase payments for research infrastructure projects. This amount has been adjusted by \$(3,281,700) by Section 4 of the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) to reflect savings from refinancing the lease-purchase payments.

Operating Budget

The budget includes \$654,478,900 and 5,581.7 FTE Positions in FY 2017 for the operating budget. This amount consists of:

	FY 2017
General Fund	\$217,792,900
University Collections Fund	436,686,000

These amounts fund the following adjustments:

Additional Resources

The budget includes an increase of \$3,623,300 from the General Fund in FY 2017 for ASU - Tempe/DPC's share of additional university resources. *(Please see the University Additional Resources narrative in the Arizona Board of Regents (ABOR) section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(880,600) from the General Fund in FY 2017 for statewide adjustments.

This amount reflects ASU - Tempe/DPC's allocation of state health insurance premium costs in FY 2017 compared to its revised FY 2016 allocation. *(Please see the Health Insurance Trust Fund narrative in the ABOR section and the Agency Detail and Allocations section for more information.)*

The \$217,792,900 General Fund amount for the operating budget includes \$2,000,000 that was appropriated for FY 2017 in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). As a result, these monies do not appear in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117).

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Biomedical Informatics

The budget includes \$2,800,400 and 14.9 FTE Positions in FY 2017 for the Biomedical Informatics Department. This amount consists of:

General Fund	1,939,500
University Collections Fund	860,900

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(8,200) from the General Fund in FY 2017 for statewide adjustments.

- 6/ The appropriated amount for the School of Civic and Economic Thought and Leadership shall be used by the president of Arizona State University to establish a School of Civic and Economic Thought and Leadership consisting of the former Center for Political Thought and Leadership and the Center for the Study of Economic Liberty. The school shall operate as a single stand-alone academic entity within Arizona State University. The appropriated amount may not supplant any existing state funding or private or external donations to the former centers or to the school. The appropriated monies and all private and external donations to the school shall be used only for the direct operation of the school and may not be used for indirect costs of the university. The school shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee and the Director of the Joint Legislative Budget Committee on or before October 3, 2016. The report shall include at least the following for the school: 1) The total amount of funding received from all sources, 2) A description of faculty positions and courses offered, 3) The total undergraduate and graduate student enrollment, 4) Significant community events, initiatives or publications. The Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee may request the director of the school to appear before the committees to report on the school's annual achievements. (General Appropriation Act footnote)
- 7/ The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 8/ The appropriated monies may not be used by the Arizona State University College of Law Legal Clinic for any lawsuits involving inmates of the State Department of Corrections in which the state is the adverse party. (General Appropriation Act footnote)
- 9/ General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 10/ The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- 11/ The FY 2017 General Fund budget as adjusted for statewide adjustments is \$253,541,200. This amount includes \$233,303,600 in ASU - Tempe/DPC's individual section of the FY 2017 General Appropriation Act, \$964,300 for statewide adjustments, \$13,555,000 in A.R.S. § 15-1670 lease-purchase appropriations less \$(3,281,700) from the refinance of Certificates of Participation for research infrastructure in the FY 2017 Higher Education BRB, the \$2,000,000 operating budget appropriation in the FY 2015 General Appropriation Act footnote, and a one-time \$7,000,000 appropriation in section 149 of the FY 2017 General Appropriation Act for capital improvements or other operating expenditures.
- 12/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 13/ Any unencumbered balances remaining in the collections account on June 30, 2016 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Monies from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

This multidisciplinary department incorporates computer science, biology, and engineering to organize and analyze medical data. In 2014, Biomedical Informatics moved from the DPC to Mayo Clinic's hospital in Phoenix.

Downtown Phoenix Campus

The budget includes \$127,209,500 and 956 FTE Positions in FY 2017 for programs headquartered at the DPC. This amount consists of:

General Fund	13,535,500
University Collections Fund	113,674,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(41,900) from the General Fund in FY 2017 for statewide adjustments.

The DPC offers undergraduate and graduate programs in disciplines including health, nursing, journalism, mass communication, teaching and public programs. The campus opened in 2006 with 2,700 students and had a full-time student enrollment of 14,174 in FY 2016.

Elimination of Payment Deferral

The budget includes no funding in FY 2017 for the Elimination of Payment Deferral line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(74,760,400) from the General Fund in FY 2017 to remove a one-time payment to eliminate ASU - Tempe/DPC's share of the universitywide payment deferral in FY 2016. *(Please see the Payment Deferral narrative in the ABOR section for more information.)*

One-Time Funding

The budget includes \$7,000,000 from the General Fund in FY 2017 for the One-Time Funding line item. This amount will be used for one-time capital improvements or operating expenditures.

Research Infrastructure Lease-Purchase Payment

The budget includes \$10,273,300 from the General Fund in FY 2017 for the Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Adjustment

The budget includes a decrease of \$(235,800) from the General Fund in FY 2017 to adjust anticipated savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Of this amount, \$14,472,000 was appropriated to ASU, including \$13,555,000 allocated to ASU - Tempe/DPC and \$917,000 to ASU East.

The FY 2015 General Appropriation Act reduced the total ASU research infrastructure appropriation by \$(522,600) in FY 2015, \$(3,045,900) in FY 2016, and \$(2,329,800) in FY 2017. Due to subsequent refinancing, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) further adjusted the FY 2017 reduction from \$(2,329,800) to \$(3,281,700) to reflect ASU's revised debt service schedule.

The FY 2017 Higher Education BRB also amends A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations that correspond to ASU's current debt service schedule. *(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)*

Since this funding appears in A.R.S. § 15-1670 and Laws 2014, Chapter 18, Section 134, this funding does not appear in the FY 2017 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, ASU - Tempe/DPC has issued \$187,200,000 in COPs.

School of Civic and Economic Thought and Leadership

The budget includes \$3,000,000 from the General Fund in FY 2017 for the School of Civic and Economic Thought and Leadership line item. This amount funds the following adjustments:

School of Civic and Economic Thought and Leadership

The budget includes an increase of \$3,000,000 from the General Fund in FY 2017 for the School of Civic and Economic Thought and Leadership.

The FY 2017 General Appropriation act provides funding to combine the existing Center for Political Thought and Leadership and the Center for the Study of Economic

Liberty to establish a new School of Civic and Economic Thought and Leadership as a standalone academic entity within ASU. Currently, the Center for the Study of Economic Liberty sits within the W.P. Carey School of Business and facilitates research by fellows and undergraduate students focusing on “the role economic liberty and the free enterprise system play in increasing opportunity and improving well-being.” The current Center for Political Thought and Leadership organizes public events and offers a certificate program to undergraduate students who complete core and elective requirements related to “the foundational principles of good government, civic involvement, free markets and political liberty.”

Other Issues

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, ASU’s General Fund costs are projected to increase by \$2,290,700 in FY 2018 above FY 2017 and remain largely flat in FY 2019 and FY 2020. These estimates are based on increases in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2018 and FY 2019 relative to FY 2017. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

FY 2016 Supplemental

The budget includes \$1,895,000 from the General Fund in FY 2016 for a one-time supplemental for the revised allocation of health insurance premium adjustments. *(Please see the Health Insurance Trust Fund narrative in the ABOR section for more information.)*

Summary

ASU - Tempe/DPC’s FY 2017 General Fund budget is \$253,541,200. Of this amount:

- \$233,303,600 is included in ASU - Tempe/DPC’s individual section of the FY 2017 General Appropriation Act.
- \$964,300 is part of statewide adjustments.
- \$13,555,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$(3,281,700) is reduced by the FY 2017 Higher Education BRB for Research Infrastructure savings.
- \$2,000,000 was appropriated by a footnote in the FY 2015 General Appropriation Act.

- \$7,000,000 is a one-time appropriation in section 149 of the FY 2017 General Appropriation Act for capital improvements or operating expenditures.

University Collections and FTE Positions Adjustments

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) appropriated \$516,159,500 from the University Collections Fund to ASU - Tempe/DPC in FY 2016. The Collections Fund for ASU - Tempe/DPC represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2016 to the Joint Legislative Budget Committee in July 2015, and ASU incorporated the adjusted FY 2016 amounts as part of their FY 2017 budget submission. Accordingly, the FY 2016 amount in the budget has been adjusted upward by \$35,061,900 to \$551,220,900.

The budget also adjusts the number of FTE Positions in FY 2016 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2015, Chapter 8 originally appropriated 6,142.9 FTE Positions in FY 2016 for the ASU - Tempe/DPC Campus. The General Fund accounted for 1,845.3 FTE Positions and the University Collections Fund accounted for the remaining 4,297.6 FTE Positions. The budget increases the total amount of FY 2016 FTE Positions by 409.7 to 6,552.6. The General Fund accounts for 1,943.2 FTE Positions and the University Collections Fund accounts for the remaining 4,609.4 FTE Positions. The total number and fund sourcing of FTE Positions significantly increased because adjustments to FTE Positions have not been made in several years.

Arizona State University - East Campus

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	425.6	416.2	416.2
Personal Services	25,818,100	26,638,700	26,638,700
Employee Related Expenditures	7,691,700	8,788,000	8,689,200
Professional and Outside Services	4,293,100	4,554,600	4,554,600
Travel - In State	45,900	36,500	36,500
Travel - Out of State	97,700	15,000	15,000
Other Operating Expenditures	8,588,000	16,453,600	16,782,300
Equipment	1,342,300	664,900	664,900
OPERATING SUBTOTAL	47,876,800	57,151,300	57,381,200
SPECIAL LINE ITEMS			
Elimination of Payment Deferral	0	5,750,200 ^{1/}	0
Parity Funding	6,647,000	0	0
Research Infrastructure Lease-Purchase Payment	917,000	917,000	917,000 ^{2/}
TRIF Lease-Purchase Payment	2,000,000	2,000,000	2,000,000
AGENCY TOTAL	57,440,800	65,818,500	60,298,200^{3,4/}
FUND SOURCES			
General Fund	25,853,400	28,095,600	22,575,300 ^{5/6,7/}
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	2,000,000	2,000,000	2,000,000
University Collections Fund	29,587,400	35,722,900	35,722,900 ^{8/}
SUBTOTAL - Other Appropriated Funds	31,587,400	37,722,900	37,722,900
SUBTOTAL - Appropriated Funds	57,440,800	65,818,500	60,298,200
Other Non-Appropriated Funds	16,050,700	19,047,100	20,447,300
Federal Funds	8,211,400	8,377,200	8,377,200
TOTAL - ALL SOURCES	81,702,900	93,242,800	89,122,700

AGENCY DESCRIPTION — Established as a separate budget unit in 1994, Arizona State University - East Campus (ASU - East), also known as the Polytechnic Campus, currently offers 43 professional and technical Baccalaureate, Master's, and Doctoral degree programs and 11 undergraduate certificate programs to 14,632 full- and part-time students. ASU - East is located at the 600-acre site of the former Williams Air Force Base in southeast Mesa.

- 1/ The FY 2017 General Appropriation Act includes a one-time FY 2016 supplemental General Fund appropriation of \$5,750,200 for the elimination of ASU - East's share of the universitywide payment deferral.
- 2/ A.R.S. § 15-1670 appropriates \$917,000 from the General Fund in FY 2017 to finance lease-purchase payments for research infrastructure projects.
- 3/ The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 5/ The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- 6/ The FY 2017 General Fund budget as adjusted for statewide adjustments is \$22,575,300. This amount includes \$21,574,400 in ASU - East's individual section of the FY 2017 General Appropriation Act, \$83,900 for statewide adjustments, and the \$917,000 in A.R.S. § 15-1670 lease-purchase appropriations.
- 7/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 8/ Any unencumbered balances remaining in the collections account on June 30, 2016 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Monies from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Operating Budget

The budget includes \$57,381,200 and 416.2 FTE Positions in FY 2017 for the operating budget. This amount consists of:

	FY 2017
General Fund	\$21,658,300
University Collections Fund	35,722,900

These amounts fund the following adjustments:

Additional Resources

The budget includes an increase of \$328,700 from the General Fund in FY 2017 for ASU - East's share of additional university resources. *(Please see the University Additional Resources narrative in the Arizona Board of Regents (ABOR) section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(98,800) from the General Fund in FY 2017 for statewide adjustments.

This amount reflects ASU - East's allocation of state health insurance premium costs in FY 2017 compared to its revised FY 2016 allocation. *(Please see the Health Insurance Trust Fund narrative in the ABOR section and the Agency Detail and Allocations section for more information.)*

The \$21,658,300 General Fund amount for the operating budget includes \$2,000,000 that was appropriated for FY 2017 in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). As a result, these monies do not appear in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117).

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Elimination of Payment Deferral

The budget includes no funding in FY 2017 for the Elimination of Payment Deferral line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(5,750,200) from the General Fund in FY 2017 to remove a one-time payment to eliminate ASU - East's share of the universitywide payment deferral in FY 2016. *(Please see the Payment*

Deferral narrative in the ABOR section for more information.)

Research Infrastructure Lease-Purchase Payment

The budget includes \$917,000 from the General Fund in FY 2017 for the Research Infrastructure Lease-Purchase Payment line item. This amount is unchanged from FY 2016.

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. Therefore, this funding does not appear in the General Appropriation Act. In total, the universities have issued \$482,500,000 in Certificates of Participation (COPs) for research infrastructure projects. Of this amount, ASU - East has issued \$19,000,000 in COPs for the Interdisciplinary Science & Technology Building II, which is now complete.

TRIF Lease-Purchase Payment

The budget includes \$2,000,000 from the Technology and Research Initiative Fund (TRIF) in FY 2017 for lease-purchase payment requirements. This amount is unchanged from FY 2016.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,400,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$27,500,000 in infrastructure development at ASU - East. Beginning in FY 2003, the lease-purchase payment increased to \$2,000,000, which will be the annual lease-purchase payment through FY 2021.

Other Issues

FY 2016 Supplemental

The budget includes \$182,700 from the General Fund in FY 2016 for a one-time supplemental for the revised allocation of health insurance premium adjustments. *(Please see the Health Insurance Trust Fund narrative in the ABOR section for more information.)*

Summary

ASU - East's FY 2017 General Fund budget is \$22,575,300. Of this amount:

- \$21,574,400 is included in ASU - East's individual section of the FY 2017 General Appropriation Act.
- \$83,900 is part of statewide adjustments.
- \$917,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.

University Collections and FTE Positions Adjustments

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) appropriated \$29,466,500 from the University Collections Fund to ASU - East in FY 2016. The Collections Fund for ASU - East represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2016 to the Joint Legislative Budget Committee in July 2015, and ASU incorporated the adjusted FY 2016 amounts as part of their FY 2017 budget submission. Accordingly, the FY 2016 amount in the budget has been adjusted upward by \$6,256,400 to \$35,722,900.

The budget also adjusts the number of FTE Positions in FY 2016 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2015, Chapter 8 originally appropriated 425.6 FTE Positions in FY 2016 for the ASU - East Campus. The General Fund accounted for 168.4 FTE Positions and the University Collections Fund accounted for the remaining 257.2 FTE Positions. The budget reduces the total amount of FY 2016 FTE Positions by (9.4) to 416.2. The General Fund accounts for 155.2 FTE Positions and the University Collections Fund accounts for the remaining 261 FTE Positions. The total number and fund source of FTE Positions changed because adjustments to FTE Positions have not been made in several years.

Arizona State University - West Campus

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	562.9	521.1	521.1
Personal Services	34,612,000	33,681,900	33,476,400
Employee Related Expenditures	10,545,200	11,102,900	11,207,700
Professional and Outside Services	3,753,000	2,931,700	2,931,700
Travel - In State	42,200	42,900	42,900
Travel - Out of State	73,000	62,200	62,200
Other Operating Expenditures	24,735,400	25,220,300	25,642,500
Equipment	559,700	159,100	159,100
OPERATING SUBTOTAL	74,320,500	73,201,000	73,522,500
SPECIAL LINE ITEMS			
Elimination of Payment Deferral	0	10,064,800 ^{1/}	0
TRIF Lease-Purchase Payment	1,600,000	1,600,000	1,600,000
AGENCY TOTAL	75,920,500	84,865,800	75,122,500^{2/3/}
FUND SOURCES			
General Fund	33,328,100	39,024,400	29,281,100 ^{4/5/6/}
<u>Other Appropriated Funds</u>			
Technology and Research Initiative Fund	1,600,000	1,600,000	1,600,000
University Collections Fund	40,992,400	44,241,400	44,241,400 ^{7/}
SUBTOTAL - Other Appropriated Funds	42,592,400	45,841,400	45,841,400
SUBTOTAL - Appropriated Funds	75,920,500	84,865,800	75,122,500
Other Non-Appropriated Funds	34,391,300	51,596,400	53,429,200
Federal Funds	12,359,000	12,608,400	12,608,400
TOTAL - ALL SOURCES	122,670,800	149,070,600	141,160,100

AGENCY DESCRIPTION — Established as a separate budget unit in 1984, Arizona State University - West Campus (ASU - West) currently offers 55 Baccalaureate, selective Master's, and Doctoral degree programs in the professional and liberal arts and 18 undergraduate certificate programs to 17,751 full- and part-time students. ASU - West is located at a 277-acre site in northwest Phoenix.

- ^{1/} The FY 2017 General Appropriation Act includes a one-time FY 2016 supplemental General Fund appropriation of \$10,064,800 for the elimination of ASU - West's share of the universitywide payment deferral.
- ^{2/} The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- ^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- ^{4/} The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- ^{5/} The FY 2017 General Fund budget as adjusted for statewide adjustments is \$29,281,100. This amount includes \$29,176,300 in ASU - West's individual section of the FY 2017 General Appropriation Act and \$104,800 for statewide adjustments.
- ^{6/} The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- ^{7/} Any unencumbered balances remaining in the collections account on June 30, 2016 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Monies from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Operating Budget

The budget includes \$73,522,500 and 521.1 FTE Positions in FY 2017 for the operating budget. This amount consists of:

	FY 2017
General Fund	\$29,281,100
University Collections Fund	44,241,400

These amounts fund the following adjustments:

Additional Resources

The budget includes an increase of \$422,200 from the General Fund in FY 2017 for ASU - West's share of additional university resources. *(Please see the University Additional Resources narrative in the Arizona Board of Regents (ABOR) section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(100,700) from the General Fund in FY 2017 for statewide adjustments.

This amount reflects ASU - West's allocation of state health insurance premium costs in FY 2017 compared to its revised FY 2016 allocation. *(Please see the Health Insurance Trust Fund narrative in the ABOR section and the Agency Detail and Allocations section for more information.)*

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Elimination of Payment Deferral

The budget includes no funding in FY 2017 for the Elimination of Payment Deferral line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(10,064,800) from the General Fund in FY 2017 to remove a one-time payment to eliminate ASU - West's share of the universitywide payment deferral in FY 2016. *(Please see the Payment Deferral narrative in the ABOR section for more information.)*

TRIF Lease-Purchase Payment

The budget includes \$1,600,000 from the Technology and Research Initiative Fund (TRIF) in FY 2017 for lease-purchase payment requirements. This amount is unchanged from FY 2016.

Laws 2000, 5th Special Session, Chapter 1 appropriated \$1,100,000 from TRIF to make the initial lease-purchase payment in FY 2002 on \$21,600,000 in infrastructure development at ASU - West. Beginning in FY 2003, the lease-purchase payment increased to \$1,600,000, which will be the annual lease-purchase payment through FY 2021.

Other Issues

FY 2016 Supplemental

The budget includes \$205,500 from the General Fund in FY 2016 for a one-time supplemental for the revised allocation of health insurance premium adjustments. *(Please see the Health Insurance Trust Fund narrative in the ABOR section for more information.)*

Summary

ASU - West's FY 2017 General Fund budget is \$29,281,100. Of this amount:

- 29,176,300 is included in ASU - West's individual section of the FY 2017 General Appropriation Act.
- \$104,800 is part of statewide adjustments.

University Collections and FTE Positions Adjustments

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) appropriated \$40,917,600 from the University Collections Fund to ASU - West in FY 2016. The Collections Fund for ASU - West represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY

2016 to the Joint Legislative Budget Committee in July 2015, and ASU incorporated the adjusted FY 2016 amounts as part of their FY 2017 budget submission. Accordingly, the FY 2016 amount in the budget has been adjusted upward by \$3,323,800 to \$44,241,400.

The budget also adjusts the number of FTE Positions in FY 2016 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2015, Chapter 8 originally appropriated 562.9 FTE Positions in FY 2016 for the ASU - West Campus. The General Fund accounted for 252.3 FTE Positions and the University Collections Fund accounted for the remaining 310.6 FTE Positions. The budget decreases the total amount of FY 2016 FTE Positions by (41.8) to 521.1. The General Fund accounts for 205.3 FTE Positions and the University Collections Fund accounts for the remaining 315.8 FTE Positions. The total number and fund source of FTE Positions changed because adjustments to FTE Positions have not been made in several years.

Northern Arizona University

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,057.2	2,249.7	2,249.7 ^{1/}
Personal Services	156,428,500	154,129,000	154,129,000
Employee Related Expenditures	48,493,000	48,188,700	48,170,200
Professional and Outside Services	13,182,800	8,186,100	8,186,100
Travel - In State	351,000	443,400	443,400
Travel - Out of State	722,200	0	0
Other Operating Expenditures	4,852,600	20,942,600	22,477,400
Equipment	506,300	502,800	502,800
OPERATING SUBTOTAL	224,536,400	232,392,600	233,908,900 ^{2/}
SPECIAL LINE ITEMS			
Biomedical Research	3,000,000	3,000,000	3,000,000 ^{3/}
Elimination of Payment Deferral	0	30,494,800 ^{4/}	0
NAU - Yuma	3,084,400	3,068,000	3,067,300
One-Time Funding	0	0	4,000,000 ^{5/}
Parity Funding	12,549,900	0	0
Research Infrastructure Lease-Purchase Payment	5,491,500	5,493,200	4,246,800 ^{6/}
Teacher Training	2,476,500	2,290,600	2,290,600 ^{7/}
AGENCY TOTAL	251,138,700	276,739,200	250,513,600 ^{8/9/}
FUND SOURCES			
General Fund	118,281,200	131,452,600	105,227,000 ^{10/-12/}
<u>Other Appropriated Funds</u>			
University Collections Fund	132,857,500	145,286,600	145,286,600 ^{13/}
SUBTOTAL - Other Appropriated Funds	132,857,500	145,286,600	145,286,600
SUBTOTAL - Appropriated Funds	251,138,700	276,739,200	250,513,600
Other Non-Appropriated Funds	196,588,600	225,996,200	237,598,400
Federal Funds	81,257,700	82,070,300	82,890,700
TOTAL - ALL SOURCES	528,985,000	584,805,700	571,002,700

AGENCY DESCRIPTION — Established in 1899, Northern Arizona University (NAU) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). The university's primary focus is undergraduate residential education. NAU offers 151 degree programs and 73 certificate programs to 28,069 students in 9 colleges/divisions through its campus in Flagstaff and its extended campus programs, also known as distance learning programs. The university is responsible for providing the large majority of statewide extended campus programs, both over the Internet and through 26 instructional sites, including a Yuma Branch Campus that operates in conjunction with Arizona Western College and NAU Yavapai, a partnership with Yavapai Community College.

^{1/} Includes 36.9 GF FTE Positions funded from Special Line Items in FY 2017.

^{2/} Includes \$500,000 appropriated by the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) for university operating expenses in FY 2017.

^{3/} Laws 2014, Chapter 18 appropriated \$3,000,000 annually from the state General Fund in FY 2015, FY 2016, FY 2017, FY 2018 and FY 2019 to Northern Arizona University for distribution to a nonprofit medical research foundation in this state that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and health science research centers.

^{4/} The FY 2017 General Appropriation Act includes a one-time FY 2016 supplemental General Fund appropriation of \$30,494,800 for the elimination of NAU's share of the universitywide payment deferral.

^{5/} The sum of \$19,000,000 is appropriated from the state General Fund in FY 2017 to the Arizona Board of Regents for distribution for capital improvements or operating expenditures in the following amounts: 1) Arizona State University \$7,000,000, 2) Northern Arizona University \$4,000,000, 3) University of Arizona \$8,000,000. On or before August 1, 2016, the universities shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in this section for capital improvements, the universities shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)

Operating Budget

The budget includes \$233,908,900 and 2,212.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$88,622,300
University Collections Fund	145,286,600

These amounts fund the following adjustments:

Additional Resources

The budget includes an increase of \$1,534,800 from the General Fund in FY 2017 for NAU's share of additional university resources. *(Please see the University Additional Resources narrative in the Arizona Board of Regents (ABOR) section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(18,500) from the General Fund in FY 2017 for statewide adjustments.

This amount reflects NAU's allocation of state health insurance premium costs in FY 2017 compared to its revised FY 2016 allocation. *(Please see the Health Insurance Trust Fund narrative in the ABOR section and the Agency Detail and Allocations section for more information.)*

The \$88,622,300 General Fund amount for the operating budget includes \$500,000 that was appropriated for FY 2017 in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). As a result, these monies do not appear in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117).

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Biomedical Research

The budget includes \$3,000,000 from the General Fund in FY 2017 for the Biomedical Research Special Line Item (SLI). This amount is unchanged from FY 2016.

Section 132 of the FY 2015 General Appropriation Act appropriated \$3,000,000 annually to NAU from FY 2015 to FY 2019 for biotechnology. As a result these monies do not appear in the General Appropriation Act.

Funding is to be allocated to a nonprofit medical research foundation that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and health science research centers. NAU has awarded the funding to the Translational Genomics Research Institute (TGen). *(Please see the Department of Health Services section for additional information on nonprofit medical research funding.)*

Elimination of Payment Deferral

The budget includes no funding in FY 2017 for the Elimination of Payment Deferral line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(30,494,800) from the General Fund in FY 2017 to remove a one-time payment

- 6/ A.R.S. § 15-1670 appropriates \$5,900,000 from the General Fund in FY 2017 to finance lease-purchase payments for research infrastructure projects. This amount has been adjusted by \$(1,653,200) in Section 134 of the FY 2015 General Appropriation Act to reflect savings from refinancing the lease-purchase payments.
- 7/ The appropriated amount for the Teacher Training line item shall be distributed to the Arizona K-12 Center for Program Implementation and Mentor Training for the Arizona Mentor Teacher program prescribed by the State Board of Education. (General Appropriation Act footnote)
- 8/ The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 9/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 10/ The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- 11/ The FY 2017 General Fund Budget as adjusted for statewide adjustments is \$105,227,000. This amount includes \$93,459,200 in NAU's individual section of the FY 2017 General Appropriation Act, \$21,000 for statewide adjustments, the \$5,900,000 in A.R.S. § 15-1670 lease-purchase appropriations less \$(1,653,200) in savings from the refinance of Certificates of Participation for research infrastructure in the FY 2015 General Appropriation Act, the \$3,000,000 Biomedical Research appropriation in the FY 2015 General Appropriation Act, the \$500,000 operating budget appropriation in the FY 2015 General Appropriation Act footnote, and a one-time \$4,000,000 appropriation in section 149 of the FY 2017 General Appropriation Act for capital improvements or other operating expenditures.
- 12/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 13/ Any unencumbered balances remaining in the collections account on June 30, 2016 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Monies from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

to eliminate NAU's share of the universitywide payment deferral in FY 2016. *(Please see the Payment Deferral narrative in the ABOR section for more information.)*

NAU - Yuma

The budget includes \$3,067,300 and 29.4 FTE Positions from the General Fund in FY 2017 for NAU-Yuma. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(700) from the General Fund in FY 2017 for statewide adjustments.

NAU operates this campus in conjunction with the Arizona Western College in Yuma.

One-Time Funding

The budget includes \$4,000,000 from the General Fund in FY 2017 for the One-Time Funding line item. This amount will be used for one-time capital improvements or operating expenditures.

Research Infrastructure Lease-Purchase Payment

The budget includes \$4,246,800 from the General Fund in FY 2017 for the Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Adjustment

The budget includes a decrease of \$(1,246,400) from the General Fund in FY 2017 to adjust anticipated savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006. The FY 2015 General Appropriation Act reduced the NAU research infrastructure appropriation of \$5,900,000 by \$(408,500) in FY 2015, \$(406,800) in FY 2016, and \$(1,653,200) in FY 2017.

The FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amends A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations that correspond to NAU's current debt service schedule. *(Please see the Long-Term Budget Impacts narrative below and the 2003 Research*

Infrastructure narrative in the ABOR section for more information.)

Since this funding appears in A.R.S. § 15-1670 and Laws 2014, Chapter 18, Section 134, this funding does not appear in the FY 2017 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, NAU has issued \$77,475,000 in COPs.

Teacher Training

The budget includes \$2,290,600 and 7.5 FTE Positions from the General Fund in FY 2017 for Teacher Training. These amounts are unchanged from FY 2016.

The Teacher Training program serves to increase the number of teachers serving as mentors under the Teacher Training ("Master Teacher") program. The Arizona K-12 Center is affiliated with NAU and is located in downtown Phoenix.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, NAU's General Fund costs are projected to increase by \$1,649,700 in FY 2018 above FY 2017 and remain largely flat in FY 2019 and FY 2020. These estimates are based on increases in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2018 and FY 2019 relative to FY 2017. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

FY 2016 Supplemental

The budget includes \$40,200 from the General Fund in FY 2016 for a one-time supplemental for the revised allocation of health insurance premium adjustments. *(Please see the Health Insurance Trust Fund narrative in the ABOR section for more information.)*

Summary

NAU's FY 2017 General Fund budget is \$105,227,000. Of this amount:

- \$93,459,200 is included in NAU's individual section of the FY 2017 General Appropriation Act.
- \$21,000 is part of statewide adjustments.

- \$5,900,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$(1,653,200) was reduced in Section 134 of the FY 2015 General Appropriation Act for Research Infrastructure savings.
- \$3,000,000 was appropriated in Section 132 of the FY 2015 General Appropriation Act for Biomedical Research.
- \$500,000 was appropriated by a footnote in Laws 2014, Chapter 18.
- \$4,000,000 is a one-time appropriation in section 149 of the FY 2017 General Appropriation Act for capital improvements or operating expenditures.

University Collections and FTE Positions Adjustments

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) appropriated \$132,857,500 from the University Collections Fund to NAU in FY 2016. The Collections Fund for NAU represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2016 to the Joint Legislative Budget Committee in July 2015, and NAU incorporated the adjusted FY 2016 amounts as part of their FY 2017 budget submission. Accordingly, the FY 2016 amount in the budget has been adjusted upward by \$12,429,100 to \$145,286,600.

The budget also adjusts the number of FTE Positions in FY 2016 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2015, Chapter 8 originally appropriated 2,057.2 FTE Positions in FY 2016 for NAU. The General Fund accounted for 836.7 FTE Positions and the University Collections Fund accounted for the remaining 1,220.5 FTE Positions. The budget increases the total amount of FY 2016 FTE Positions by 192.5 to 2,249.7. The General Fund accounts for 866.1 FTE Positions and the University Collections Fund accounts for the remaining 1,383.6 FTE Positions. The total number and fund sourcing of FTE Positions significantly increased because adjustments to FTE Positions have not been made in several years.

University of Arizona - Main Campus

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5,393.0	5,605.5	5,606.5 ^{1/}
Personal Services	271,490,700	314,469,100	314,469,100
Employee Related Expenditures	85,849,200	97,185,400	96,724,000
Professional and Outside Services	3,242,700	4,405,900	4,405,900
Travel - In State	88,200	82,000	82,000
Travel - Out of State	631,200	74,600	74,600
Other Operating Expenditures	38,532,600	50,606,900	52,662,200
Equipment	2,980,100	1,601,800	1,601,800
OPERATING SUBTOTAL	402,814,700	468,425,700	470,019,600 ^{2/}
SPECIAL LINE ITEMS			
Agriculture	37,199,400	39,652,600	39,542,600
Arizona Cooperative Extension	14,020,500	16,136,500	16,079,500
Center for the Philosophy of Freedom	492,100	500,000	2,500,000 ^{3/}
Elimination of Payment Deferral	0	62,153,100 ^{4/}	0
Mining, Mineral and Natural Resources Educational Museum	0	0	428,300 ^{5/}
One-Time Funding	0	0	8,000,000 ^{6/}
Research Infrastructure Lease-Purchase Payment	9,593,200	9,593,600	13,978,400 ^{7/}
Sierra Vista Campus	6,227,300	7,671,300	7,660,800
AGENCY TOTAL	470,347,200	604,132,800	558,209,200 ^{8/9/}
FUND SOURCES			
General Fund	209,341,200	242,983,200	197,059,600 ^{10/11/12/}
<u>Other Appropriated Funds</u>			
University Collections Fund	261,006,000	361,149,600	361,149,600 ^{13/}
SUBTOTAL - Other Appropriated Funds	261,006,000	361,149,600	361,149,600
SUBTOTAL - Appropriated Funds	470,347,200	604,132,800	558,209,200
Other Non-Appropriated Funds	961,364,600	972,910,900	998,744,300
Federal Funds	218,280,200	222,645,800	229,509,200
TOTAL - ALL SOURCES	1,649,992,000	1,799,689,500	1,786,462,700

AGENCY DESCRIPTION — Established in 1885, The University of Arizona (UA) is one of 3 public universities governed by the Arizona Board of Regents (ABOR). As a primary research institution, UA offers 362 degree-programs and 4 specialist programs to approximately 42,000 full- and part-time students in 39 colleges and schools at its Main Campus in Tucson. Upon its establishment, UA received the federal land grant for Arizona, allowing the creation of agricultural and mining programs that continue today. UA - South is a branch campus of the university in Sierra Vista.

^{1/} Includes 713 GF and 265.7 OF FTE Positions funded from Special Line Items in FY 2017.

^{2/} Includes \$2,000,000 appropriated by the FY 2015 Appropriation Act (Laws 2014, Chapter 18) for university operating expenditures in FY 2017.

^{3/} The appropriated amount for the Center for the Philosophy of Freedom may not supplant any existing state funding or private or external donations to the Center or the Philosophy Department of the University of Arizona. The appropriated monies and all private and external donations to the Center shall be used only for the direct operation of the Center and may not be used for indirect costs to the university. The Center shall submit a report to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee and the Director of the Joint Legislative Budget Committee on or before October 3, 2016. The report shall include at least the following for the Center: 1) The total amount of funding received from all sources, 2) A description of faculty positions and courses offered, 3) The total undergraduate and graduate student participation, 4) Significant community events, initiatives or publications.

The Chairpersons of the Senate Education Committee and the House of Representatives Government and Higher Education Committee may request the Director of the Center to appear before the Committees to report on the Center's annual achievements. (General Appropriation Act footnote)

Operating Budget

The budget includes \$470,019,600 and 4,627.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$126,361,300
University Collections Fund	343,658,300

These amounts fund the following adjustments:

Additional Resources

The budget includes an increase of \$2,055,300 from the General Fund in FY 2017 for UA - Main's share of additional university resources. *(Please see the University Additional Resources narrative in the Arizona Board of Regents (ABOR) section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(461,400) from the General Fund in FY 2017 for statewide adjustments.

This amount reflects UA - Main's allocation of state health insurance premium costs in FY 2017 compared to its revised FY 2016 allocation. *(Please see the Health Insurance Trust Fund narrative in the ABOR section and the Agency Detail and Allocations section for more information.)*

The \$126,361,300 General Fund amount for the operating budget includes \$2,000,000 that was appropriated for FY 2017 in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). As a result, these monies do not appear in the FY 2017 General Appropriation Act.

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Agriculture

The budget includes \$39,542,600 and 715.6 FTE Positions in FY 2017 for the Agriculture Programs. These amounts consist of:

General Fund	28,657,300
University Collections Fund	10,885,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(110,000) from the General Fund in FY 2017 for statewide adjustments.

This line item supports agricultural academic programs in Animal Systems; Environment and Natural Resources;

- 4/ The FY 2017 General Appropriation Act includes one-time FY 2016 supplemental General Fund appropriation of \$62,153,100 for the elimination of UA - Main's share of the universitywide payment deferral.
- 5/ Laws 2016, Chapter 128 transfers \$428,300 from the General Fund and 1 FTE Position from the Arizona Historical Society to the Mining, Mineral and Natural Resources Educational Museum line item in the UA - Main budget.
- 6/ The sum of \$19,000,000 is appropriated from the state General Fund in FY 2017 to the Arizona Board of Regents for distribution for capital improvements or operating expenditures in the following amounts: 1) Arizona State University \$7,000,000, 2) Northern Arizona University \$4,000,000, 3) University of Arizona \$8,000,000. On or before August 1, 2016, the universities shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in this section for capital improvements, the universities shall submit the scope, purpose, and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)
- 7/ A.R.S. § 15-1670 appropriates \$14,253,000 from the General Fund to finance lease-purchase payments for research infrastructure projects. This amount has been adjusted by \$(274,600) by Section 134 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) to reflect savings from refinancing the lease-purchase payments.
- 8/ The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- 9/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 10/ The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- 11/ The FY 2017 General Fund budget as adjusted for statewide adjustments is \$197,059,600. This amount includes \$171,961,100 in UA - Main's individual section of the FY 2017 General Appropriation Act, \$691,800 for statewide adjustments, \$14,253,000 in A.R.S. § 15-1670 lease-purchase appropriations less \$(274,600) in savings from the refinance of Certificates of Participation for research infrastructure in the FY 2015 General Appropriation Act, the \$2,000,000 operating budget appropriation in the FY 2015 General Appropriation Act footnote, the \$428,300 transfer of the Mining, Mineral, and Natural Resources Educational Museum from the Arizona Historical Society to the UA - Main, and a one-time \$8,000,000 appropriation in Section 149 of the FY 2017 General Appropriation Act for capital improvements or other operating expenditures.
- 12/ The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- 13/ Any unencumbered balances remaining in the collections account on June 30, 2016 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Monies from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Family, Youth, and Community; Human Nutrition, Food Safety and Health; Marketing, Trade, and Economics; and Plant Systems.

Arizona Cooperative Extension

The budget includes \$16,079,500 and 186.8 FTE Positions in FY 2017 for the Arizona Cooperative Extension. These amounts consist of:

General Fund	14,379,500
University Collections Fund	1,700,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(57,000) from the General Fund in FY 2017 for statewide adjustments.

This line item supports Agriculture Experiment Stations and Cooperative Extension services that provide non-credit community outreach seminars and youth programs throughout the state.

Center for the Philosophy of Freedom

The budget includes \$2,500,000 from the General Fund in FY 2017 for the Center for the Philosophy of Freedom (CPF). This amount funds the following adjustments:

Center for the Philosophy of Freedom

The budget includes an increase of \$2,000,000 from the General Fund in FY 2017 for the direct operation of the CPF.

This line item supports the CPF, which is within the UA College of Social and Behavioral Sciences. The CPF's functions include: published research, undergraduate education, graduate education, and community outreach.

Elimination of Payment Deferral

The budget includes no funding in FY 2017 for the Elimination of Payment Deferral line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(62,153,100) from the General Fund in FY 2017 to remove a one-time payment to eliminate UA - Main's share of the universitywide payment deferral in FY 2016. *(Please see the Payment Deferral narrative in the ABOR section for more information.)*

Mining, Mineral and Natural Resources Educational Museum

The FY 2017 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) transfers \$428,300 and 1 FTE Position from the General Fund in FY 2017 for the Mining, Mineral and Natural Resources Educational Museum. The Agency Consolidation BRB transfers the Arizona Experience Museum from the Arizona Historical Society (AHS) to the Arizona Geological Survey, which the same legislation placed within the University of Arizona. *(Please see the Geological Survey Transfer in Other Issues.)*

The Museum is renamed the Mining, Mineral and Natural Resources Educational Museum (Museum). The Mining and Mineral Museum closed May 1, 2011 for renovations and the Department of Mines and Mineral Resources was eliminated as a state agency in FY 2012. Since that time, the Museum has not reopened but the AHS has overseen the collections and building.

This line item funds a curator and rent for the closed museum. Of the total appropriation for the Museum, \$360,800 is used to pay rent and the remaining \$67,500 funds a curator position. The Agency Consolidation BRB directs the State Geologist with the Mining, Mineral and Natural Resources Educational Museum Advisory Council to produce a report by December 31, 2018 detailing the funding needs of restoring the building as a museum and outline other possible uses. If sufficient monies are not raised by July 1, 2018 to reopen the building, the museum and monies in the account revert back to AHS. *(Please see Mining, Mineral and Natural Resources Educational Museum Transfer in Other Issues for more information.)*

One-Time Funding

The budget includes \$8,000,000 from the General Fund in FY 2017 for the One-Time Funding line item. This amount will be used for one-time capital improvements or operating expenditures.

Research Infrastructure Lease-Purchase Payment

The budget includes \$13,978,400 from the General Fund in FY 2017 for the Research Infrastructure Lease-Purchase Payment line item. This amount funds the following adjustments:

Refinance Adjustment

The budget includes an increase of \$4,384,800 from the General Fund in FY 2017 for the savings from the refinance of Certificates of Participation (COPs) for research infrastructure projects from the previous year.

Laws 2003, Chapter 267, which established A.R.S. § 15 - 1670, appropriated a total of \$34,625,000 from the General Fund to the state university system from FY 2008 through FY 2031 to finance lease-purchase payments for research infrastructure project agreements entered into before July 1, 2006.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) reduced the UA research infrastructure appropriation of \$14,253,000 by \$(4,659,800) in FY 2015, \$(4,659,400) in FY 2016, and \$(274,600) in FY 2017.

The FY 2017 Higher Education BRB also amends A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations that correspond to UA's current debt service schedule. *(Please see the Long-Term Budget Impacts narrative below and the 2003 Research Infrastructure narrative in the ABOR section for more information.)*

Since this funding appears in A.R.S. § 15-1670 and Laws 2014, Chapter 18, Section 134, this funding would not appear in the FY 2017 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects. Of this amount, UA has issued \$201,300,000 in COPs.

Sierra Vista Campus

The budget includes \$7,660,800 and 75.3 FTE Positions in FY 2017 for the Sierra Vista Campus. These amounts consist of:

General Fund	2,754,800
University Collections Fund	4,906,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(10,500) from the General Fund in FY 2017 for statewide adjustments.

UA - South offers upper-division undergraduate programs in 16 disciplines for community college transfer students. While ABOR authorized this UA branch campus for Sierra Vista in 1995, the Legislature has not formally established the campus in statute.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, UA - Main's General Fund costs are projected to increase by \$270,900

in FY 2018 above FY 2017, increase by \$1,700 in FY 2019 above FY 2018. These estimates are based on increases in the level of state appropriations required to cover refinanced Research Infrastructure debt service costs in FY 2018 and FY 2019 relative to FY 2017. *(Please see the 2003 Research Infrastructure Refinancing narrative in the ABOR section for more information.)*

FY 2016 Supplemental

The budget includes \$1,330,700 from the General Fund in FY 2016 for a one-time supplemental for the revised allocation of health insurance premium adjustments. *(Please see the Health Insurance Trust Fund narrative in the ABOR section for more information.)*

Summary

UA - Main's FY 2017 General Fund budget is \$197,059,600. Of this amount:

- \$171,961,100 is included in UA - Main's individual section of the FY 2017 General Appropriation Act.
- \$691,800 is part of statewide adjustments.
- \$14,253,000 is appropriated in A.R.S. § 15-1670 for a research infrastructure lease-purchase payment.
- \$(274,600) was reduced by Section 134 of the FY 2015 General Appropriation Act for Research Infrastructure savings.
- \$2,000,000 was appropriated by a footnote in the FY 2015 General Appropriation Act.
- \$428,300 is for the transfer of the Arizona Experience Museum from AHS to UA - Main by the FY 2017 Agency Consolidation BRB.
- \$8,000,000 is a one-time appropriation in Section 149 of the FY 2017 General Appropriation Act for capital improvements or operating expenditures.

Geological Survey Transfer

The Geological Survey investigates Arizona's geology and provides technical advice and assistance to state and local government agencies, industry and other members of the public concerning the geologic environment and the development and use of mineral resources in Arizona. The Agency Consolidation BRB transfers the statutory responsibilities of the Arizona Geological Survey to the University of Arizona effective July 1, 2016. It is the intent of the Legislature that the Geological Survey maintains the current level of employees for the Arizona Geological Survey. The legislation also requires the UA to report to the JLBC by August 1, 2017 detailing the services it provides. The Agency Consolidation BRB also allows ABOR to appoint the State Geologist and does not require that

person to be registered by the Board of Technical Registration.

No General Fund funding was appropriated to the UA - Main for the Geological Survey in FY 2017. In FY 2016, the Geological Survey was appropriated \$941,000 and 10.3 FTE Positions from the General Fund for the operating budget.

The Geological Survey also had several non-appropriated and Federal Funds (formerly represented as the Geological Survey Fund, Indirect Cost Recovery Fund - GSA9000, and Federal Grants - GSA2000), which were combined into a single other non-appropriated fund, the Geological Survey Fund, within the UA - Main budget. For FY 2017, this new fund amount is projected to have expenditures of \$362,600. In addition to these monies, a Mining, Mineral and Natural Resources Educational Museum Account was added to the Geological Survey Fund for monies to be used for the museum. *(For additional detail, please see the Mining, Mineral and Natural Resources Educational Museum Account in Other Issues.)*

Mining, Mineral and Natural Resources Educational Museum Transfer

The Agency Consolidation BRB transfers the operational control of the Arizona Experience Museum to the Geological Survey, which resides within the UA. The facility is renamed the Mining, Mineral and Natural Resources Educational Museum.

The Agency Consolidation BRB effectively moves the \$428,300 from the Arizona Experience line item in the AHS budget to the UA - Main budget. The legislation also reassigns the Centennial license monies to the UA. *(See Mining, Mineral and Natural Resources Educational Museum Account for more information.)*

The Mining and Mineral Museum closed May 1, 2011 for renovations and the Department of Mines and Mineral Resources was eliminated as a state agency in FY 2012. The building was eventually renamed the Centennial Museum and then the Arizona Experience Museum but was never re-opened.

AHS managed the property and collections under their Arizona Experience Museum line item. In October 2014, AHS opened an exhibition at the Papago Park Museum utilizing a portion of the collection. The remainder of the collection remains at the former Mining and Mineral Museum's facility.

The Agency Consolidation BRB also requires the following provisions related to the transfer.

- The State Geologist, in coordination with the Mining, Mineral and Natural Resources Educational Museum Advisory Council, is required to submit a report to the Governor, the President of the Senate, and the Speaker of the House of Representatives, and to the Secretary of State by December 31, 2018.
- The report shall include whether General Fund monies are required for the continued maintenance and operations of the Museum, information relating to excess specimens, and recommendations on other beneficial uses of the building.
- The Museum will revert to AHS by July 1, 2018 if the Geological Survey has not raised sufficient funds to open and refurbish the Museum. *(For more detail on the structural concerns related to the building, please see the AHS section in the FY 2015 Appropriations Report.)*
- The UA must provide written notice to the Director of Legislative Council by July 15, 2018 whether there are adequate monies to refurbish and open the Museum facility.
- The AHS is required to fulfill existing obligations, provide a list of inventory, and assist in the transfer of the inventory.

As the operational authority, the Geological Survey is to:

- Operate and maintain the Museum as the state depository for the collection and display of mining, mineral, natural resource artifacts and specimens. The Geological Survey is also to provide maintenance for all stored or displayed artifacts and specimens.
- Adopt a collections management policy that meets national standards.
- Receive all unspent and unencumbered funds from the AHS for Museum operations.
- Use the Mining, Mineral and Natural Resources Educational Museum Account within the Arizona Geological Survey Fund for the maintenance and operations of the Museum.

Mining, Mineral and Natural Resources Educational Museum Account

The Agency Consolidation BRB also transfers all unexpended and unencumbered monies remaining in the Arizona Centennial Special Plate Fund established by A.R.S. § 28-2448 to the Mining, Mineral and Natural Resources Educational Museum Account in the Geological Survey Fund established by A.R.S. § 27-107. Ongoing

revenues will now accrue to the UA - Main, and that amount is expected to be \$142,400 annually. Monies in the account are to be used exclusively for restoration, maintenance, and operations of the Museum.

A.R.S. § 28-2448 established the centennial specialty license plate, which requires a \$25 fee. Of the \$25 fee, \$8 is for special plate administration costs, and \$17 is a donation for the Centennial Special Plate Fund. Beginning in FY 2013, permanent law required the Arizona Department of Transportation to make annual distributions of the monies in the Centennial Special Plate Fund to AHS to pay costs related to the maintenance and operations of the Centennial Museum that housed the Mining and Mineral Museum.

As of May 2016, the Centennial Special Plate Fund has collected total revenues of \$547,400 and has a balance of \$305,400. Beginning May 1, 2016, the Agency Consolidation BRB prohibits AHS from encumbering any monies deposited in the Arizona Centennial Special Plate Fund. The BRB further transfers the unencumbered monies (currently estimated at \$305,400) to the Mining, Mineral and Natural Resources Educational Museum Account in the Geological Survey Fund.

In addition to the monies collected from the Centennial Special Plate Fund, the account will also include monies collected from museum entrance fees, memberships, gift shop revenues.

University Collections and FTE Positions Adjustments

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) appropriated \$300,783,000 from the University Collections Fund to UA - Main in FY 2016. The Collections Fund for UA - Main represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2016 to the Joint Legislative Budget Committee in July 2015, and UA incorporated the adjusted FY 2016 amounts as part of their FY 2017 budget submission. Accordingly,

the FY 2016 amount in the budget has been adjusted upward by \$60,366,600 to \$361,149,600.

The budget also adjusts the number of FTE Positions in FY 2016 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2015, Chapter 8 originally appropriated 5,393 FTE Positions in FY 2016 for the UA - Main. The General Fund accounted for 2,306.1 FTE Positions and the University Collections Fund accounted for the remaining 3,086.9 FTE Positions. UA - Main's individual section of the budget increases the total amount of FY 2016 FTE Positions by 212.5 to 5,605.5. In addition, 1 FTE Position was transferred from AHS to UA - Main with the Agency Consolidation BRB for total appropriated positions of 5,606.5. The General Fund accounts for 1,938.7 FTE Positions and the University Collections Fund accounts for the remaining 3,667.8 FTE Positions. The total number and fund sourcing of FTE Positions significantly increased because adjustments to FTE Positions have not been made in several years.

University of Arizona - Health Sciences Center

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,054.1	1,375.9	1,375.9 ^{1/}
Personal Services	45,246,700	50,044,300	50,044,300
Employee Related Expenditures	13,778,600	15,465,700	15,367,300
Professional and Outside Services	8,594,000	1,166,700	1,166,700
Travel - In State	46,200	41,200	41,200
Travel - Out of State	144,000	7,700	7,700
Other Operating Expenditures	3,852,300	2,274,200	2,509,900
Equipment	215,700	94,600	94,600
OPERATING SUBTOTAL	71,877,500	69,094,400	69,231,700
SPECIAL LINE ITEMS			
Clinical Rural Rotation	311,300	352,300	351,500
Clinical Teaching Support	8,587,000	8,546,600	8,518,400
Elimination of Payment Deferral	0	16,776,700 ^{2/}	0
Liver Research Institute	460,800	452,700	451,800
Phoenix Medical Campus	31,457,500	32,575,100	32,516,500
Telemedicine Network	1,854,300	1,848,100	1,843,700
AGENCY TOTAL	114,548,400	129,645,900	112,913,600 ^{3/4/}
FUND SOURCES			
General Fund	69,585,300	85,592,100	68,859,800 ^{5/6/7/}
<u>Other Appropriated Funds</u>			
University Collections Fund	44,963,100	44,053,800	44,053,800 ^{8/}
SUBTOTAL - Other Appropriated Funds	44,963,100	44,053,800	44,053,800
SUBTOTAL - Appropriated Funds	114,548,400	129,645,900	112,913,600
Other Non-Appropriated Funds	284,919,600	342,939,000	287,239,200
Federal Funds	92,838,500	94,695,300	97,536,300
TOTAL - ALL SOURCES	492,306,500	567,280,200	497,689,100

AGENCY DESCRIPTION — The University of Arizona's Health Sciences Center (UA - HSC) includes its Colleges of Medicine, Nursing, Pharmacy, and Public Health. The UA - HSC enrolls over 2,989 full-time students as well as 460 medical students at its 48-acre campus in Tucson. UA - HSC currently operates a medical campus in Phoenix that opened in FY 2006. The Colleges of Pharmacy and Public Health also have a presence on the Phoenix Biomedical campus, which has increased its enrollment to 321 medical and 80 Master of Public Health and Pharmacy students.

- ^{1/} Includes 382.2 GF FTE Positions and 55.1 OF FTE Positions funded from Special Line Items in FY 2017, including 214.4 GF FTE Positions filled by students and associated with the Clinical Teaching Support Special Line Item.
- ^{2/} The FY 2017 General Appropriation Act includes a one-time FY 2016 supplemental General Fund appropriation of \$16,776,700 for the elimination of UA - HSC's share of the universitywide payment deferral.
- ^{3/} The appropriated monies may not be used for scholarships or any student newspaper. (General Appropriation Act footnote)
- ^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- ^{5/} The state General Fund appropriation may not be used for alumni association funding. (General Appropriation Act footnote)
- ^{6/} The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research. (General Appropriation Act footnote)
- ^{7/} The FY 2017 General Fund budget as adjusted for statewide adjustments is \$68,859,800. This amount includes \$68,629,200 in UA - HSC's individual section of the FY 2017 General Appropriation Act and \$230,600 for statewide adjustments.
- ^{8/} Any unencumbered balances remaining in the collections account on June 30, 2016 and all collections received by the university during the fiscal year, when paid into the State Treasury, are appropriated for operating expenditures, capital outlay and fixed charges. Earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Monies from summer session, when deposited in the account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above. (General Appropriation Act footnote)

Operating Budget

The budget includes \$69,231,700 and 938.6 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$34,367,500
University Collections Fund	34,864,200

These amounts fund the following adjustments:

Additional Resources

The budget includes an increase of \$235,700 from the General Fund in FY 2017 for UA - Health Sciences Center (UA - HSC)'s share of additional university resources. *(Please see the University Additional Resources narrative in the Arizona Board of Regents (ABOR) section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(98,400) from the General Fund in FY 2017 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

This amount reflects UA - HSC's allocation of state health insurance premium costs in FY 2017 compared to its revised FY 2016 allocation. *(Please see the Health Insurance Trust Fund narrative in the ABOR section and the Agency Detail and Allocations section for more information.)*

Student enrollment growth and tuition and fee increases for students will contribute to an increase in university tuition and fee collections. The University Collections Fund amount will ultimately be adjusted to reflect these additional revenues. *(Please see the ABOR section for more information.)*

Clinical Rural Rotation

The budget includes \$351,500 and 6.2 FTE Positions from the General Fund in FY 2017 for the Clinical Rural Rotation program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(800) from the General Fund in FY 2017 for statewide adjustments.

This line item funds the Rural Health Professions Program, which enables nurse practitioner, medical, and pharmacy students to plan and complete clinical practice rotations in rural and medically under-served sites throughout the state.

Clinical Teaching Support

The budget includes \$8,518,400 and 214.4 FTE Positions from the General Fund in FY 2017 for Clinical Teaching Support. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(28,200) from the General Fund in FY 2017 for statewide adjustments.

Clinical Teaching Support provides hospital training, through internships and residencies, for medical, nursing, clinical, and other health students in a wide variety of specialty areas. Students fill all the above-mentioned FTE Positions. Since participation in the program has been stable for several years, the funding summary above includes these FTE Positions.

Elimination of Payment Deferral

The budget includes no funding in FY 2017 for the Elimination of Payment Deferral line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(16,776,700) from the General Fund in FY 2017 to remove a one-time payment to eliminate UA - HSC's share of the universitywide payment deferral in FY 2016. *(Please see the Payment Deferral narrative in the ABOR section for more information.)*

Liver Research Institute

The budget includes \$451,800 and 6.6 FTE Positions from the General Fund in FY 2017 for the Liver Research Institute. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(900) from the General Fund in FY 2017 for statewide adjustments.

The Liver Research Institute conducts clinical studies on all liver diseases, focusing on chemical and natural agents that may offer a cure for such ailments. The line item also supports a research development program that actively pursues outside grants and donations.

Phoenix Medical Campus

The budget includes \$32,516,500 and 194.7 FTE Positions in FY 2017 for the Phoenix Medical Campus (PMC). These amounts consist of:

General Fund	23,326,900
University Collections Fund	9,189,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(58,600) from the General Fund in FY 2017 for statewide adjustments.

The Phoenix Medical Campus currently has 321 medical students and 80 Master of Public Health students. By FY 2025, UA envisions developing a campus of approximately 1,200,000 square feet incorporating research, instruction, and clinical facilities to serve a planned population of 480 medical students, 250 graduate students, and 1,660 science students.

Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9 authorized ABOR to enter into lease-to-own and bond transactions up to a maximum of \$800,000,000 to pay for building renewal projects and new facilities of which ABOR is required to allocate \$376,000,000 for the Phoenix Medical Campus.

In September 2014, the Joint Committee on Capital Review (JCCR) favorably reviewed UA's planned SPEED bond issuance of \$136,100,000 to fund construction of the Biosciences Partnership Building on the Phoenix Medical Campus. The bond was issued in February 2015, and debt service is paid with 80% from Lottery revenues and 20% from university system revenues.

Of the \$376,000,000 allocated for the Phoenix Medical Campus, the JCCR has reviewed \$275,545,000. *(For additional information on university lottery bonding, please see the Capital Outlay - ABOR Building System section of this report. For historical information, please see the FY 2015 Appropriations Report.)*

Telemedicine Network

The budget includes \$1,843,700 and 15.4 FTE Positions from the General Fund in FY 2017 for the Telemedicine Network. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(4,400) from the General Fund in FY 2017 for statewide adjustments.

Telemedicine is the use of computers, video imaging, broadband Internet, and other telecommunication technologies to diagnose and treat patients in rural communities.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, there is no projected change to UA - HSC's General Fund costs for FY 2018 to FY 2019.

FY 2016 Supplemental

The budget includes \$421,900 from the General Fund in FY 2016 for a one-time supplemental for the revised allocation of health insurance premium adjustments. *(Please see the Health Insurance Trust Fund narrative in the ABOR section for more information.)*

Summary

UA - HSC's FY 2017 General Fund budget is \$68,859,800. Of this amount:

- \$68,629,200 is included in UA - HSC's individual section of the FY 2017 General Appropriation Act.
- \$230,600 is appropriated for statewide adjustments.

University Collections and FTE Positions Adjustments

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) appropriated \$43,315,600 from the University Collections Fund to UA - HSC in FY 2016. The Collections Fund for UA - HSC represents a portion of tuition, fees and a portion of land earnings. *(Please see ABOR Other Issues for more information.)* If collections exceed the appropriated amount, the annual General Appropriation Act includes a footnote permitting the universities to expend those amounts as well and a separate footnote requiring the submission of a report detailing any adjustments to the appropriated amounts.

ABOR sets tuition in the spring (independent of the legislative process). Any revised tuition rates as well as changes in enrollment can result in collections exceeding the appropriated amount. The Universities reported the adjustments to the University Collections Fund for FY 2016 to the Joint Legislative Budget Committee in July 2015, and UA incorporated the adjusted FY 2016 amounts as part of their FY 2017 budget submission. Accordingly,

the FY 2016 amount in the budget has been adjusted upward by \$738,200 to \$44,053,800.

The budget also adjusts the number of FTE Positions in FY 2016 to align with General Fund and Collections Fund tuition revenue adjustments. Laws 2015, Chapter 8 originally appropriated 1,054.1 FTE Positions in FY 2016 for the UA - HSC. The General Fund accounted for 691.4 FTE Positions and the University Collections Fund accounted for the remaining 362.7 FTE Positions. The budget increases the total amount of FY 2016 FTE Positions by 321.8 to 1,375.9. The General Fund accounts for 845.7 FTE Positions and the University Collections Fund accounts for the remaining 530.2 FTE Positions. The total number and fund sourcing of FTE Positions significantly increased because adjustments to FTE Positions have not been made in several years.

Department of Veterans' Services

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	500.3	512.3	512.3 ^{1/}
Personal Services	1,631,000	2,002,200	2,002,200
Employee Related Expenditures	617,100	754,300	739,800
Professional and Outside Services	39,700	26,500	26,500
Travel - In State	32,100	24,700	24,700
Travel - Out of State	4,600	4,000	4,000
Other Operating Expenditures	543,600	388,500	392,000
Equipment	26,700	18,800	18,800
OPERATING SUBTOTAL	2,894,800	3,219,000	3,208,000
SPECIAL LINE ITEMS			
Arizona State Veterans' Cemeteries	274,600	928,000	924,200
Arizona State Veterans' Homes	30,132,400	31,264,600	31,147,600
Veterans' Benefit Counseling	2,707,600	2,833,700	2,821,100
AGENCY TOTAL	36,009,400	38,245,300	38,100,900 ^{2/}
FUND SOURCES			
General Fund	5,217,700	6,077,800	6,054,100
<u>Other Appropriated Funds</u>			
State Home for Veterans Trust Fund	30,132,400	31,264,600	31,147,600
State Veterans' Conservatorship Fund	659,300	902,900	899,200
SUBTOTAL - Other Appropriated Funds	30,791,700	32,167,500	32,046,800
SUBTOTAL - Appropriated Funds	36,009,400	38,245,300	38,100,900
Other Non-Appropriated Funds	9,668,400	8,749,100	1,683,300
Federal Funds	732,400	1,382,500	1,262,100
TOTAL - ALL SOURCES	46,410,200	48,376,900	41,046,300

AGENCY DESCRIPTION — The agency supervises and operates 2 skilled nursing homes for Arizona veterans in Phoenix and Tucson, assists veterans in developing and filing claims for federal entitlements, acts as a guardian or conservator for incapacitated veterans or their families, and operates 3 veterans' memorial cemeteries in Sierra Vista, Marana, and Flagstaff.

Operating Budget

The budget includes \$3,208,000 and 62.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$2,308,800
State Veterans' Conservatorship Fund	899,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(11,000) in FY 2017 for statewide adjustments. These amounts consist of:

General Fund	(7,300)
State Veterans' Conservatorship Fund	(3,700)

(Please see the Agency Detail and Allocations section.)

Arizona State Veterans' Cemeteries

The budget includes \$924,200 and 12.5 FTE Positions from the General Fund in FY 2017 for the Arizona State Veterans' Cemeteries. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(3,800) from the General Fund in FY 2017 for statewide adjustments.

^{1/} Includes 69.5 GF and 380 OF FTE Positions funded from Special Line Items in FY 2017.

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Monies in this line item are also used to partially offset the operating and maintenance costs for the 3 veteran cemeteries in the state. The department also receives internment fees from the federal government, which are deposited into the non-appropriated Arizona State Veterans' Cemetery Trust Fund.

The federal government typically pays most of the construction cost, but the state is responsible for the ongoing operational cost. Construction for the Marana cemetery began in August 2014 and the cemetery opened in March 2016. Construction for the Flagstaff cemetery began in March 2014 and the department anticipates that the cemetery will open in June 2016.

The FY 2016 budget included an appropriation from the General Fund for 9 months of operating costs. The FY 2017 budget assumes non-appropriated internment fees will offset the annualized operating costs of the new cemeteries.

Arizona State Veterans' Homes

The budget includes \$31,147,600 and 380 FTE Positions from the State Home for Veterans Trust Fund in FY 2017 for the Arizona State Veterans' Homes. These amounts fund the following adjustments:

Contract Increase

The budget continues an increase of \$278,000 from the State Home for Veterans Trust Fund in FY 2017 for increased contract costs associated with a dietary services provider. The department renewed its contract in July 2015. This increase is also funded in a FY 2016 supplemental, so there is no net increase in FY 2017.

Statewide Adjustments

The budget includes a decrease of \$(117,000) from the State Home for Veterans Trust Fund in FY 2017 for statewide adjustments.

The monies in this line item are used for expenses related to the Arizona State Veterans' Homes in Phoenix and Tucson. Monies in this line item are from fees and reimbursements received from residents, the Department of Veterans' Affairs, Medicaid, Medicare, and private insurance carriers.

Veterans' Benefit Counseling

The budget includes \$2,821,100 and 57 FTE Positions from the General Fund in FY 2017 for Veterans' Benefit Counseling. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(12,600) from the General Fund in FY 2017 for statewide adjustments.

The monies in this line item are used to assist Arizona veterans with questions about benefit eligibility, completion and filing of U.S. Department of Veterans' Affairs claims, and in obtaining earned benefits.

Other Issues

FY 2016 Supplemental

The FY 2017 General Appropriation Act appropriates \$278,000 from the State Home for Veterans Trust Fund in FY 2016 for increased contract costs associated with a dietary services provider. *(Please see the Arizona State Veterans' Homes section for more details.)*

Additional Legislation

Veterans' Income Tax Settlement Fund

The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) creates the Veteran's Income Tax Settlement Fund and appropriates \$2,000,000 from the General Fund one-time to the fund. These funds will be used by DOR to distribute settlement payments to Native American veterans for state individual income tax incorrectly withheld from military pay between September 1, 1993 and December 31, 2005. Members of an Indian tribe who are domiciled on an Indian reservation are not subject to state income tax. Further, military service men and women do not relinquish their domicile status while on assignment out of state.

Additionally, 5% of the fund balance at the beginning of each fiscal year can be used by both DOR and the Department of Veterans' Services for costs to administer the program.

Post 9/11 Veteran Education Relief

Laws 2016, Chapter 319 establishes the Post-9/11 Veteran Education Relief Fund administered by the department. The fund consists of donations and grants and is used to award financial assistance to qualified military veterans attending Arizona universities. Chapter 319 also establishes the Post-9/11 Veteran Education Relief Advisory Committee to develop and implement a process to award financial assistance.

Veterans' Home

Flagstaff Veterans' Home

The budget includes \$10,000,000 from the General Fund in FY 2017 for the construction and establishment of a veterans' home facility in Flagstaff. The amount appropriated reflects 35% of the estimated cost; the federal government will pay the other 65%. *(Please see the Capital Outlay section.)*

Yuma Veterans' Home

The FY 2015 budget appropriated \$9.2 million in non-lapsing General Fund monies for the state's share of construction costs for the Yuma home, which reflects 35% of the estimated cost. The department has applied for funding from the federal government to pay the other 65% but has not yet received these monies.

Arizona State Veterinary Medical Examining Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	295,200	323,600	357,200
Employee Related Expenditures	100,300	110,000	106,300
Professional and Outside Services	38,200	40,500	116,800
Travel - In State	7,000	7,300	7,300
Travel - Out of State	1,900	1,600	1,600
Other Operating Expenditures	73,700	61,200	61,700
Equipment	14,300	1,000	1,000
AGENCY TOTAL	530,600	545,200	651,900^{1/2/}

FUND SOURCES

Other Appropriated Funds

Veterinary Medical Examining Board Fund	530,600	545,200	651,900
SUBTOTAL - Other Appropriated Funds	530,600	545,200	651,900
SUBTOTAL - Appropriated Funds	530,600	545,200	651,900
TOTAL - ALL SOURCES	530,600	545,200	651,900

AGENCY DESCRIPTION — The board licenses and regulates veterinarians, veterinary technicians, and veterinary premises.

Operating Budget

The budget includes \$651,900 and 6 FTE Positions from the Veterinary Medical Examining Board Fund in FY 2017 for the operating budget. These amounts fund the following adjustments:

Expert Witness Fees

The budget includes a one-time increase of \$8,000 from the Veterinary Medical Examining Board Fund in FY 2017 for expert witness fees.

Online Licensing Software and Database Revisions

The budget includes an increase of \$68,300 in FY 2017 for implementation of an online licensing software system and database revisions. Of this amount, \$59,100 is a one-time expense for implementing the system, and \$9,200 is ongoing funding for maintenance. (Please see General Appropriation Act footnote.)

Position Reclassifications

The budget includes an increase of \$33,600 from the Veterinary Medical Examining Board Fund in FY 2017 for reorganizing and reclassifying staff positions.

Statewide Adjustments

The budget includes a decrease of \$(3,200) from the Veterinary Medical Examining Board Fund in FY 2017 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Additional Legislation

Agency Relocation

The FY 2017 Budget Procedures Budget Reconciliation Bill (Laws 2016, Chapter 127) requires the Arizona Department of Administration (ADOA) to report to the Joint Legislative Budget Committee if the Executive decides to go forward with the sale of the East Doubletree Ranch Road building in Scottsdale in which the Arizona State Veterinary Medical Examining Board currently resides. If the building is sold, the Arizona State Veterinary Medical Examining Board would be relocated to the 1740 West Adams building currently used by the Department of Health Services. (Please see the ADOA Capital Outlay section for additional information.)

^{1/} The appropriation includes \$68,300 for online licensing software and database revisions. Before the expenditure of these monies, the Arizona State Veterinary Medical Examining Board shall complete a Project Investment Justification that has been approved by the Department of Administration. It is the intent of the Legislature that the Arizona Strategic Enterprise Technology Office determine whether the board's Project Investment Justification is consistent with statewide information technology enterprise architecture strategy and whether one-time information technology purchases can be consolidated with other appropriations in this act. (General Appropriation Act footnote)

^{2/} General Appropriation Act funds are appropriated as a Lump Sum by Agency.

Water Infrastructure Finance Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
SPECIAL LINE ITEMS			
Water Supply Development Revolving Fund Deposit	0	0	0
AGENCY TOTAL	0	0	0
FUND SOURCES			
General Fund	0	0	0
SUBTOTAL - Appropriated Funds	0	0	0
Other Non-Appropriated Funds	154,204,000	238,938,500	0
Federal Funds	25,904,100	37,020,100	0
TOTAL - ALL SOURCES	180,108,100	275,958,600	0

AGENCY DESCRIPTION — The Water Infrastructure Finance Authority (WIFA) finances the construction, rehabilitation, and/or improvement of drinking water, waste water, waste water reclamation, and other water quality facilities/projects. The agency also provides general administrative support to the Greater Arizona Development Authority (GADA). Beginning in FY 2017, WIFA and GADA will become part of the Arizona Finance Authority within the Office of Economic Opportunity.

Laws 2016, Chapter 372 creates the Arizona Finance Authority (AFA) in the new Office of Economic Opportunity (OEO). The AFA serves as the board for the Water Infrastructure Finance Authority and the Greater Arizona Development Authority (GADA). GADA was previously under the control of WIFA.

Chapter 372 also permits AFA to deposit unrestricted and available monies from WIFA and GADA into the newly-created AFA Operations Fund. An estimated \$2,707,500 annually will be transferred to the AFA Operations Fund from the WIFA and GADA funds for AFA, WIFA, and GADA's operational costs. This amount is based on WIFA and GADA's estimated FY 2016 operational costs. *(Please see the Office of Economic Opportunity section for more information.)*

Water Supply Development Revolving Fund Deposit

The budget includes no funding from the General Fund in FY 2017 for the non-appropriated Water Supply Development Revolving Fund. This amount is unchanged from FY 2016.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 135) included a one-time \$1,000,000 FY 2015 General Fund appropriation to the Water Supply Development Revolving Fund. This appropriation was repealed in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8).

Laws 2007, Chapter 226 established the Water Supply Development Revolving Fund. Prior to FY 2015, however, no funding had been previously appropriated for the purpose of community lending. Monies in the fund were to be used to provide financial assistance to construct water supply projects to water providers in Arizona, particularly in rural areas, lacking sufficient water supplies to meet their long-term water demands. Financial assistance for water supply development projects as defined in statute includes support for the planning or design of projects, direct loans for projects, or using funds as security for bonded projects.

Additional Legislation

Small Water Systems Fund Deposit

The budget includes \$500,000 from the General Fund in FY 2017 for a one-time deposit into the Small Water Systems Fund. Laws 2016, Chapter 372 transfers this fund to the new Office of Economic Opportunity.

Department of Water Resources

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	96.0	100.0	129.0 ^{1/}
Personal Services	3,160,000	4,285,300	4,285,300
Employee Related Expenditures	1,268,600	1,766,600	1,736,300
Professional and Outside Services	161,700	266,000	266,000
Travel - In State	74,500	168,800	168,800
Travel - Out of State	30,600	83,000	83,000
Other Operating Expenditures	1,941,300	2,436,400	2,441,200
Equipment	183,900	198,700	198,700
OPERATING SUBTOTAL	6,820,600	9,204,800	9,179,300
SPECIAL LINE ITEMS			
Adjudication Support	1,223,400	1,251,800	1,247,800 ^{2/}
Assured and Adequate Water Supply Administration	1,774,300	1,983,200	1,977,300 ^{3/}
Automated Groundwater Monitoring	385,500	409,400	408,700
Conservation and Drought Program	409,800	408,300	406,900
Lower Colorado River Litigation Expenses	149,600	500,000	500,000 ^{4/5/}
Rural Water Studies	1,103,600	1,164,500	1,161,700 ^{6/}
Water Banking Fund	0	237,400	0
Water Protection Fund Deposit	0	0	250,000 ^{7/}
AGENCY TOTAL	11,866,800	15,159,400	15,131,700 ^{8/}
FUND SOURCES			
General Fund	11,808,700	12,803,100	13,012,600
<u>Other Appropriated Funds</u>			
Assured and Adequate Water Supply Administration Fund	52,500	266,600	266,300
Water Banking Fund	0	1,448,500	1,211,400
Water Resources Fund	5,600	641,200	641,400
SUBTOTAL - Other Appropriated Funds	58,100	2,356,300	2,119,100
SUBTOTAL - Appropriated Funds	11,866,800	15,159,400	15,131,700
Other Non-Appropriated Funds	11,072,600	10,799,400	10,799,400
Federal Funds	1,600	155,700	155,700
TOTAL - ALL SOURCES	22,941,000	26,114,500	26,086,800

AGENCY DESCRIPTION — The Department of Water Resources administers and enforces Arizona's groundwater and surface water law, as well as legally representing the state's water rights. The department also participates in surveying water level and quality and planning flood control.

^{1/} Includes 54 GF FTE Positions funded from Special Line Items in FY 2017.

^{2/} Monies in the Adjudication Support line item may be used only for the exclusive purposes prescribed in A.R.S. § 45-256 and A.R.S. § 45-257B4. The Department of Water Resources may not transfer any monies into or out of the Adjudication Support line item. (General Appropriation Act footnote)

^{3/} Monies in the Assured and Adequate Water Supply Administration line item may be used only for the exclusive purposes prescribed in A.R.S. § 45-108 and A.R.S. § 45-576 through A.R.S. § 45-579. The Department of Water Resources may not transfer any monies into or out of the Assured and Adequate Water Supply Administration line item. (General Appropriation Act footnote)

^{4/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)

^{5/} The Department of Water Resources may not transfer any monies from the Lower Colorado River Litigation Expenses line item without prior review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{6/} It is the intent of the Legislature that monies in the Rural Water Studies line item be spent only to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's Active Management Areas and not be made available for other department operating expenditures. (General Appropriation Act footnote)

^{7/} The FY 2017 General Appropriation Act appropriates \$250,000 from the General Fund to the Water Protection Fund established by A.R.S. § 45-2111.

^{8/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$9,179,300 and 75 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$7,826,500
Water Banking Fund	1,211,400
Water Resources Fund	141,400

These amounts fund the following adjustments:

FTE Increase

The budget includes an increase of 27 FTE Positions from the General Fund in FY 2017 to align the number of positions with the current funding level. *(Please see FTE Authority in Other Issues section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(25,500) in FY 2017 for statewide adjustments. These amounts consist of:

General Fund	(26,000)
Water Banking Fund	300
Water Resources Fund	200

(Please see the Agency Detail and Allocations section.)

Adjudication Support

The budget includes \$1,247,800 and 15 FTE Positions from the General Fund in FY 2017 for Adjudication Support. These amounts fund the following adjustments:

FTE Position Increase

The budget includes an increase of 0.5 FTE Positions from the General Fund in FY 2017 to align the number of positions with the current funding level.

Statewide Adjustments

The budget includes a decrease of \$(4,000) from the General Fund in FY 2017 for statewide adjustments.

A.R.S. § 45-256 requires the Department of Water Resources to provide technical and administrative support to judicial proceedings involving water rights claims in the Gila River and Little Colorado River watersheds, which include approximately two-thirds of the land within the state. In 1952, Congress passed the McCarran Amendment, which waived the sovereign immunity of the United States to the adjudication of its federal reserved water right claims in state court on behalf of itself and Indian tribes. Due to the ongoing state court proceedings, the federal court has declined to exercise its jurisdiction

over the federal reserved water right claims of the United States and Indian Tribes. Absent a state court proceeding, the federal court could exercise jurisdiction over these federal reserved water rights claims. *(Please see the Lower Colorado River Litigation Expenses section.)*

Assured and Adequate Water Supply Administration

The budget includes \$1,977,300 and 21 FTE Positions in FY 2017 for the Assured and Adequate Water Supply (AAWS) Program. These amounts consist of:

General Fund	1,711,000
AAWS Administration Fund	266,300

These amounts fund the following adjustments:

FTE Position Increase

The budget includes an increase of 1.2 FTE Positions from the General Fund in FY 2017 to align the number of positions with the current funding level.

Statewide Adjustments

The budget includes a decrease of \$(5,900) in FY 2017 for statewide adjustments. These amounts consist of:

General Fund	(5,600)
AAWS Administration Fund	(300)

All new subdivisions within the state's 5 Active Management Areas (AMAs) must either obtain a Certificate of Assured Water Supply from the Department of Water Resources or obtain a commitment of water service from a municipal provider designated as having an Assured Water Supply. An applicant for a Certificate of Assured Water Supply or a Designation of Assured Water Supply must demonstrate the availability of water for the next 100 years.

New developers outside the 5 AMAs may obtain a commitment of water service from a municipal water provider designated as having an Adequate Water Supply or developers must obtain from the department a report of the water available to the new subdivision for 100 years before any lots may be sold. In most areas outside the AMAs, if the water supply report determined the water supply to be inadequate, lots may still be sold, but buyers must be notified of the determination. In certain areas outside the AMAs, lots may not be sold unless the water supply is determined to be adequate for 100 years.

Automated Groundwater Monitoring

The budget includes \$408,700 and 2 FTE Positions from the General Fund in FY 2017 for Automated Groundwater Monitoring. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(700) from the General Fund in FY 2017 for statewide adjustments.

Monies in this line item are to provide for automated measuring instruments, which provide daily measurements of groundwater levels. This information is used to support the administration of all the water management programs that the Department of Water Resources is responsible for, including but not limited to, determining assured and adequate water supply, implementation and evaluation of recharge activities, rural water budgets, and water supply studies.

Conservation and Drought Program

The budget includes \$406,900 and 5 FTE Positions from the General Fund in FY 2017 for the Conservation and Drought Program. These amounts fund the following adjustments:

FTE Position Increase

The budget includes an increase of 0.3 FTE Positions from the General Fund in FY 2017 to align the number of positions with the current funding level.

Statewide Adjustments

The budget includes a decrease of \$(1,400) from the General Fund in FY 2017 for statewide adjustments.

Monies in this line item are used to assist local communities to assess conservation needs and assist rural communities in the development of conservation programs, promote water education throughout the state, create guidelines for more efficient use of water, and provide suggestions for funding and implementing conservation programs. Monies in this line item are also used by the Department of Water Resources to administer the requirements of the Community Water System program, including but not limited to annual water use reporting (mailings, electronic notification, and submittals), improvements to increase efficiencies of reporting and data collection, data analysis and compliance.

Lower Colorado River Litigation Expenses

The budget includes \$500,000 from the Water Resources Fund in FY 2017 for Lower Colorado River Litigation Expenses. This amount is unchanged from FY 2016.

Monies in this line item are used to pay the litigation costs associated with the *Navajo Nation v. United States Department of the Interior* case, in which the Department of Water Resources is an intervening defendant. This case involves the Navajo Nation's claims to water from the Lower Colorado River and challenges operations that were put in place after the initial lawsuit was filed in 2003. The Navajo Nation filed an amended complaint on June 3, 2013 to begin litigating the case. The United States and the state interveners filed motions to dismiss in August 2013, which were granted in October 2014. The case is being appealed.

Rural Water Studies

The budget includes \$1,161,700 and 11 FTE Positions from the General Fund in FY 2017 for Rural Water Studies. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(2,800) from the General Fund in FY 2017 for statewide adjustments.

Monies in this line item are used to support the department's administration, data collection, and evaluation of rural water studies. The monies are also used to provide assistance to local communities to assess local water use needs and to develop plans for sustainable future water supplies in rural areas outside the state's AMAs. The current AMAs are Prescott, Phoenix, Pinal, Tucson, and Santa Cruz. These studies are administered, in most cases, through partnerships with local resource agency officials and stakeholders. Partnerships generally require local entities to provide some resources to match General Fund receipts, although if a community has a significant need the department can waive this requirement. The studies are primarily conducted by the local entity, with the department providing technical advice and financial assistance. The department is currently involved in 9 studies.

Water Banking Fund

The budget includes no funding in FY 2017 for the Water Banking Fund line item. Laws 2015, Chapter 149 appropriated \$237,400 from the Water Banking Fund in FY 2016 for the Water Banking Fund line item. These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(237,400) from the Water Banking Fund in FY 2017 for the elimination of one-time funding.

Laws 2015, Chapter 149 allows the Arizona Water Banking Authority to spend during FY 2016 any unencumbered monies remaining in the Nevada Operating and Resource subaccounts of the Arizona Water Banking Fund as of June 30, 2015 for use in performing its responsibilities under A.R.S § 45-2624. The Authority will use this funding to provide water for the Southside Replenishment Bank as part of the Gila River Indian Community Water Settlement Program that was established under the Indian Water Settlement Act. This amount would allow the Authority to bank up to 1,324 acre-feet of water at current Central Arizona Project prices.

Water Protection Fund Deposit

The budget includes \$250,000 from the General Fund in FY 2017 for the Water Protection Fund Deposit line item. Laws 2016, Chapter 117, Section 151 appropriated \$250,000 from General Fund to the Water Protection Fund in FY 2017.

One-Time Deposit

The budget includes an increase of \$250,000 from the General Fund in FY 2017 to be used for a one-time deposit to the Water Protection Fund.

The Water Protection Fund provides grants for projects that protect water quality and quantity, as well as to maintain, enhance and restore rivers, streams, and associated riparian habitats. The Water Protection Fund Commission reviews grant applications and determine annual recipients.

Other Issues

Additional Legislation

Fee Revenue

The FY 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) continues to allow the Director to maintain prior year fees in FY 2017. The bill specifies that the fee revenue be deposited in the Water Resources Fund with the intent that the fee increase not exceed \$100,200.

Expanded Uses

Laws 2016, Chapter 217 expands the use of the Water Protection Fund to include projects that increase water

supply and removes the 5% spending cap of fund monies for water conservation programs outside of state AMAs.

Administrative Costs

The FY 2017 Environment BRB continues to allow the department’s Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2017.

Water Storage; Plan Report

Laws 2016, Chapter 164 requires the State Land Commissioner and the DWR Director to consult, use the resources of their departments, and conduct a preliminary investigation of acceptable sites to create additional water storage facilities on state trust land. The departments are required to issue a report on or before December 31, 2017.

FTE Position Authority

In FY 2013, DWR’s appropriation was reduced from 207.2 to 90.2 FTE Positions. With the addition of FTE Positions and funding in FY 2015 and FY 2016, DWR has sufficient monies to support a total of 129 FTE Positions in the operating budget and line items. For FY 2016, DWR was allocated 100 budgeted FTE Positions.

The FY 2017 budget adds an additional 29 FTE Positions from the General Fund for a new authority for 129 FTE Positions. Of this amount, DWR as of February 2016 had a staffing level of 117 FTE Positions. DWR will use the additional authority to hire up to 12 additional FTE Positions for increased staffing for statewide planning and Colorado River Management.

Department of Weights and Measures

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
PROGRAM BUDGET			
General Services	1,635,200	1,729,700	0
Oxygenated Fuel	772,100	787,800	0
Vapor Recovery	529,800	652,000	0
AGENCY TOTAL	2,937,100	3,169,500	0
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	38.4	38.4	0.0
Personal Services	1,341,400	1,444,900	0
Employee Related Expenditures	661,700	687,700	0
Professional and Outside Services	232,500	265,800	0
Travel - In State	182,800	194,800	0
Travel - Out of State	12,400	16,700	0
Other Operating Expenditures	438,100	500,600	0
Equipment	68,200	59,000	0
AGENCY TOTAL	2,937,100	3,169,500	0
FUND SOURCES			
General Fund	1,361,900	1,400,300	0
<u>Other Appropriated Funds</u>			
Air Quality Fund	1,301,900	1,439,800	0
Motor Vehicle Liability Insurance Enforcement Fund	273,300	329,400	0
SUBTOTAL - Other Appropriated Funds	1,575,200	1,769,200	0
SUBTOTAL - Appropriated Funds	2,937,100	3,169,500	0
TOTAL - ALL SOURCES	2,937,100	3,169,500	0

AGENCY DESCRIPTION — The department regulated the determination and representation of weight and measurement in the marketplace and also maintained 2 environmentally related gasoline inspection programs. All programs investigated consumer complaints. Beginning in FY 2017, the responsibilities of the Department of Weights and Measures are transferred to the Arizona Department of Agriculture (ADA), the Arizona Department of Transportation (ADOT), and the Arizona Department of Public Safety (DPS).

Operating Budget

The budget includes no funding in FY 2017 for the operating budget. This amount funds the following adjustments:

Agency Elimination

The budget includes a decrease of \$(3,168,200) and (38.4) FTE Positions in FY 2017 for the Weights and Measures agency elimination. These amounts consist of:

	FY 2017
General Fund	\$(1,399,000)
Air Quality Fund	(1,439,800)
Motor Vehicle Liability Insurance Enforcement Fund	(329,400)

Laws 2015, Chapter 244 establishes the Weights and Measures Services Division within the Arizona Department of Agriculture (ADA) as of July 1, 2016. All authority, powers, duties and responsibilities previously granted to the Department of Weights and Measures are transferred to the new Division within the ADA, except for:

- Responsibilities relating to taxis, limousines and livery vehicles are transferred to the Arizona Department of Transportation (ADOT).
- Responsibilities relating to the Moving Truck Violation Enforcement Program are transferred to the Arizona Department of Public Safety (DPS).

The Weights and Measures agency elimination resulted in \$(330,600) in operation savings from the Weights and

Measures General Fund appropriation. (See Table 1 for more information on appropriated monies transferred during the Weights and Measures agency elimination.)

The Department of Weights and Measures completed the agency elimination process in October 2015 through a series of Interagency Service Agreements (ISAs) with ADA, ADOT, and DPS. The ADA Director will serve as the Interim Director for the Weights and Measures Services Division until the formal dissolution of the Department of Weights and Measures occurs on July 1, 2016.

One-Time Named Claimants Funding

The budget includes a decrease of \$(1,318.12) from the General Fund in FY 2017 for the elimination of one-time funding of prior year unpaid claims. (Please see the Named Claimants discussion in ADOA Other Issues.)

	FY 2016 and FY 2017 Spending for Agencies Involved in the Weights and Measures Transfer			
	General Fund		Other Appropriated Funds	
	FY 2016 <u>Appropriation</u>	FY 2017 <u>Appropriation</u>	FY 2016 <u>Appropriation</u>	FY 2017 <u>Appropriation</u>
Weights and Measures	\$1,399,000	\$0	\$1,769,200	\$0
Agriculture	0	932,200	0	1,439,800
Public Safety	0	136,200	0	0
Transportation	<u>0</u>	<u>0</u>	<u>0</u>	<u>329,400</u>
Total	\$1,399,000	\$1,068,400^{1/}	\$1,769,200	\$1,769,200

^{1/} The Weights and Measures agency elimination resulted in \$(330,600) in operation savings from the Weights and Measures General Fund appropriation.

Other Issues

FY 2016 Supplemental

The budget includes an increase of \$1,318.12 from the General Fund in FY 2016 to pay a named claimant bill related to the Department of Weights and Measures. The supplemental appropriation was made in Laws 2016, Chapter 45.

CAPITAL OUTLAY

Capital Outlay Summary

	FY 2017 APPROVED
BUILDING RENEWAL	
ADOA Building System	34,212,400
ADOT Building System	4,232,300
ABOR Building System	0
SUBTOTAL	38,444,700
INDIVIDUAL PROJECTS	
ADOA Building System	17,547,900
ADOT Building System ^{1/}	381,724,900
ABOR Building System	0
SUBTOTAL	399,272,800
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations ^{2/}	114,566,400
TOTALS	
ADOA Building System	166,326,700
ADOT Building System	385,957,200
ABOR Building System	0
TOTAL - ALL PROJECTS ^{3/}	552,283,900
FUND SOURCES	
General Fund	219,066,400
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	19,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	4,703,000
Juvenile Corrections Criminal Justice Enhancement Fund	1,100,000
State Aviation Fund	19,312,200
State Highway Fund	280,145,000
State Lottery Fund	118,100
State Parks Revenue Fund	1,500,000
Watercraft Licensing Fund	874,900
SUBTOTAL - Other Appropriated Funds	333,217,500
SUBTOTAL - Appropriated Funds	552,283,900
Other Non-Appropriated Funds	342,567,000
Federal Funds	670,034,000
TOTAL - ALL SOURCES	1,564,884,900

DESCRIPTION — The Capital Outlay Budget consists of one-time appropriations to maintain, expand, enhance, or make a lease-purchase payment for the state's capital stock, which includes office buildings, service centers, residential treatment centers, state parks, prisons, highways, and other. For the purposes of capital management and planning, the state is divided into 3 building systems: the Arizona Department of Administration (ADOA) Building System, the Arizona Department of Transportation (ADOT) Building System, and the Arizona Board of Regents (ABOR) Building System. Capital appropriations are typically made through the Capital Outlay Act but may be made through other bills as well.

^{1/} Of this amount, \$30,000,000 was appropriated by the FY 2017 Revenue Budget Reconciliation Bill (Laws 2016, Chapter 125, Section 9).

^{2/} This amount was appropriated by the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 152, Section 153 and Section 154).

^{3/} Unless otherwise noted, amounts were appropriated by the FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126).

The following amounts are one-time appropriations:

Summary

The budget includes a total of \$552,283,900 from Appropriated Funds in FY 2017. Of the total, \$219,066,400 is from the General Fund and \$333,217,500 is from Other Appropriated Funds. The budget consists of 3 main categories: 1) Building Renewal, 2) Individual Projects, and 3) Lease-Purchase Payments.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on support of a formula determined by the Joint Committee on Capital Review. The formula takes into account the replacement value, age, and life-cycle of a building. Available appropriations are administered by ADOA (or individual agencies within the ADOA Building System that have their own funding source for building renewal), ADOT, and ABOR.

The budget includes total funding of \$38,444,700 in FY 2017 for Building Renewal, which consists of \$8,000,000 from the General Fund and \$30,444,700 from Other Appropriated Funds. These amounts include:

Arizona Department of Administration	\$27,000,000
General Fund - \$8,000,000	
Capital Outlay Stabilization Fund - \$19,000,000	
@ 67.8% (excludes ADC,	
Game and Fish, DJC, Lottery buildings)	
Department of Corrections	
ADC Building	5,464,300
Renewal Fund @ 27.2%	
Game and Fish Department	
Game and Fish Fund @ 59.4%	530,000
Department of Juvenile Corrections	
Criminal Justice Enhancement Fund	
@ 126.7%	1,100,000
State Lottery Commission	
State Lottery Fund @ 100%	<u>118,100</u>
Subtotal - ADOA	\$34,212,400
Arizona Department of Transportation	
State Highway Fund @ 32.6%	\$4,000,000
State Aviation Fund @ 100%	<u>232,300</u>
Subtotal - ADOT	\$4,232,300

(See the individual building systems' write-ups for more information.)

Individual Projects

The budget includes total funding of \$399,272,800 in FY 2017 for individual capital projects, which consists of \$96,500,000 from the General Fund and \$302,772,800 from Other Appropriated Funds. *(See the individual building systems' write-ups for more information.)*

Lease-Purchase Payments

The budget includes \$114,566,400 from the General Fund in FY 2017 for payments related to prior year lease-purchase agreements to resolve budget shortfalls and the state's share of the long term financing for the Phoenix Convention Center and the Rio Nuevo Multipurpose Facility District. *(See the Debt and Lease-Purchase Financing write-up for more information.)*

Capital Outlay

Arizona Department of Administration Building System

FY 2017
APPROVED

BUILDING RENEWAL

Department of Administration ^{1/2/3/4/}	27,000,000
Department of Corrections ^{5/}	5,464,300
Game and Fish Department	530,000
Department of Juvenile Corrections	1,100,000
Arizona State Lottery Commission	118,100
SUBTOTAL ^{6/}	34,212,400

INDIVIDUAL PROJECTS ^{7/8/}

Arizona Exposition and State Fair	
Capital Improvements	1,000,000
Game and Fish Department	
Radio Towers	306,000
Boat Structures	874,900
Capital Improvements	3,867,000
Arizona State Parks Board	
Capital Improvements	1,500,000
Department of Veteran Services	
Flagstaff Veterans' Home ^{9/10/11/}	10,000,000
SUBTOTAL	17,547,900

TOTAL - ALL PROJECTS **51,760,300**

FUND SOURCES

General Fund	18,000,000
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	19,000,000
Department of Corrections Building Renewal Fund	5,464,300
Arizona Exposition and State Fair Fund	1,000,000
Game and Fish Fund	4,703,000
Juvenile Corrections Criminal Justice Enhancement Fund	1,100,000
State Lottery Fund	118,100
State Parks Revenue Fund	1,500,000
Watercraft Licensing Fund	874,900
SUBTOTAL - Other Appropriated Funds	33,760,300
SUBTOTAL - Appropriated Funds	51,760,300

TOTAL - ALL SOURCES ^{12/13/14/15/} **51,760,300**

- ^{1/} The Department of Administration shall allocate \$4,200,000 of the appropriation in this subsection for the renovation of the Department of Health Services building at 1740 W. Adams. Before spending the monies allocated for this purpose, the Department of Administration shall submit a report on tenant relocation, including any planned consolidation of state agencies, the current commitment of new tenants and the timeline and estimated costs for relocation for review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- ^{2/} The Department of Administration shall allocate \$120,000 of the appropriation in this subsection to repair the 1938 Works Progress Administration Civic Building on the State Fair grounds. The department may not spend the monies allocated for this purpose unless the department receives matching monies from the City of Phoenix to repair the building and this state maintains control and ownership of the building. (Capital Outlay Appropriation Act footnote)
- ^{3/} The Department of Administration shall allocate the monies to state agencies for necessary building renewal. If monies in the Capital Outlay Stabilization Fund established by A.R.S. § 41-792.01 are insufficient to fund the appropriation to the Department of Administration for building renewal, the appropriation to the Department of Administration is reduced by the difference between the amount appropriated to the Department of Administration from the Capital Outlay Stabilization Fund and the balance in the Capital Outlay Stabilization Fund. (Capital Outlay Appropriation Act footnote)
- ^{4/} On or before January 31, 2017 and July 31, 2017, the Department of Administration shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. (Capital Outlay Appropriation Act footnote)

DESCRIPTION — The Arizona Department of Administration (ADOA) Building System is comprised of all state agencies except the Arizona Board of Regents (ABOR) and the Arizona Department of Transportation. Capital appropriations may be made directly to an agency within the system, to ADOA on behalf of an agency, or to ADOA for the entire system. The following amounts for FY 2017 are for projects within the ADOA Building System. Appropriations for ADOA Building System projects may be from the General Fund or Other Appropriated Funds.

Unless otherwise specified, funding for capital projects is appropriated by Laws 2016, Chapter 126 (FY 2017 Capital Outlay Bill)

Building Renewal

The budget includes \$34,212,400 from the General Fund and Other Appropriated Funds in FY 2017 for Building Renewal within the ADOA Building System. This amount consists of:

- \$27,000,000 to ADOA, which consists of \$8,000,000 from the General Fund and \$19,000,000 from the Capital Outlay Stabilization Fund (COSF). This amount funds 67.8% of the non-Department of Corrections (ADC) building renewal formula. Of this amount, \$120,000 shall be used to repair the Work Progress Administration Civic Building at the State Fair. Funding for the repair is contingent on matching funds from the City of Phoenix and the state maintaining control and ownership of the building. In addition, \$4,200,000 shall be used to renovate the Department of Health Services building at 1740 W.

Adams. Prior to expenditure of funds, ADOA shall submit a report to JCCR on the tenant relocation plans. The FY 2016 appropriation of \$14,000,000 included \$9,000,000 from COSF and \$5,000,000 from the General Fund, which represented 38.8% of the non-ADC formula. *(Please see the Other Issues Section for more information.)*

- \$5,464,300 to the Arizona Department of Corrections (ADC) from the ADC Building Renewal Fund, which funds 27.2% of the ADC-only building renewal formula. The FY 2016 appropriation of \$5,464,300 from the ADC Building Renewal Fund represented 31.1% of the ADC-only formula.
- \$530,000 to Arizona Game and Fish Department from the Game and Fish Fund which funds 59.4% of the agency's building renewal formula. The FY 2016 appropriation of \$530,000 from the Game and Fish Fund represented 69.1% of the agency's formula.
- \$1,100,000 to the Department of Juvenile Corrections from the Criminal Justice Enhancement Fund, which funds 126.7% of the agency's building renewal formula.

- 5/ On or before January 31, 2017 and July 31, 2017, the State Department of Corrections shall report to the Joint Legislative Budget Committee Staff on the status of all building renewal projects and building renewal expenditures. The department may not spend any of this appropriation on Personal Services or overhead expenses related to the management of the funded projects. (Capital Outlay Appropriation Act footnote)
- 6/ Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2017 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section may not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- 7/ Pursuant to A.R.S. § 41-1252, the Joint Committee on Capital Review shall review the scope, purpose, and estimated cost of a new capital project that has an estimate cost of more than \$250,000. (Capital Outlay Appropriation Act footnote)
- 8/ Before spending the appropriation in Subsection A of this section, the agency shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 9/ Before spending the appropriation in Subsection A of this section, the Department of Veterans' Services shall submit the scope, purpose and estimated cost of the veterans' home facility in Flagstaff to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- 10/ The appropriation made in Subsection A of this section is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Capital Outlay Appropriation Act footnote)
- 11/ The amount appropriated in Subsection A of this section is intended to be this state's share of the costs of a veterans' home facility in Flagstaff. The department may not spend the appropriation for any purpose unless the department receives an irrevocable commitment from the United States government to fund at least sixty-five percent of the total costs of a veterans' home facility in Flagstaff. (Capital Outlay Appropriation Act footnote)
- 12/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the inmate construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)
- 13/ Except as provided in Subsection A of this section and notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 that are unexpended on June 30, 2018 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)
- 14/ The Department of Administration shall report on the status of project-specific FTE Positions for capital projects in its annual capital budget request. (Capital Outlay Appropriation Act footnote)
- 15/ The Department of Administration may allocate FTE Positions authorized for specific projects to other projects in this act if the funding for the FTE Positions is cost allocated among the projects receiving benefit. The Department of Administration shall report any FTE Position reallocations to the Joint Committee on Capital Review on or before December 31, 2016. (Capital Outlay Appropriation Act footnote)

- \$118,100 to the Arizona State Lottery Commission from the State Lottery Fund, which continues to fund 100% of the building renewal formula. The FY 2016 appropriation of \$103,600 from the State Lottery Fund also represented 100% of the agency's building renewal formula.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The budget continues the footnote that allows up to \$275,000 and up to 5 FTE Positions be allocated each year from building renewal monies to ADOA for supervision and management of building renewal projects, and a requirement that unused building renewal monies revert on June 30, 2018.

Individual Projects

Arizona Exposition and State Fair Board Capital Improvements

The budget includes \$1,000,000 from the Arizona Exposition and State Fair Fund in FY 2017 for capital improvements.

Game and Fish Radio Towers

The budget includes \$306,000 from the Game and Fish Fund in FY 2017 for capital improvements to radio towers.

Game and Fish Boat Structures

The budget includes \$874,900 from the Watercraft Licensing Fund in FY 2017 for capital improvements to boat structures.

Game and Fish Capital Improvements

The budget includes \$3,867,000 from the Game and Fish Fund in FY 2017 for capital improvements.

Arizona State Parks Board Capital Improvements

The budget includes \$1,500,000 from the State Parks Revenue Fund in FY 2017 for capital improvements in the State Park system.

Department of Veteran Services Flagstaff Veterans' Home

The budget includes \$10,000,000 from the General fund in FY 2017 for the construction of a new State Veterans' Home in Flagstaff. The amount appropriated reflects 35% of the estimated cost; the federal government will pay the other 65%. *(Please see the Department of Veterans' Services section for more information.)*

Other Issues

Agency Relocation

The FY 2017 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 127) requires ADOA to report to the JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price. Currently, the Arizona Medical Board, Arizona Board of Osteopathic Examiners in Medicine and Surgery, and the Arizona State Veterinary Medical Examining Board reside at the Doubletree Road location. If the building is sold, these agencies could be relocated to the renovated 1740 West Adams building.

In addition, the FY 2017 budget appropriates \$576,800 from Other Funds for costs incurred by agencies relocated to the renovated DHS building.

COSF Rental Rate Change & Payment Adjustments

The budget includes no agency adjustments for lease-purchase and rental charges, as all changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels. Excluding the ADOA sale/leaseback, the lease-purchase and rent changes from *FY 2016 Appropriations Report* are as follows:

	General Fund	Total Funds
• Lease-Purchase	\$ 1,639,900	\$9,177,000
• PLTO	(1,244,600)	(10,202,000)
• State Building Rent	<u>(51,000)</u>	<u>(472,900)</u>
	\$ (344,300)	\$(1,497,900)

Lease-Purchase

In FY 2017, lease-purchase payments will increase by \$9,177,000, of which \$1,639,900 is from the General Fund, \$6,414,900 from Other Appropriated Funds, and \$1,122,200 from Non-Appropriated Funds. This increase is largely the result of recently refinanced ADOA and Arizona Department of Environmental Quality (ADEQ) buildings being classified as lease-purchase, while they were previously financed under a privatized lease-to-own (PLTO) agreement. However, the overall net payment for the buildings will decline from the FY 2016 budgeted amount.

Under a traditional lease-purchase, the state issues a Certificate of Participation to generate proceeds to finance capital projects and the state is responsible for maintenance. Under a PLTO agreement, a private entity

constructs a building and leases it to the state. The PLTO agreement usually requires a private entity to maintain the building until the end of the term when the state takes possession of the building. However, the conversion of the ADOA and ADEQ agreements into a traditional lease-purchase included an agreement with a private entity to continue to be responsible for the maintenance of the buildings through the end of original term in 2029.

Privatized Lease-to-Own (PLTO)

In FY 2017, PLTO payments will decrease \$(10,202,000) of which \$(1,224,600) is from the General Fund, \$(7,678,500) is from Other Appropriated Funds, and \$(1,298,900) is from Non-Appropriated Funds. This decrease is the result of recently refinanced ADOA and ADEQ buildings being classified as lease-purchase, while they were previously financed under a PLTO agreement. As a result of the refinanced ADOA and ADEQ buildings, the state currently has no active PLTO agreements.

Rent Adjustments

In FY 2017, state building rent payments will decrease by \$(472,900), which consists of \$(51,000) from the General Fund, \$(111,200) from Other Appropriated Funds, and \$(310,700) from Non-Appropriated Funds. Any change in rental charges would be funded from existing agency appropriations and would have no corresponding change in agency funding levels.

The budget includes an updated Summary of Rent Charges, which reflects updated space utilization amounts when applying the current rental rates of state building space (Office - \$13.08 per sq. ft./Storage - \$4.74 per sq. ft.). *(Please see Summary of Rent Charges for additional information.)*

Capital Outlay

Arizona Department of Transportation Building System

FY 2017
APPROVED

BUILDING RENEWAL

ADOT Building Renewal ^{1/2/}	4,232,300
SUBTOTAL	4,232,300

INDIVIDUAL PROJECTS

Airport Planning and Development ^{2/3/}	19,079,900
Vehicle Wash Systems ^{2/4/}	5,530,000
Route H60 ^{2/5/}	1,500,000
State Route 189 ^{2/6/}	25,000,000
Interstate 10 ^{2/7/}	30,000,000
Statewide Highway Construction ^{2/8/}	270,615,000
One-Time HURF Distribution ^{9/}	30,000,000
SUBTOTAL	381,724,900

TOTAL - ALL PROJECTS ^{10/11/12/13/}	385,957,200
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FUND SOURCES

Other Appropriated Funds

General Fund	86,500,000
State Aviation Fund	19,312,200
State Highway Fund	280,145,000
SUBTOTAL - Other Appropriated Funds	299,457,200
SUBTOTAL - Appropriated Funds	385,957,200

Other Non-Appropriated Funds	342,567,000
Federal Funds	670,034,000

TOTAL - ALL SOURCES	1,398,558,200
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DESCRIPTION — The Arizona Department of Transportation (ADOT) Building System includes all buildings and highways controlled by ADOT. The following includes amounts for state highway construction and other projects related to ADOT's mission.

- ^{1/} Notwithstanding A.R.S. § 41-793.01, the amounts appropriated in this section are appropriated for FY 2017 to be used by the applicable agency for major maintenance and repair activities for state buildings in accordance with Title 41, Chapter 4, Article 7, Arizona Revised Statutes. Of the amounts appropriated to the Department of Administration, up to \$275,000 in Personal Services and Employee Related Expenditures for up to 5 FTE Positions may be allocated each fiscal year until the building renewal projects are completed. All other monies appropriated in this section shall not be spent for Personal Services or Employee Related Expenditures or for maintenance contracts on building components and equipment without review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)
- ^{2/} The appropriations made in sections 8, 9, 10 and 11 of this act do not lapse until the purpose for which the respective appropriation was made has been accomplished or abandoned, or the appropriation stands for a full fiscal year without an expenditure or an encumbrance. Except as provided in subsection A of this section and notwithstanding A.R.S. § 35-190D, the appropriations made in this act for FY 2017 that are unexpended on June 30, 2018 revert to the fund from which the monies were appropriated. (Capital Outlay Appropriation Act footnote)
- ^{3/} The amount is appropriated from the State Aviation Fund established by A.R.S. § 28-8202 for the planning, construction, development and improvement of state, county, city or town airports as determined by the State Transportation Board. Any balances and collections in the State Aviation Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the Department of Transportation for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- ^{4/} The sum of \$5,530,000 is appropriated from the State Highway Fund established by A.R.S. § 28-6991 in FY 2017 to the Department of Transportation for the construction of 10 vehicle wash systems. Before spending the appropriation in subsection A of this section, the Department of Transportation shall submit the scope, purpose and estimated cost of the capital improvements to the Joint Committee on Capital Review for its review pursuant to A.R.S. § 41-1252. (Capital Outlay Appropriation Act footnote)
- ^{5/} The sum of \$1,500,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for distribution to the Navajo Nation for the Route H60 construction project. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the Joint Committee on Capital Review. (Capital Outlay Appropriation Act footnote)

Unless otherwise specified, funding for capital projects is appropriated by Laws 2016, Chapter 126 (FY 2017 Capital Outlay Bill).

Building Renewal

The budget includes \$4,232,300 in FY 2017 for Building Renewal within ADOT's Building System. This amount consists of \$4,000,000 from the State Highway Fund (SHF) and \$232,300 from the State Aviation Fund. The SHF

amount is for the ADOT Building System and the State Aviation amount is for the Grand Canyon Airport.

Building renewal appropriations are used for major repair and maintenance of state-owned buildings. The formula is based on the square footage and replacement cost of existing buildings. The amounts represent 32.6% funding of the revised highways building renewal formula and 100% funding of the aviation building renewal formula.

- 6/ The sum of \$25,000,000 is appropriated from the state General fund in FY 2017 to the Department of Transportation for the acceleration of the State Route 189 construction project from the Mariposa Port of Entry to Interstate 19. Notwithstanding A.R.S. § 41-1252 the appropriation made in subsection A of this section is not subject to review by the Joint Committee on Capital Review. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation is unable to use the appropriation made in subsection A of this section to accelerate construction of the State Route 189 project from FY 2021 to at least FY 2019, or if the department is successful in its application for a \$25,000,000 Transportation Investment Generating Economic Recovery grant for the State Route 189 project, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)
- 7/ The sum of \$30,000,000 is appropriated from the state General Fund in FY 2017 to the Department of Transportation for Interstate 10 widening projects. These monies shall be combined with funding from the Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant to widen: (1) Interstate 10 from Earley Road to Interstate 8. (2) The Interstate 10 interchange with State Route 87. Notwithstanding A.R.S. § 41-1252, the appropriation made in subsection A of this section is not subject to review by the Joint Committee on Capital Review. Notwithstanding any other law or board policy related to the allocation of State Highway Fund discretionary monies, if the Department of Transportation does not receive a Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant, the appropriation made in subsection A of this section shall be placed in a subaccount of the State Highway Fund and used for statewide highway construction as part of the 5-year Transportation Facilities Construction program established pursuant to A.R.S. § 28-6951. (Capital Outlay Appropriation Act footnote)
- 8/ The amount appropriated for highway construction is from the State Highway Fund established by A.R.S. § 28-6991 for the planning and construction of state highways, including the national system of interstate highways within this state, the state primary or secondary system, the county primary or secondary system and urban rural routes, the acquisition of rights-of-way, the cost of contracted field administration and field engineering on construction projects and debt service payments on bonds issued for highway construction. Any balances and collections in the State Highway Fund in excess of the specific amounts appropriated in the General Appropriation Act and in this act are appropriated to the department for the purposes provided in this paragraph. (Capital Outlay Appropriation Act footnote)
- 9/ A. The sum of \$30,000,000 is appropriated on a one-time basis from the state General Fund in FY 2017 to the Department of Transportation for distribution as follows:
1. To the counties, 33.231%.
 2. To the incorporated cities and towns, 48.097%.
 3. To incorporated cities with a population of 300,000 or more persons, 5.247%.
 4. To counties with a population of more than 800,000 persons, 13.425%.
- B. The allocation and distribution made pursuant to subsection A, paragraphs 1, 2 and 3 of this section shall be made as prescribed in A.R.S. § 28-6540. The allocation and distribution made pursuant to subsection A, paragraph 4 of this section shall be made as prescribed in A.R.S. § 28-6538B.
- C. The amount appropriated in this section may be used only for the direct costs of constructing, reconstructing, maintaining or repairing public highways, streets or bridges and direct costs of rights-of-way acquisitions and expenses related thereto. (Laws 2016, Chapter 125)
- 10/ The Department of Transportation shall report on or before November 1, 2016 to the Joint Committee on Capital Review on its actual prior year, estimated current year and upcoming budget year highway construction expenses from all fund sources, including appropriated monies, federal monies, local agency monies, state highway monies, bond proceeds and regional area road monies. The report shall be in the same format as in the prior year unless modifications have been approved by the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. (Capital Outlay Appropriation Act footnote)
- 11/ On or before November 1, 2016, the Department of Transportation shall report the department's estimated outstanding debt principal balance at the end of FY 2018 and the estimated debt service payment amount for FY 2018 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This report shall include State Highway Fund statewide construction bonds, Arizona Highway User Revenue Fund, Maricopa Association of Governments and Pima Association of Governments controlled access bonds, Maricopa Regional Area Road Fund bonds and Grant Anticipation Notes and is intended to be comparable to the information in the *FY 2016 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 12/ On or before November 1, 2016, the Department of Transportation shall report capital outlay information for FY 2016, FY 2017 and FY 2018 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. This information shall appear in the same format as tables 2, 3 and 5, as found in the *FY 2016 Appropriations Report*. (Capital Outlay Appropriation Act footnote)
- 13/ Unless otherwise specified, the monies appropriated in this act may not be spent for Personal Services or Employee Related Expenditures of state employees, excluding any services provided as part of the Inmate Construction program for correctional facilities. (Capital Outlay Appropriation Act footnote)

Individual Projects

Airport Planning and Development

The budget includes \$19,079,900 from the State Aviation Fund (SAF) in FY 2017 for ADOT's airport construction program. Fund revenues are generated from a flight property tax on commercial airline aircraft, a license tax on non-commercial aircraft, and Grand Canyon Airport operational revenues. A footnote in the FY 2017 Capital Outlay Bill appropriates any additional monies in SAF above the appropriation to ADOT for aviation construction. (Please see Footnote 3.)

Vehicle Wash Systems

The budget includes \$5,530,000 from SHF in FY 2017 for ADOT to construct new vehicle wash systems at 10 highway maintenance sites statewide. Each vehicle wash system costs \$553,000. A wash system includes a 1,200 square foot metal building, a rack frame for handling de-icer material spreaders, and equipment to contain contaminants such as road tar, lubricants and de-icer salts. The wash systems will help ADOT meet wastewater environmental regulations to protect surface and ground water. ADOT was also appropriated \$2,910,000 in FY 2016 for 6 vehicle wash buildings. Between FY 2014 and FY 2017, a total of \$14,440,000 has been appropriated for vehicle wash systems at 28 sites. (Please see Footnote 4.)

Route H60 Project - One Time

The budget distributes \$1,500,000 from the General Fund in FY 2017 to the Navajo Nation for the Route H60 transportation project. This funds an all-weather gravel surface road. A footnote in the FY 2017 Capital Outlay Bill states that the project is not subject to review by the Joint Committee on Capital Review (JCCR). (Please see footnote 5.)

State Route 189 - One Time

The budget includes \$25,000,000 from the General Fund in FY 2017 for the acceleration of the State Route 189 construction project at the Mariposa Port of Entry. If ADOT is unable to accelerate the State Route 189 project to at least FY 2019, or if ADOT is successful in its application for a \$25,000,000 Transportation Investment Generating Economic Recovery grant for State Route 189, a footnote in the FY 2017 Capital Outlay Bill directs the \$25,000,000 to statewide highway construction. (Please see footnote 6.)

Interstate 10 Projects - One Time

The budget includes \$30,000,000 from the General Fund in FY 2017 to widen (1) Interstate 10 from Earley Road to Interstate 8 and (2) the interstate 10 interchange with State Route 87. If ADOT does not receive a Federal Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies grant, a footnote in the FY 2017 Capital Outlay Bill directs

the \$30,000,000 to statewide highway construction. (Please see footnote 7.)

Statewide Highway Construction

The budget includes \$270,615,000 from SHF in FY 2017 for controlled access, debt service on bonds, and new construction. A footnote in the FY 2017 Capital Outlay Bill appropriates any additional monies in SHF above the appropriation to ADOT for highway construction. (Please see Footnote 8.)

Controlled Access Highways

The budget includes an estimated urban freeway controlled access funding level of \$94,382,000 from SHF in FY 2017. Please see Table 6 for the HURF distribution analysis, which shows that after implementing statewide adjustments, \$94,413,000 of net SHF monies will be available for controlled access in FY 2017 rather than \$94,382,000. The Maricopa Association of Governments (MAG) receives 75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service

The budget includes \$126,141,000 from SHF in FY 2017 for the appropriated portion of the debt service on bonds. ADOT has approximately \$2,626,471,000 in outstanding bonds and other long-term debt. The amount represents the appropriated portion of FY 2017 debt service payments. (Please see Table 5 for more information on debt service.)

New Construction

The budget includes \$50,092,000 from SHF in FY 2017 for highway construction. Highway construction monies represent the amount that is available for the discretionary SHF to fund the State Transportation Board's 5-year plan after all other allocations have been made. Table 6 displays the HURF distribution analysis, which shows that after implementing statewide adjustments and additional ADOT highway maintenance funding, \$37,667,000 of net SHF monies will be available for statewide highway construction in FY 2017 rather than \$50,092,000. (Please see the Summary of Highway Construction section and Table 6 for additional information.)

Table 1

**State Highway Fund
FY 2017 Highway Construction & Debt Service**

	<u>Capital Outlay Bill</u>
Controlled Access	\$ 94,382,000
Debt Service	126,141,000
Highway Construction	<u>50,092,000</u>
Total	\$270,615,000

Table 1 shows the allocation of the budget related to highway construction.

As noted in the HURF distribution table (please see Table 6), an additional amount of \$124,148,000 from unspent FY 2016 State Highway Fund monies and the Statewide Transportation Acceleration Needs Account (STAN) will also be available in FY 2017.

One-Time HURF Distribution

The budget includes \$30,000,000 from the General Fund in FY 2017 for local highway construction. (Please see Footnote 9 and the subsequent Highway Construction Held Harmless from DPS Budget in the Other Issues section.)

Other Issues

Summary of Non-Appropriated Capital Funds

Table 2 provides a summary of non-appropriated capital expenditures. Non-appropriated capital expenditures are expected to grow to \$1.5 billion from \$1.1 billion before falling back to \$1.0 billion in FY 2017. Because of the South Mountain Freeway construction schedule, expenditures from the Maricopa Regional Area Road Fund (MRARF) are noticeably higher in FY 2016 than the other years.

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Aviation Federal Funds	\$ 323	\$ 4,000	\$ 4,500
Federal Grants	665,534	665,534	665,534
Subtotal - Federal Funds	\$ 665,857	\$ 669,534	\$ 670,034
Economic Strength Project Fund	\$ 1,000	\$ 1,000	\$ 1,000
Highway Expansion and Extension Loan Program Fund	0	78,000	0
Local Agency Deposits Fund	121,560	106,000	98,000
Maricopa Regional Area Road Fund	314,621	619,634	243,567
Subtotal - Other Non-Appropriated Funds	\$ 437,181	\$ 804,634	\$ 342,567
Total	\$1,103,038	\$1,474,168	\$1,012,601

Further background information regarding the funds is contained in the ADOT Summary of Funds in the ADOT operating section of the FY 2017 Baseline Book. The ADOT operating budget section does not include the non-

appropriated capital expenditures as those only appear in Table 2.

Summary of Highway Construction

The State Transportation Board oversees the department's highway construction program. The 5-Year Highway Construction Program adopted by the board on June 19, 2015 includes monies from SHF, Federal Funds, MRARF, HURF for controlled access roads, and bond revenues. The highway construction program adopted by the State Transportation Board totals \$880,091,000 for FY 2017. (Please see Table 3 for additional details.)

Table 3

	FY 2017 ^{1/}
Construction	\$ 58,109
Urban Controlled Access ^{2/}	560,991
Pavement Preservation Maintenance	214,019
Other ^{3/}	46,972
Total	\$880,091

^{1/} Data from ADOT's 2016-2020 5-Year Transportation Facilities Construction Program.

^{2/} Includes expenditures from HURF for controlled access, PAG, and MRARF.

^{3/} Includes construction preparation, contingency set-asides, and related highway construction and maintenance items.

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The FY 2017 budget provides \$270,615,000 for highway construction, including \$50,092,000 of net SHF monies for statewide highway construction. In Table 6, this amount is adjusted to \$37,667,000 due to statewide adjustments.

Table 5 summarizes expenditures for highway construction that are planned in the future and currently underway from FY 2015 through FY 2017 on a cash flow basis, as provided by ADOT. Table 3, which shows the highway construction program adopted by the State Transportation Board, presents a different view since it only shows the total dollar cost of highway projects scheduled to begin in FY 2017 by category of construction. Table 5 also includes monies from the Local Agency Deposits Fund, while Table 3 does not.

Both Tables 3 and 5 exclude the General Fund highway construction projects.

For FY 2015, *Table 5* shows that total FY 2015 cash highway construction expenditures were \$1.0 billion while \$305.4 million was spent on debt service. In FY 2016, total estimated cash highway construction expenditures are \$1.9 billion with total debt service of \$304.7 million. The FY 2016 increase is primarily due to MRARF. As previously indicated, the most expensive phase of South Mountain Freeway construction is expected to occur in FY 2016.

In FY 2017, total estimated cash highway construction expenditures are \$1.4 billion with total debt service of \$315.0 million.

The major sources of highway construction funding are SHF, Federal Aid, the half-cent sales tax in Maricopa County (MRARF), bond proceeds, and the Local Agency Deposits Fund. The Local Agency Deposits Fund receives monies from the federal government and local agencies for the payment of local agency sponsored county secondary road construction projects.

Table 5 does not include highway maintenance spending of \$136.7 million in FY 2015, \$147.7 million in FY 2016, and \$140.6 million in FY 2017. Of the \$315.0 million total debt service amount in *Table 5*, only \$126.1 million is appropriated.

Highway User Revenue Fund Analysis

HURF consists of monies received in the state from transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax (VLT), vehicle registration, driver's license, and others. *Table 4* explains the formula distribution of HURF monies between state and local governments. *Table 6* presents the overall HURF distribution for FY 2015 through FY 2017. The line in *Table 6* showing net SHF Available for Statewide Highway Construction, which totals \$37,667,000 for FY 2017, does not include Maricopa County and Pima County Controlled Access Funds, Bond Funds, Federal Funds, and Miscellaneous Funds available for construction. The line represents the amount that is available from the discretionary SHF to fund the State Transportation Board's 5-Year Plan.

Total FY 2015 HURF collections of \$1,290,439,000 were 4.0% above FY 2014. As of April 2016, HURF year-to-date collections were 5.5% higher than the prior year. Based on the FY 2016 year-to-date trend, HURF collections in FY 2016 and FY 2017 would be \$29.7 million and \$61.9 million above the budgeted amounts, respectively.

The gas tax is the primary source of HURF collections, accounting for 37% of HURF revenue in FY 2015. The steep decline in gas prices was the main driver in gas tax

growth of 3.0% in FY 2015. Gas prices continue to be lower than the prior year with the average price per gallon of regular gasoline in Arizona at \$2.16 in mid-May, or (25) cents per gallon lower than a year ago, according to the American Automobile Association. If this trend of lower gas prices continues, fuel consumption is likely to continue to increase.

Laws 2013, Chapter 244 deposited \$12,419,700 from the Underground Storage Tank (UST) tax into SHF for FY 2014 covering the period from January 2014 to June 30, 2014. For the first 6 months of FY 2015, \$15,317,700 from the UST tax was deposited in SHF. The source of the tax is a 1-cent excise tax on petroleum products and hazardous substances. Previously, these monies supported the Department of Environmental Quality's program to clean up leaking underground storage tanks.

The FY 2015 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 14) eliminated the deposit of UST tax collections in SHF effective January 1, 2015. Laws 2015, Chapter 247 deposits UST tax revenue in the UST Revolving Fund. (Please see the Department of Environmental Quality's narrative for more details.)

Table 4

Percentage Distribution of HURF Monies

Cities	30.5%
Counties	19.0%
Controlled Access ^{1/}	7.7%
State Highway Fund ^{1/}	<u>42.8%</u>
Total	100.0%

^{1/} A.R.S. § 28-6538 distributes 50.5% of HURF monies to SHF, with 12.6% of the monies distributed to SHF being allocated to controlled access highways in Maricopa and Pima Counties. The State Transportation Board adds 2.6% by Board Policy to the statutory 12.6%, making a total of 15.2% of SHF monies set aside for controlled access highways (50.5% of 15.2% = 7.7% displayed in the table above). The controlled access monies are divided: 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

Highway Construction Held Harmless from DPS Budget

The FY 2017 budget essentially holds both local and statewide highway construction harmless from the allocation of HURF monies to the Department of Public Safety (DPS) operating budget. Prior to FY 2015, \$119.2 million of HURF funding had been allocated to DPS for highway patrol expenses, thereby causing a loss of \$59.6 million (50% of the DPS allocation) for local highway construction and an identical loss of \$59.6 million (50% of the DPS allocation) for statewide highway construction.

Table 5

Highway Construction and Debt Service Expenditures by Fund Source
(\$ in Millions)

<u>Sources</u>	<u>FY 2015</u> <u>Actual</u>	<u>FY 2016</u> <u>Estimate</u>	<u>FY 2017</u> <u>Estimate</u>
State Highway Fund (SHF)			
Appropriated			
HURF - Statewide Debt Service	\$ 109.5	\$ 113.8	\$ 126.1
HURF - MAG Debt Service	27.8	30.6	27.1
MAG/PAG 15.2% Controlled Access - Construction Expenditures	6.4	309.5	26.0
Net SHF Funds Available for Statewide Highway Construction Expenditures	-	-	37.7
Total SHF - Appropriated	\$ 143.7	\$ 453.9	\$ 216.9
Non-Appropriated			
SHF Highway Construction ^{1/}	\$ 1.1	\$ 9.7	\$ 7.8
Total SHF - Non-Appropriated	\$ 1.1	\$ 9.7	\$ 7.8
Total SHF Highway Construction Expenditures	\$ 144.8	\$ 463.6	\$ 224.7
Federal Aid			
Total Federal Aid Highway Construction Expenditures	\$ 842.8	\$ 820.0	\$ 815.0
Maricopa Regional Area Road Fund			
Highway Construction Expenditures	\$ 129.7	\$ 669.2	\$ 228.9
MRARF Debt Service	103.2	103.4	142.6
Total Maricopa Regional Area Road Fund Highway Construction Expenditures	\$ 232.9	\$ 772.6	\$ 371.5
Bond Proceeds			
HURF - Highway Construction Expenditures	\$ 61.4	\$ 126.3	\$ 86.4
MRARF - Highway Construction Expenditures	31.7	-	196.8
GAN - Highway Construction Expenditures	13.1	-	-
Total Bond Proceeds Highway Construction Expenditures	\$ 106.2	\$ 126.3	\$ 283.2
Local Agency Deposits Fund			
Local Agency Deposits Fund Highway Construction Expenditures (Non-Federal)	\$ 12.6	\$ 11.0	\$ 8.0
Total Local Agency Deposits Fund	\$ 12.6	\$ 11.0	\$ 8.0
Total Local Agency Deposits Fund Debt Service	-	-	-
Total Local Agency Deposits Fund Cash Highway Constr. Expenditures	12.6	11.0	8.0
Total Local Agency Deposits Fund Highway Construction Expenditures	\$ 12.6	\$ 11.0	\$ 8.0
Total Highway Construction Expenditures	\$ 1,339.3	\$ 2,193.5	\$ 1,702.4
Total Debt Service			
SHF	\$ 137.3	\$ 144.4	\$ 153.2
Federal Aid	64.9	56.9	19.2
MRARF	103.2	103.4	142.6
Total Debt Service	\$ 305.4	\$ 304.7	\$ 315.0 ^{2/}
Total Cash Highway Construction Expenditures			
SHF	\$ 7.5	\$ 319.2	\$ 71.5
Federal Aid	777.9	763.1	795.8
MRARF	129.7	669.2	228.9
Bond Proceeds	106.2	126.3	283.2
Local Agency Deposits Fund	12.6	11.0	8.0
Total Cash Highway Construction Expenditures	\$ 1,033.9	\$ 1,888.8	\$ 1,387.4
Total Highway Construction Expenditures	\$ 1,339.3	\$ 2,193.5	\$ 1,702.4

^{1/} Includes funding from the Statewide Transportation Acceleration Needs Account (STAN).

^{2/} Information provided by the department. Includes \$153,138,000 for HURF bonds (\$126,141,000 for statewide program and \$26,997,000 MAG program); \$19,163,000 for Grant Anticipation Notes; and \$142,646,000 for MRARF bonds as of June 30, 2015.

Table 6

Highway User Revenue Fund (HURF) Distribution
(\$ in Thousands)

	FY 2015 <u>Actual</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>
Total HURF Collections	\$1,290,439	\$1,331,733	\$1,374,349
Less: Economic Strength Fund ^{1/}	1,000	1,000	1,000
ADOT - MVD Registration Compliance Program ^{2/}	652	653	650
Dept. of Public Safety Transfer from HURF ^{3/}	89,255	96,409	96,006
Reversions from DPS	(5,581)	0	0
Cities ^{4/}	16,003	16,003	16,003
Counties ^{4/}	9,969	9,969	9,969
Controlled Access ^{4/}	<u>4,028</u>	<u>4,028</u>	<u>4,028</u>
Net HURF Collections	\$1,175,113	\$1,203,671	\$1,246,693
Less: Cities ^{5/}	358,409	367,120	380,241
Counties ^{5/}	223,271	228,697	236,872
VLT Transfer to Parity Compensation Fund ^{6/}	2,771	2,975	3,142
VLT Transfer to General Fund (5-Year VLT) ^{7/}	1,204	1,200	1,200
VLT Transfer to General Fund (Abandoned Vehicle) ^{8/}	4,279	4,100	4,100
Controlled Access ^{9/}	<u>88,947</u>	<u>91,136</u>	<u>94,413</u>
Net SHF (Discretionary)	\$ 496,232	\$ 508,443	\$ 526,725
Plus: Other Income ^{10/}	43,971	28,153	28,750
Less: Operating Budget ^{11/}	350,539	341,903	348,128
Dept of Public Safety Transfer from Highway Fund ^{12/}	6,744	7,273	7,302
Capital Outlay	3,477	5,190	5,530
Building Renewal	3,192	3,192	4,000
Motor Vehicle Third Party Payments ^{13/}	23,469	25,145	26,557
Miscellaneous	307	150	150
Debt Service ^{14/}	<u>109,716</u>	<u>113,844</u>	<u>126,141</u>
Net SHF Available for Statewide Highway Construction (5-Year Plan) ^{15/}	\$ 42,759	\$ 39,899	\$ 37,667
SHF Adjustments			
Plus: Controlled Access SHF Beginning Balance	270,878	323,903	78,637
STAN Account Beginning Balance	<u>18,533</u>	<u>17,555</u>	<u>7,844</u>
Total SHF Available for Statewide Highway Construction	\$ 332,170	\$ 381,357	\$ 124,148

^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^{2/} The FY 2016 amount of \$652,700 includes \$900 for statewide adjustments. The FY 2017 amount of \$649,700 includes \$(3,000) for statewide adjustments.

^{3/} The FY 2016 amount of \$96,409,200 includes \$(403,100) for statewide adjustments. The FY 2017 amount of \$96,006,100 includes \$(403,100) for statewide adjustments.

^{4/} The FY 2016 Revenue BRB (Laws 2015, Chapter 10) requires, as session law, \$30 million of HURF revenues in FY 2015, FY 2016 and FY 2017 to be allocated directly to counties and cities and towns in percentages reflecting current non-state distribution of HURF revenues. The legislation also specifies that those revenues may only be spent on direct construction/repair and right-of-way expenditures. These additional HURF monies are due to a reduction in those funds in the DPS budget. The FY 2017 Revenue BRB (Laws 2016, Chapter 125) continues the special \$30 million HURF distribution to local governments and provides a new, one-time \$30 million distribution of General Fund monies to local governments for the same purpose.

^{5/} A statutorily defined distribution of HURF monies for acquisition and construction of streets or highways.

^{6/} A.R.S § 28-5808A transfers 1.51% of VLT for distribution to SHF to the Parity Compensation Fund beginning in FY 2006.

^{7/} A.R.S § 28-5808E transfers the SHF share of the HURF VLT to the state General Fund that is generated from the difference between a 2-year registration and a 5-year registration.

^{8/} A.R.S § 28-5808D also transfers the SHF share of the HURF VLT to the state General Fund that is equal to 90% of the fees collected under A.R.S. § 28-4802A and 60% of the fees collected under A.R.S. § 28-4802B to the state General Fund.

^{9/} A statutorily defined distribution of SHF monies for design, acquisition and construction of controlled access highways. The monies are divided 75% for Maricopa County and 25% for Pima County. Pima County may also use some of their monies for arterial streets and highways.

^{10/} Includes interest and rental income, transfers from the Public Roads Fund, deposits from the UST tax in FY 2015 only, revenue from 4 formerly non-appropriated funds, and miscellaneous sales and other income. The FY 2015 amount of \$43,970,800 includes \$43,319,000 in miscellaneous revenue and \$651,800 for the Registration Compliance program. The FY 2016 estimate of \$28,152,700 includes \$27,500,000 in miscellaneous revenue and \$652,700 for the Registration Compliance program. The FY 2017 estimate of \$28,749,700 includes \$28,100,000 in miscellaneous revenue and \$649,700 for the Registration Compliance program.

^{11/} The FY 2016 amount of \$341,903,000 includes \$(1,056,200) for statewide adjustments. The FY 2017 amount of \$348,128,300 includes \$(1,281,900) for statewide adjustments.

^{12/} The FY 2016 amount of \$7,273,200 includes \$(29,500) for statewide adjustments. The FY 2017 amount of \$7,301,800 includes \$(29,500) for statewide adjustments.

^{13/} Statutory payments to third parties from VLT collected by third parties.

^{14/} Debt service on highway revenue bonds, does not include debt service payable from Maricopa and Pima controlled access funds.

^{15/} Excludes Maricopa and Pima County controlled access funds, and bond, federal, and miscellaneous funds available for construction.

Beginning in FY 2015, the impact of the DPS shift on highway construction began to be rolled back. First, \$30.0 million from the General Fund of ongoing funding was appropriated to DPS, freeing up \$30.0 million of HURF for a special distribution to local highway construction. Then, via the FY 2017 Revenue BRB, an additional \$30.0 million of General Fund monies was appropriated as a special distribution to local highway construction for a total of \$60.0 million during FY 2017.

In addition, the FY 2017 Capital Outlay Bill appropriated \$55.0 million from the General Fund for statewide highway construction, including the Interstate 10 and State Route 189 projects.

When all these highway construction policies are combined, the total impact is \$115.0 million, essentially negating the impact of the existing DPS HURF distribution on local and statewide highway construction.

Capital Outlay
Arizona Board of Regents Building Systems

FY 2017
 APPROVED

BUILDING RENEWAL

Arizona Board of Regents
TOTAL - ALL PROJECTS

0
 0^{1/2/}

FUND SOURCES

General Fund
TOTAL - ALL SOURCES

0
 0

DESCRIPTION — The Arizona Board of Regents (ABOR) Building System is comprised of buildings controlled by ABOR on behalf of the universities.

Legal Structure

Pursuant to A.R.S. § 15-1682, the Arizona Board of Regents (ABOR) has the authority to lease, own, operate, and secure financing for building facilities for each of the 3 universities under its jurisdiction.

ABOR is the university system’s sole legal entity created under the State Constitution. Pursuant to A.R.S. § 15-1601, ABOR maintains Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). While ABOR delegates the authority to sign contracts to the presidents of each university, all contracts are legally established under ABOR, and all properties are legally held by ABOR, not the individual universities.

When debt is issued for a university project, only revenues from the respective university are pledged for the project’s debt service payments. As a result, financing terms are dependent upon each university’s individual credit rating, but all debt is formally issued by ABOR.

Building Renewal

Building Renewal appropriations provide for the major maintenance and repair of state-owned buildings. The appropriations are based on a formula determined by the Joint Committee on Capital Review (JCCR). The formula takes into account the replacement value, age, and life cycle of a building. The budget includes no funding for Building Renewal in the ABOR Building System.

1/ The sum of \$19,000,000 is appropriated from the state General Fund in FY 2017 to the Arizona Board of Regents for distribution for capital improvements or operating expenditures in the following amounts: Arizona State University \$7,000,000, Northern Arizona University \$4,000,000, University of Arizona \$8,000,000. On or before August 1, 2016, the Universities shall report the intended use of the monies to the Joint Legislative Budget Committee. Before any expenditure of the monies appropriated in subsection A of this section (Section 149) for capital improvements, the Universities shall submit the scope, purpose and estimated cost of the capital improvements for review by the Joint Committee on Capital Review pursuant to A.R.S. § 41-1252. (General Appropriation Act footnote)

2/ The one-time appropriation for operating expenditure or capital improvement projects has been included in the universities’ individual agency sections.

One-Time Funding

Section 149 of the FY 2017 General Appropriation Act appropriates \$19,000,000 to the universities from the General Fund in FY 2017 for one-time operating expenditures or capital improvements. Of this amount, \$8,000,000 is appropriated to UA, \$7,000,000 to ASU, and \$4,000,000 to NAU.

A General Appropriation Act footnote requires the universities to report the intended use of the monies to the Joint Legislative Budget Committee by August 1, 2016. The footnote also requires review by the Joint Committee on Capital Review for any of these monies that are used for capital projects.

These monies are included in the General Fund budget of each university’s individual agency section. *(Please see the individual university sections for more information.)*

Lease-Purchase Projects

In FY 2017, ABOR is projected to have \$700,263,100 in outstanding lease-purchase balances, with an overall debt service payment of \$82,887,300. The FY 2017 General Fund share of the debt service is \$29,415,500. These monies pay for the 2003 Certificates of Participation (COPs) which were issued in the amount of \$482,500,000 to provide funding for a variety of research infrastructure projects.

Laws 2003, Chapter 267 appropriated \$34,625,000 from the General Fund from FY 2008 through FY 2031 to pay for the Research Infrastructure debt service.

In FY 2013, ABOR refinanced the COPs for the 2003 research infrastructure appropriation, resulting in total savings across all 3 universities. Most of the savings were taken in the first 3 years of the refinance (FY 2015 - FY 2017). Section 134 of the FY 2015 General Appropriation Act reduced individual campus appropriations to reflect the new debt service obligations in FY 2015 to FY 2017, resulting in total savings across all 3 universities of \$(5.6) million in FY 2015, \$(8.1) million in FY 2016 and \$(4.3) million in FY 2017.

In 2015, ABOR subsequently refinanced the research infrastructure financing again. In the spring of 2016, ABOR provided updated debt service schedules reflecting this second refinancing of the lease-purchase payments for ASU and NAU. These schedules further reduced the universities' total payment obligations through FY 2031 by \$(17.8) million, including an additional \$(951,900) decrease in ASU's FY 2017 payments. As a result, the FY 2017 Higher Education Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 130) amends the FY 2015 General Appropriation Act to increase savings across all 3 universities to \$(5.2) million, rather than \$(4.3) million, in FY 2017.

The FY 2017 Higher Education BRB also amends A.R.S. § 15-1670 to adjust the original debt service appropriation for FY 2018 through FY 2031 to reflect the exact debt service payments as a result of the 2 lease-purchase refinancings.

After both refinancings are taken into account, the research infrastructure debt service appropriation will increase by \$2,902,600 in FY 2017. This is allocated as follows: \$(235,800) for ASU, \$(1,246,400) for NAU, and \$4,384,800 for UA.

In FY 2018, the research infrastructure debt service appropriation will increase by \$4,211,300, allocated as follows: \$2,290,700 for ASU, \$1,649,700 for NAU, and \$270,900 for UA.

For FY 2019, the research infrastructure debt service appropriation will decrease by \$(900), allocated as follows: \$(2,300) for ASU, \$(300) for NAU, and \$1,700 for UA.

(Please see Arizona Board of Regents section for additional information.)

Bonding

In FY 2017, ABOR is projected to have \$2,417,990,000 in outstanding bond balances, including both system revenue and lottery bonds. The projected debt service is \$197,372,500. *(Please see the ABOR agency section for more information.)*

University Lottery Bonds

One component of the \$2.4 billion balance is university lottery revenue bonds (Laws 2008, Chapter 287 as amended by Laws 2009, 1st Special Session, Chapter 6 and Laws 2009, 3rd Special Session, Chapter 9). These statutory provisions authorized ABOR to enter into bond transactions up to a maximum of \$800,000,000 to pay facilities. The bonds are to be paid with 80% Lottery monies and 20% university system revenues.

ABOR is required to allocate \$376,000,000 of the \$800,000,000 for the Phoenix Biomedical Campus. ABOR also decided to allocate \$16,000,000 to Arizona State University's (ASU) School of Construction. With the Phoenix Biomedical Campus and School of Construction set-asides, \$408,000,000 remained to be allocated. ABOR then initially split this amount evenly to each of the 3 universities (\$136,000,000 each) for building renewal, deferred maintenance, and new construction projects.

\$408,000,000 Allocation

In terms of the \$408,000,000 allocation, JCCR favorably reviewed:

- \$167,700,000 for building renewal bond projects in November 2008 and February 2009, which were issued in April, June, and August 2010, as well as in May 2011. To date, \$163,430,000 of the favorably reviewed \$167,700,000 has been issued.
- \$32,388,000 in September 2011 for ASU building renewal projects, of which \$30,915,000 was issued in November 2011.
- \$71,265,000 in October and December 2012 and August of 2013 for ASU building renewal projects, of which \$63,100,000 was issued in April 2014.
- \$66,500,000 in December 2012 and \$9,650,000 in October 2014 for the University of Arizona (UA) new construction, of which \$61,525,000 of the first review was issued in April 2013 and \$8,485,000 of the second review was issued in December 2014.
- \$71,215,000 in April 2013 for NAU for a new construction project at its Flagstaff campus, which was partially paid in cash. Of the reviewed amount, NAU issued \$67,715,000 in June 2013.

As a result of these actions, JCCR has favorably reviewed \$418,718,000. While the reviewed amount is in excess of

the \$408,000,000 statutory allocation for the 3 universities, the actual issuances are within the statutory limit. ASU had projects favorably reviewed in the amount of \$137,653,000, but it actually issued \$127,835,000, which is within ASU's statutory allotment, with \$8,165,000 remaining. NAU had projects favorably reviewed in the amount of \$136,015,000, but it has actually issued \$132,500,000, which is within NAU's statutory allotment, with \$3,500,000 remaining. UA had projects favorably reviewed totaling \$145,050,000, but it has actually issued a total of \$134,835,000, which is within UA's statutory allotment, with \$1,165,000 remaining. Of the total \$408,000,000 prescribed in statute, \$395,170,000 has been issued.

Phoenix Biomedical Campus

The Committee also favorably reviewed \$172,940,000 for Phase I of the Phoenix Biomedical Campus in March 2010, which represents a portion of the \$376,000,000 requirement. The campus was to be a collaboration among the 3 universities. Subsequent to the March 2010 JCCR meeting, ASU withdrew its partnership altogether from the Phoenix Biomedical Campus and NAU elected for cash financing for this item. As a result:

- Of the \$172,940,000 for Phase I, ASU's \$43,010,000 will not be issued and NAU paid cash instead of bonding for its \$7,685,000 proposed allocation. Those reviewed amounts are not included in the Reviewed Issuance column in *Table 1*.
- UA issued \$122,245,000 in June 2010 for Phase I.

In addition, the Committee has favorably reviewed:

- \$17,900,000 in April 2013 for NAU and UA to build out shell space for medical simulation rooms, administrative support space, and classrooms at the Phoenix Biomedical Campus. Of that amount, NAU issued \$7,475,000 in June 2013 and UA issued \$8,600,000 in May 2013.
- \$136,100,000 in September 2014 for UA's construction of a Bioscience Partnership Building, which will house 245,000 gross square feet and 10 stories of new research space. Of the reviewed amount, UA issued \$120,700,000 in February 2015.

If any of the ASU and NAU portions are not being spent for their originally reviewed purposes, the new uses of those monies would need further JCCR review before issuance. Laws 2009, 1st Special Session, Chapter 6, Section 3 would have to be amended in order for ASU and NAU to use the Phoenix Biomedical Campus allocation for other capital projects.

All of the NAU and UA bonds and 73% of the ASU bonds that were issued prior to December 2010 were issued as Build America Bonds (BABs). BABs, which expired December 2010, were taxable bonds which entitled the issuing entity to a 35% interest subsidy from the federal government. This left the issuing entity paying the remaining 65% of interest costs, together with principal, associated with the lease-purchase agreement.

School of Construction

The Committee also favorably reviewed \$16,000,000 for the ASU School of Construction in October 2012. Of that amount, \$14,520,000 was issued in April 2014, with \$1,480,000 in remaining authority.

Summary

Including the Phoenix Biomedical Campus, the ASU School of Construction and other projects, \$710,963,000 of the Chapter 287 authority has been reviewed (*see Table 1*). Of that amount, \$668,710,000 has been issued, which will result in a total debt service payment of \$49,910,300 in FY 2017, with 80% of debt service being paid from lottery revenues. At this time a total of \$131,290,000 in remaining authority is available for university lottery bonding projects, including \$116,980,000 for Phoenix Biomedical Campus expansion. (*Please see Table 1 for the statutory distribution amounts, the reviewed and planned issuances, and the remaining bonding authority by university.*)

After all lottery revenue beneficiaries receive their statutory distributions, the UCI Fund receives its distribution before any remaining monies are deposited to the General Fund. The Joint Legislative Budget Committee (JLBC) Staff estimates that the UCI Fund could receive as much as \$50,927,100 in FY 2017. This estimate solely reflects the total available after other lottery distributions and does not reflect planned usage. Since the maximum 80% lottery portion of the debt service is assumed to be \$39,928,200 in FY 2017, the budget assumes the remaining \$10,998,900 will be deposited to the General Fund. The 20% share of the university payment, which will be paid for with university system revenues, is projected to be \$9,982,100 in FY 2017.

Chapter 287 also provided that the monies distributed from the UCI Fund would be exempt from the university debt limit calculations. However, each university is required to submit their debt limit calculations with and without this bonding package as part of their annual Capital Improvement Plans.

Table 2 shows the current projections for UCI Fund revenues and a summary of the payment schedule for the Phoenix Biomedical Campus, ASU School of Construction

and building renewal projects if the maximum of 80% of the debt service was paid from Lottery funds. These amounts are based on the FY 2017 enacted budget and ABOR debt service estimates from January 2016.

Table 1

University Issuances

<u>Purpose</u>	<u>University</u>	<u>Statutory Distribution</u>	<u>Reviewed Issuance</u>	<u>Actual Issuance</u>	<u>Remaining Authority</u>	<u>Planned Issuance</u>
Phoenix Biomedical Campus	UA	\$360,960,000	\$268,045,000	\$251,545,000	\$109,415,000	\$ 0
ASU's School of Construction	NAU	15,040,000	8,200,000	7,475,000	7,565,000	0
Building Renewal/ New Construction	ASU	16,000,000	16,000,000	14,520,000	1,480,000	0
	ASU	136,000,000	137,653,000 ^{1/}	127,835,000	8,165,000	0
	NAU	136,000,000	136,015,000 ^{1/}	132,500,000	3,500,000	0
	UA	<u>136,000,000</u>	<u>145,050,000^{1/}</u>	<u>134,835,000</u>	<u>1,165,000</u>	<u>0</u>
<i>Subtotal</i>		<i>408,000,000</i>	<i>418,718,000</i>	<i>395,170,000</i>	<i>12,830,000</i>	<i>0</i>
TOTAL		\$800,000,000	\$710,963,000	\$668,710,000	\$131,290,000	\$ 0

^{1/} Actual issuances will not exceed statutory distribution

Table 2

University Lottery Bonding Projects^{1/}

		<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Projected Lottery Revenue to UCI Fund ^{2/}		\$ 22,273,200	\$ 42,130,100	\$ 50,927,100	\$ 60,404,000	\$ 70,360,600
Building Renewal Projects						
Lottery Debt Service	80%	\$ 14,019,300	\$ 24,669,500	\$ 25,703,100	\$ 25,701,400	\$ 25,698,200
University Debt Service	20%	<u>3,517,900</u>	<u>6,167,400</u>	<u>6,425,800</u>	<u>6,425,300</u>	<u>6,424,500</u>
Total Debt Service for \$395.2 M		\$ 17,537,200	\$ 30,836,900	\$ 32,128,900	\$ 32,126,700	\$ 32,122,700
Phoenix Biomedical Campus						
Lottery Debt Service	80%	\$ 7,681,400	\$ 13,218,600	\$ 13,458,000	\$ 13,455,800	\$ 13,451,700
University Debt Service	20%	<u>1,927,600</u>	<u>3,304,600</u>	<u>3,364,500</u>	<u>3,363,900</u>	<u>3,362,900</u>
Total Debt Service for \$259.0 M^{3/}		\$ 9,609,000	\$ 16,523,200	\$ 16,822,500	\$ 16,819,700	\$ 16,814,600
ASU School of Construction						
Lottery Debt Service	80%	\$ 572,500	\$ 764,900	\$ 767,100	\$ 767,100	\$ 766,800
University Debt Service	20%	<u>143,600</u>	<u>191,200</u>	<u>191,800</u>	<u>191,800</u>	<u>191,700</u>
Total Debt Service for \$14.5 M		\$ 716,100	\$ 956,100	\$ 958,900	\$ 958,900	\$ 958,500
Total Lottery Share at 80% ^{4/}		\$ 22,273,200	\$ 38,653,000 ^{5/}	\$ 39,928,200 ^{5/}	\$ 39,924,300	\$ 39,916,700
Projected University Cost ^{4/5/6/}		\$ 5,589,100	\$ 9,663,200	\$ 9,982,100	\$ 9,981,000	\$ 9,979,100

^{1/} Represents JCCR reviewed projects and issuances.

^{2/} Revenue estimates are based on a 8.2% annual increase in Lottery revenues in FY 2016, followed by a 5.0% increase in FY 2017 and thereafter. Represents that maximum amount of revenue available to the UCI Fund. UCI Fund revenues would not exceed the actual total lottery share of debt service in a given year. (See Total Lottery share at 80% line.)

^{3/} This amount consists of: 1) \$122,245,000 issued by UA in 2010 for Phase I of the Phoenix Biomedical Campus; 2) \$7,475,000 issued by NAU and \$8,600,000 by UA in 2013 for shell space and 3) \$120,700,000 issued by UA in 2014 for the Bioscience Partnership Building.

^{4/} The sum of Total Lottery Share at 80% and Projected University Cost represents the total debt service for the bond issuances. (See the Capital Debt and Lease-Purchase section for more information.)

^{5/} ABOR reports that the total lottery share will be \$38,653,000 in FY 2016 and \$39,928,200 in FY 2017. The amounts displayed above reflect estimates made in January 2016 based on available information from ABOR.

^{6/} Represents the 20% university share.

Capital Outlay

Debt and Lease-Purchase Financing

FY 2017
APPROVED

LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*

Arizona Department of Administration - 2010 Leaseback Financing	84,117,400 ^{1/2/}
Phoenix Convention Center	20,449,000 ^{3/}
Rio Nuevo Distribution	10,000,000 ^{4/}
TOTAL - ALL PROJECTS	114,566,400

* Represents only General Fund lease-purchase payments not included in individual agency budgets. All other debt and lease-purchase payments are reflected in individual agency budgets. (Please see Table 2.)

FUND SOURCES

General Fund	114,566,400
TOTAL - ALL SOURCES	114,566,400

DESCRIPTION — This section summarizes the state's debt and lease-purchase obligations.

2010 Leaseback Financing

The budget includes \$84,117,400 from the General Fund in FY 2017 for lease-purchase payments related to the \$1,035,419,300 state building sale/leaseback agreements.

The FY 2010 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 6) and Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to enter into sale/leaseback agreements in FY 2010 for existing state-owned facilities, requiring the funds to be deposited to the General Fund to subsidize state operating expenses. ADOA sold the issuances in 2 series (January 2010 and June 2010) at an average tax-exempt interest rate ranging from 4.37% to 4.57%, with an effective yield of approximately 4%. These issuances range up to 20 years in period of time, however, optional prepayment by the state is prohibited by the agreements until FY 2020. (Please see the Debt and Lease-Purchase Financing narrative pages in the FY 2013 Appropriations Report for more information.)

The sale/leaseback agreements were issued as a tax-exempt deficit financing mechanism in which the proceeds were used for state operational expenses. In

this circumstance, the federal government essentially required the state to agree to either of the following requirements:

- Working Capital Surplus Limitation – Limits the state's total cash reserve to the lesser of the following amounts: 1) A calculation of cash reserves for a fixed 3-year period before the issuance occurred; or 2) 5% of General Fund spending for that fiscal year. The state's cash reserve is defined as: the General Fund, the Budget Stabilization Fund (BSF), and monies in certain Department of Revenue clearing accounts. During FY 2012 - FY 2014, excess cash balances were to be used to purchase tax-exempt securities on a temporary basis. Beginning with the FY 2015 balance, excess cash balances would be used for mandatory retirement of the tax-exempt financing, which would occur in FY 2017. The mandatory repayment requirements would have superseded the existing FY 2020 prepayment restriction contained in the financing agreements.
- Investment Yield Restriction – Limits the investment return on the state's operating balance to the interest rate paid on the outstanding tax-exempt financing (approximately 4%). The state would be required to

^{1/} The sum of \$60,105,600 is appropriated from the State General Fund in FY 2017 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings authorized by Laws 2009, 3rd Special Session, Chapter 6, Section 32. (General Appropriation Act footnote)

^{2/} The sum of \$24,011,800 is appropriated from the State General Fund in FY 2017 to the Department of Administration for the purpose of making a debt service payment on the sale and leaseback of state buildings authorized by Laws 2010, 6th Special Session, Chapter 4, Section 2. (General Appropriation Act footnote)

^{3/} Pursuant to A.R.S. § 9-602, \$20,449,000 of General Fund revenue is allocated in FY 2017 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601. (General Appropriation Act footnote)

^{4/} Pursuant to A.R.S. § 42-5031, a portion of the state transaction privilege tax revenues will be distributed to a Multipurpose Facility District. The Rio Nuevo Multipurpose Facility District is estimated to receive \$10,000,000 in FY 2017. The actual amount of the distribution will be made pursuant to A.R.S. § 42-5031. (General Appropriation Act footnote)

restrict the yield on investments with a value equal to the current level of outstanding financing – which at the end of FY 2017 is expected to be \$1.14 billion. The yield restriction exists for the entire term of the operating financing.

When the financing was originally issued, the state agreed to the Working Capital Surplus limitation. Given concerns about the potential for the mandatory repayment requirements, the Executive opted to convert to the Investment Yield Restriction in May 2014. The selection of this limitation is irrevocable for the duration of the financing.

Due to this change, the FY 2016 Budget Procedures BRB (Laws 2015, Chapter 11) repealed the Working Capital Surplus reporting requirement in A.R.S. § 41-707. To replace the Working Capital Surplus Report, Chapter 11 requires the Department of Administration to report to the Joint Legislative Budget Committee (JLBC) and the Governor’s Office of Strategic Planning and Budgeting (OSPB) by October 1 of each year on any costs associated with the Investment Yield Restriction, including whether the policy has reduced the yield of investments or required the state to pay any associated penalties to the federal government.

In December 2015, ADOA reported that there were no costs associated with meeting the Investment Yield Restriction requirements. ADOA stated the requirements have not reduced the yield of investments and there have been no penalties paid to the federal government.

Because the state is no longer subject to the mandatory repayment requirements of the Working Capital Surplus Limitation, the operating financing is not subject to repayment by the state until FY 2020.

Phoenix Convention Center

The budget includes \$20,449,000 from the General Fund in FY 2017 related to the state participating in repayment of \$300,000,000 for the expansion of the Phoenix Convention Center.

In FY 2005, the City of Phoenix issued \$600,000,000 in Certificates of Participation (COPs), of which 50% will be repaid by the state. The project was completed in January 2009.

When the financing was originally authorized, Laws 2003, Chapter 266 enacted a debt service schedule related to this issuance, which was later modified by the FY 2012 Revenue BRB (Laws 2011, Chapter 28). Under this schedule, the state’s annual contribution is scheduled to

gradually increase from \$20,449,000 in FY 2017 to \$29,998,900 by FY 2044.

The FY 2016 Revenue BRB (Laws 2015, Chapter 10) made a technical change to conform the Phoenix Convention Center debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified in FY 2012 to conform to the actual debt service payments of the Phoenix Convention Center financing.

Statute requires the Auditor General to estimate annually how amounts of General Fund revenues resulting from the expansion project compare to debt service payments made by the state since the project’s 2009 completion. If the cumulative estimated revenues from the project fail to meet the state’s cumulative debt service, the state is to reduce its payments to the City of Phoenix by the shortfall amount.

The first comparison report was required in 2014 and annually thereafter. The latest study found that estimated General Fund revenues exceeded the state’s debt service payments by \$52,343,000 during the time period from 2009 to 2014. As a result, the state’s payment remained the same. The net increase was largely due to the state’s low introductory debt service payments. In calendar year 2015, \$15,397,000 in added revenues from the project was \$(5,102,000) short of the \$20,449,000 in debt payments.

Rio Nuevo Distribution

The budget includes an estimated \$10,000,000 from the General Fund in FY 2017 for debt service payments to finance the development of a multipurpose facility and supporting projects in the Rio Nuevo Multipurpose Facility District.

In prior years, distributions of monies to the Rio Nuevo district were accounted for as a reduction of state transaction privilege tax (TPT) revenue. Beginning in FY 2016, these payments are being displayed in the budget as a state expenditure instead. This assures greater transparency and is consistent with how the distributions of state monies to the Phoenix Convention Center are currently reported. The FY 2017 payments to the Rio Nuevo district are estimated to be \$10,000,000. Actual payments to the district decreased from \$9.5 million in FY 2014 to \$7.0 million in FY 2015. The actual amount distributed in FY 2017 will reflect the TPT allocation to the district required by statute.

Background – Tucson voters approved Proposition 400 in November 1999, establishing the Rio Nuevo Multipurpose Facilities District from 1999 to 2009. This district, which

receives a diversion of TPT to finance the development of a multipurpose facility and supporting projects, stretches east from Downtown Tucson along the retail-intensive Broadway Corridor.

Laws 1999, Chapter 162 allows the district to retain the state’s share of TPT from sales of secondary businesses that are deemed “necessary or beneficial” to the development of the primary component multipurpose facility. This law also limited the district’s TPT revenues to the lesser of: (1) 50% of collections or (2) revenues net of those received prior to the year of the election authorizing the district. This method of permitting a local area to use the state’s tax collections to finance local development projects with the expectation that future tax collections will increase as a result, is known as tax increment financing. Lastly, Laws 1999, Chapter 172 required the district’s municipality to spend a matching amount on projects by the district’s expiration date of July 1, 2025, or until the date all authorized debt service payments are completed, in order to receive state TPT revenues.

Through FY 2015, Rio Nuevo has received a total of \$125,334,537 in TPT distributions from the state (see Table 1). Laws 2006, Chapter 376 extended the period Rio Nuevo could receive these payments from 10 years to 25 years (to July 1, 2025).

Table 1

State TPT Payments to the Rio Nuevo District

<u>Fiscal Year</u>	<u>Distributions</u>
FY 2015	\$6,958,022
FY 2014	9,486,100
FY 2013	9,755,752
FY 2012	11,957,943
FY 2011	14,099,949
FY 2010	8,727,318
FY 2009	10,399,336
FY 2008	15,456,187
FY 2007	14,974,923
FY 2006	10,968,178
FY 2005	7,469,632
FY 2004	<u>5,081,197</u>
Total	\$125,334,537

Other Issues

State Debt Rating

In May 2015, both major credit rating agencies upgraded Arizona’s credit rating. Standard & Poor’s upgraded Arizona from AA- to AA, while Moody’s upgraded Arizona from Aa3 to Aa2. Both ratings represent the agencies’

third highest rating out of 10 possible levels. In comparison to other states, 30 states have a higher rating, 11 states have a similar rating, and 8 states have a lower rating or are not rated due to a lack of state level debt. Along with an overall rating, credit agencies also provide an outlook in terms of the future direction of rating changes. As of May 2015, both major agencies have a stable outlook for Arizona.

In adopting its credit ratings for Arizona, the credit agencies listed some of the following concerns: 1) ongoing K-12 litigation (now resolved); 2) narrow budget reserves; 3) absence of authority for mid-year reductions; and 4) reduced financial flexibility due to restrictions enacted by Proposition 105 and Proposition 108. While noting these challenges, the agencies also indicated Arizona’s comparably moderate debt levels, below median pension liabilities, and stabilized financial position as positive trends.

In May 2016, Arizona voters approved Proposition 124, modifying the State Constitution to allow certain changes to permanent benefit increases (PBIs) for public safety employee pensions. Moody’s said in a credit outlook report that approval of the amendment is credit positive for Arizona and its local governments, because it will replace PBIs, which were unfunded benefit increases, with more predictable cost-of-living adjustments (COLAs) that will be funded as part of ongoing plan costs. (Please see the Consolidated Retirement Report for more information.)

Long-Term Financing Summary

The state’s long-term financing consists of 3 different types of transactions.

Privatized Lease-to-Own Facilities

Under a privatized lease-to-own (PLTO) agreement, a private entity finances and constructs a building and leases it to the state. At the end of the lease term, the state takes possession of the building.

ADOA had PLTO agreements with private entities for 2 office buildings on the Capitol Mall. The 2 buildings house ADOA and the Department of Environmental Quality. In FY 2016, those PLTO agreements were refinanced and converted to lease-purchase agreements.

These payments are now included in Table 2’s Lease-Purchase and Bonding Summary since the debt is now held by the state.

Lease-Purchase Facilities

Under a traditional lease-purchase agreement, the state issues COPs to generate proceeds to finance capital projects. ADOA and the universities have entered into lease-purchase agreements for the acquisition and construction of state facilities.

The School Facilities Board (SFB) also entered into lease-purchase agreements for the construction of new schools in FY 2003 - FY 2005 and FY 2008 - FY 2010.

The FY 2010 K-12 Education BRB (Laws 2009, 3rd Special Session, Chapter 12) allowed SFB to enter into up to \$100,000,000 of new construction lease-purchase agreements to be financed by a federal program known as Qualified School Construction Bonds (QSCB). The lease-purchase agreement was issued for \$91,325,000 in October 2010 and will be retired in FY 2028. *(Please see the SFB budget narrative for more information.)*

The FY 2014 K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) authorized SFB to enter into a refinancing agreement, provided that the agreement must: 1) reduce SFB lease-purchase payments by a combined total of at least \$4,000,000 in FY 2014 and FY 2015; and 2) not increase or decrease SFB lease-purchase payments in any other fiscal year by more than \$100,000.

SFB's first proposed refinance under the authority in Chapter 3 received a favorable review from the Joint Committee on Capital Review (JCCR) in October 2013 and reduced SFB's lease-purchase payments by \$(1,445,200) in FY 2014 and \$(3,800,800) in FY 2015.

At its April 10, 2014 meeting, JCCR favorably reviewed a second refinancing agreement, which produced non-recurring savings of \$(9,415,900) in FY 2015. The FY 2016 budget included a one-time ex-appropriation of these savings for FY 2015.

The FY 2016 K-12 Education BRB authorized SFB to enter into a refinancing agreement provided that the agreement must: 1) reduce SFB's lease-purchase payments by a combined total of at least \$7,000,000 in FY 2016 through FY 2024; and 2) not vary lease-purchase payment reduction by more than \$1,000,000 in any single fiscal year during that period. At its June 2015 meeting, the JCCR favorably reviewed a refinancing agreement, which reduced SFB's lease-purchase payments by a combined total of \$15,088,700 in FY 2016 through FY 2024.

In addition, in FY 2017, lease-purchase payments will increase by \$9,177,000, of which \$1,639,900 is from the General Fund, \$6,414,900 is from Other Appropriated

Funds, and \$1,122,200 is from Non-Appropriated Funds. PLTO payments will decrease by \$(10,202,000), of which \$(1,224,600) is from the General Fund, \$(7,678,500) is from Other Appropriated Funds, and \$(1,298,900) is from Non-Appropriated Funds. Lease-purchase payments are increasing while PLTO payments are decreasing, because the state's only remaining PLTO agreements were refinanced and converted to lease-purchase agreements in FY 2016. These adjustments will have no corresponding change in agency funding levels. *(Please see the Capital Outlay ADOA Building System narrative for more information.)*

Table 2 provides information related to current state lease-purchase agreements.

Bonding Summary

The Arizona Board of Regents, on behalf of the Universities, the Arizona Department of Transportation, and SFB have issued bonds to renovate, acquire, and construct facilities, as well as to purchase equipment.

SFB has also issued Qualified Zone Academy Bonds (QZABs). The QZAB program, enacted through federal legislation, allows state and local agencies to issue QZABs at low interest rates by providing federal tax credits to bond holders. SFB issued a total of \$26,350,000 in QZABs through 2 issuances in FY 2001 and FY 2003. The debt service on QZABs is paid from Proposition 301 sales tax revenues and Permanent State School Fund revenues.

Laws 2010, 6th Special Session, Chapter 4 authorized ADOA to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. Payments started in FY 2011 and have been made from the Lottery revenues that would have otherwise been deposited into the General Fund. The FY 2017 bond payment will be \$37,501,500. This results in the General Fund receiving \$(37,501,500) less in Lottery revenues in FY 2017.

The federal requirements pertaining to operating financing also apply to the Lottery Revenue Bonds. *(Please see the 2010 Leaseback Financing section in the earlier part of this narrative for more information on these requirements.)*

Table 2

Lease-Purchase and Bonding Summary					
Lease-Purchase Summary	Overall Balance	^{1/} GF Balance	^{1/} Overall FY 17 Payment	^{2/} FY 17 GF Payment	^{2/} Retirement FY
ADOA Building System					
2008 A Issuance					
ADC 4000 Prison Beds, Wastewater and DHS Forensic Lab	\$ 43,360,000	\$ 43,360,000	\$ 14,212,200	\$ 14,212,200	FY 28
2010 A/B Issuance					
Sale/Leaseback	\$ 802,100,000	\$ 802,100,000	\$ 84,117,400	\$ 84,117,400	FY 30
2013 A Issuance					
PLTO Refinance - DHS Building	\$ 20,445,000	\$ -	\$ 3,201,200	\$ 1,920,500	FY 29
2013 B Issuance					
Refinance - 2002A Health Lab	\$ 9,870,000	\$ -	\$ 2,033,400	\$ -	FY 23
Refinance - 2004B Prisons	6,525,000	6,525,000	3,075,800	3,075,800	FY 19
2015 Issuance					
Refinance - 2008A ADC and DHS	\$ 107,515,000	\$ 107,515,000	\$ 5,304,900	\$ 5,304,900	FY 28
2015 A Issuance					
PLTO Refinance - Capitol Mall	\$ 50,560,000	\$ 50,560,000	\$ 9,388,400	\$ 1,893,000	FY 28
<i>Subtotal - ADOA</i>	\$ 1,040,375,000	\$ 1,010,060,000	\$ 121,333,300	\$ 110,523,800	
School Facilities Board					
New School Construction - FY 2008 - FY 2009	\$ 85,190,000	\$ 85,190,000	\$ 44,926,800	\$ 44,926,800	FY 19
Federal Bonds	55,317,700	55,317,700	9,938,100 ^{3/}	9,938,100 ^{3/}	FY 28
2011 Refinance	58,785,000	58,785,000	2,449,700	2,449,700	FY 20
2013 Refinance	21,905,000	21,905,000	24,779,700	24,779,700	FY 20
2014 Refinance	145,455,000	145,455,000	76,446,500	76,446,500	FY 20
2015 Refinance	257,835,000	257,835,000	11,465,800	11,465,800	FY 24
<i>Subtotal - SFB</i>	\$ 624,487,700	\$ 624,487,700	\$ 170,006,600	\$ 170,006,600	
ABOR Building System					
Arizona State University	\$ 308,264,100	\$ 146,435,000	\$ 29,322,800	\$ 11,190,300	FY 39
Northern Arizona University	53,040,000	52,845,000	4,445,500	4,246,800	FY 31
University of Arizona	338,959,000	144,580,000	49,119,000	13,978,400	FY 72
<i>Subtotal - ABOR</i>	\$ 700,263,100	\$ 343,860,000	\$ 82,887,300	\$ 29,415,500	
Phoenix Convention Center ^{4/5/}	\$ 260,124,300	\$ 260,124,300	\$ 20,449,000	\$ 20,449,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 2,625,250,100	\$ 2,238,532,000	\$ 394,676,200	\$ 330,394,900	
Bonding Summary					
School Facilities Board					
Deficiencies Correction:					
Proposition 301	\$ 185,595,000	\$ -	\$ 64,142,500	\$ -	FY 20
State Land Trust - FY 2004	23,728,500	-	24,904,500	-	FY 18
<i>Subtotal - SFB</i>	\$ 209,323,500	\$ -	\$ 89,047,000	\$ -	
Department of Transportation ^{6/}	\$ 1,705,089,000	\$ -	\$ 172,301,000 ^{7/}	\$ -	FY 14 - 38
ABOR Building System					
Arizona State University	\$ 929,375,000	\$ -	\$ 73,405,600	\$ -	FY 47
Northern Arizona University	301,160,000	-	25,523,600	-	FY 44
University of Arizona	549,900,000	-	48,533,000	-	FY 48
University Lottery Bond (SPEED)	637,555,000 ^{8/}	-	49,910,300	-	FY 48
<i>Subtotal - ABOR</i>	\$ 2,417,990,000	\$ -	\$ 197,372,500	\$ -	
Lottery Revenue Bond ^{4/}	\$ 333,610,000	\$ 333,610,000	\$ 37,501,500	\$ 37,501,500	FY 29
<i>TOTAL - Bonding</i>	\$ 4,666,012,500	\$ 333,610,000	\$ 496,222,000	\$ 37,501,500	
TOTAL - Lease-Purchase & Bonding	\$ 7,291,262,600	\$ 2,572,142,000	\$ 890,898,200	\$ 367,896,400	

- 1/ Represents principal balances as of June 30, 2017. The "GF Balance" column represents the portion of the overall balance paid from General Fund sources.
- 2/ Represents lease-purchase or debt service payments, including the portion paid from a General Fund source, which is represented in the "FY 17 GF Payment" column.
- 3/ This type of financing originally entitled the state to a federal interest rate subsidy of 4.86% (out of the 6% due on the bonds), shortly after each payment. Taking into account recent federal budget reductions, in FY 2017 this subsidy is expected to be \$3,976,500 of the \$9,938,100 payment.
- 4/ These obligations will be repaid with foregone General Fund revenues.
- 5/ The Convention Center debt service will eventually increase over a number of years to a maximum of \$30,000,000. Monies are given to the the city to pay this portion of the lease-purchase payment. Laws 2015, Chapter 10 made a technical change to conform the debt service distribution in A.R.S. § 42-5030 to the distributions contained in A.R.S. § 9-602, which were modified by Laws 2011, Chapter 28 to conform to the actual debt service payments.
- 6/ Includes \$1,569,539,000 for Highway User Revenue Fund bonds and \$135,550,000 for Grant Anticipation Notes.
- 7/ Future debt service schedule is: FY 2018 - \$172,751,000; FY 2019 - \$186,669,000; FY 2020 - \$191,897,000.
- 8/ Represents outstanding balance as of the end of FY 2017 from projects counted under the \$800,000,000 University Lottery bonding authority, otherwise known as SPEED. SPEED was originally authorized by Laws 2008, Chapter 287. *(Please see the Capital Outlay Arizona Board of Regents Building System narrative for more information.)*

SUMMARY OF RENT CHARGES 1/ 2/

	Fiscal Year 2017 Appropriation Report			
	General Fund	Other Fund	Non-Approp	Total
<u>BUDGET UNITS</u>				
Acupuncture Board of Examiners				
1400 W Washington	\$0	\$4,600	\$0	\$4,600
Administration, AZ Department of				
1400 W Washington	3,400	46,100	0	49,500
1510 W Adams	0	353,600	0	353,600
1501 W Adams	0	41,900	0	41,900
1520 W Adams	0	196,700	0	196,700
1537 W Jackson	0	89,100	0	89,100
1616 W Adams	0	77,300	0	77,300
1802 W Jackson	0	17,800	44,200	62,000
1840 W Jackson	0	63,600	0	63,600
1850 W Jackson	0	44,500	0	44,500
1700 W Washington	34,000	82,000	0	116,000
1801 W Madison	0	21,500	0	21,500
1805 W Madison	0	24,700	0	24,700
400 W Congress, Tucson	0	47,600	0	47,600
402 W Congress, Tucson	0	56,200	0	56,200
416 W Congress, Tucson	0	2,700	0	2,700
Subtotal - AZ Dept of Administration	\$37,400	\$1,165,300	\$44,200	\$1,246,900
Administrative Hearings, Office of				
1400 W Washington	71,000	900	131,500	203,400
400 W Congress, Tucson	0	11,400	0	11,400
Subtotal - Office of Administrative Hearings	\$71,000	\$12,300	\$131,500	\$214,800
African American Affairs, Commission on				
1700 W Washington	\$8,500	\$0	\$0	8,500
Agriculture, AZ Department of				
1520 W Adams	106,500	0	0	106,500
1688 W Adams	197,700	46,300	222,700	466,700
400 W Congress, Tucson	32,100	3,900	4,700	40,700
Subtotal - AZ Dept of Agriculture	\$336,300	\$50,200	\$227,400	\$613,900
AZ Health Care Cost Containment System				
Kingman Building	6,800	0	6,600	13,400
Arts, AZ Commission on the				
417 W Roosevelt	0	0	49,700	49,700
Attorney General - Department of Law				
1275 W Washington	550,300	315,500	320,300	1,186,100
400 W Congress, Tucson	31,300	24,500	18,300	74,100
402 W Congress, Tucson	137,700	107,900	79,900	325,500
Capitol Center	967,700	340,000	0	1,307,700
Subtotal - Attorney General - Dept of Law	\$1,687,000	\$787,900	\$418,500	\$2,893,400
Automobile Theft Authority				
1400 W Washington	0	34,800	0	34,800
Barbers, Board of				
1400 W Washington	0	12,500	0	12,500
Charter Schools, State Board for				
1616 W Adams	70,500	0	0	70,500
Child Safety, Department of				
1400 W Washington	0	0	42,400	42,400
Kingman Building	18,800	38,500	25,900	83,200
400 W Congress, Tucson	21,200	20,000	9,700	50,900
Capitol Center	117,100	32,500	67,200	216,800
Subtotal - Department of Child Safety	\$157,100	\$91,000	\$145,200	\$393,300
Citizens Clean Election Commission				

Fiscal Year 2017 Appropriation Report

	General Fund	Other Fund	Non-Approp	Total
1616 W Adams	0	0	54,300	54,300
Contractors, Registrar of				
400 W Congress, Tucson	0	287,400	0	287,400
1700 W Washington	0	38,000	0	38,000
Subtotal - Registrar of Contractors	\$0	\$325,400	\$0	\$325,400
Corporation Commission				
1200 W Washington	0	527,900	0	527,900
1300 W Washington	0	634,500	0	634,500
400 W Congress, Tucson	5,500	47,900	3,100	56,500
Subtotal - Corporation Commission	\$5,500	\$1,210,300	\$3,100	\$1,218,900
Corrections, State Department of				
1601 W Jefferson	749,900	0	0	749,900
1645 W Jefferson	668,500	0	0	668,500
1831 W Jefferson	266,300	0	0	266,300
Subtotal - State Dept of Corrections	\$1,684,700	\$0	\$0	\$1,684,700
Deaf and the Hard of Hearing, Commission for the				
1400 W Washington	0	8,400	0	8,400
Economic Security, Department of				
1400 W Washington	0	0	58,000	58,000
1624 W Adams	64,100	29,200	23,400	116,700
1700 W Washington	9,000	4,100	3,300	16,400
1789 W Jefferson (DES West)	1,441,000	359,100	476,300	2,276,400
Kingman Building	31,900	65,500	44,000	141,400
400 W Congress, Tucson	190,600	179,600	86,400	456,600
DES Group Homes	139,200	200,000	0	339,200
Capitol Center	78,700	21,900	45,100	145,700
Subtotal - Department of Economic Security	\$1,954,500	\$859,400	\$736,500	\$3,550,400
Education, Department of				
1535 W Jefferson	300,800	102,900	560,100	963,800
400 W Congress, Tucson	0	12,000	42,500	54,500
416 W Congress, Tucson	0	900	21,100	22,000
Subtotal - Department of Education	\$300,800	\$115,800	\$623,700	\$1,040,300
Education, State Board of				
1535 W Jefferson	32,400	0	0	32,400
1700 W Washington	50,700	0	0	50,700
Subtotal - State Board of Education	\$83,100	-	-	\$83,100
Emergency and Military Affairs, Department of				
400 W Congress St			\$9,000	\$9,000
Environmental Quality, Department of				
400 W Congress, Tucson	0	96,700	0	96,700
Equalization, State Board of				
416 W Congress, Tucson	1,400	0	0	1,400
Executive Clemency, Board of				
1645 W Jefferson	86,200	0	0	86,200
Financial Institutions, Department of				
2910 N 44th Street	166,000	32,400	0	198,400
Funeral Directors & Embalmers, State Board of				
1400 W Washington	0	15,000	0	15,000
Gaming, Department of				
400 W Congress, Tucson	0	14,000	0	14,000
Governor, Office of the				
1700 W Washington	569,900	0	134,200	704,100
400 W Congress, Tucson	30,000	0	0	30,000
Subtotal - Office of the Governor	\$599,900	\$0	\$134,200	\$734,100
Gov's Ofc of Strategic Planning & Budgeting				
1700 W Washington	130,300	0	0	130,300
Health Services, Department of				

Fiscal Year 2017 Appropriation Report

	General Fund	Other Fund	Non-Approp	Total
1740 W Adams	0	1,013,500	0	1,013,500
1818 W Adams	209,600	0	0	209,600
400 W Congress, Tucson	84,100	50,300	0	134,400
402 W Congress, Tucson	0	3,300	0	3,300
416 W Congress, Tucson	0	56,300	0	56,300
Subtotal - Department of Health Services	\$293,700	\$1,123,400	\$0	\$1,417,100
Homeland Security, AZ Dept of				
1700 W Washington	0	0	132,700	132,700
Homeopathic & Integrated Medicine Examiners,				
1400 W Washington	0	5,000	0	5,000
Insurance, Department of				
2910 N 44th Street	323,300	0	107,800	431,100
Judiciary - Court of Appeals				
400 W Congress, Tucson	380,700	0	0	380,700
Judiciary - Supreme Court				
1501 W Washington	2,859,700	0	0	2,859,700
400 W Congress, Tucson	83,800	0	0	83,800
Subtotal - Supreme Court	\$2,943,500	\$0	\$0	\$2,943,500
Subtotal - Judiciary	\$3,324,200	\$0	\$0	\$3,324,200
Juvenile Corrections, Department of				
1624 W Adams	364,700	0	0	364,700
Land Department, State				
1616 W Adams	0	779,700	0	779,700
Legislature - Auditor General				
2910 N 44th Street	342,200	0	0	342,200
Liquor Licenses and Control, Department of				
400 W Congress, Tucson	0	21,700	0	21,700
Medical Board, AZ				
9500 Doubletree Rd.	0	200,000	0	200,000
Massage Therapy Board				
1400 W Washington	0	28,500	0	28,500
Mine Inspector, State				
1700 W Washington	74,900	0	0	74,900
Naturopathic Physicians Medical Board				
1400 W Washington	0	4,300	0	4,300
Navigable Stream Adjudication Commission, AZ				
1700 W Washington	10,000	0	0	10,000
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.				
1400 W Washington	0	23,000	0	23,000
Opticians, State Board of Dispensing				
1400 W Washington	0	5,200	0	5,200
Optometry, State Board of				
1400 W Washington	0	9,000	0	9,000
Osteopathic Examiners in Medicine and Surgery, AZ Board of				
9500 Doubletree Rd.	0	34,200	0	34,200
Parks Board, AZ State				
1100 W Washington	0	9,400	38,300	47,700
Personnel Board				
1400 W Washington	0	24,800	0	24,800
Pharmacy, AZ State Board of				
1616 W Adams	0	117,800	0	117,800
Podiatry Examiners, State Board of				
1400 W Washington	0	4,400	0	4,400
Private Postsecondary Education, State Board for				
1400 W Washington	0	13,600	3,300	16,900
Psychologist Examiners, State Board of				
1400 W Washington	0	20,500	0	20,500

Fiscal Year 2017 Appropriation Report

	General Fund	Other Fund	Non-Approp	Total
Public Safety, Department of				
14 N 18th Avenue	20,100	5,300	5,600	31,000
1700 W Washington	50,600	13,200	13,900	77,700
400 W Congress, Tucson	10,900	2,800	2,900	16,600
Subtotal - Department of Public Safety	\$81,600	\$21,300	\$22,400	\$125,300
Real Estate Department, State				
2910 N 44th Street	235,800	0	0	235,800
Respiratory Care Examiners, Board of				
1400 W Washington	0	19,800	0	19,800
Revenue, Department of				
402 W Congress, Tucson	116,800	59,500	0	176,300
416 W Congress, Tucson	74,900	38,200	0	113,100
1600 W Monroe	1,377,300	709,400	0	2,086,700
Subtotal - Department of Revenue	\$1,569,000	\$807,100	\$0	\$2,376,100
Rio Nuevo Board				
400 W Congress, Tucson	0	0	12,900	12,900
School Facilities Board				
1700 W Washington	76,900	0	31,500	108,400
Secretary of State - Dept of State				
1700 W Washington	371,400	0	0	371,400
400 W Congress, Tucson	6,000	0	0	6,000
Records Management Addition	303,300	0	0	303,300
Polly Rosenbaum Building	1,593,000	0	0	1,593,000
Subtotal - Secretary of State - Dept of State	\$2,273,700	\$0	\$0	\$2,273,700
Transportation, Department of				
1275 W Washington <u>3/</u>	0	127,500	0	127,500
Treasurer, State				
1700 W Washington	0	135,500	0	135,500
Tribal Relations, Governor's Office of				
1700 W Washington	13,200	0	0	13,200
University of Arizona				
1502 W Washington	360,800	0	0	360,800
Veterinary Medical Examining Board, AZ State				
9500 Doubletree Rd.	-	25,300	-	25,300
Water Resources, Department of				
1802 W Jackson	24,800	-	-	24,800
GRAND TOTAL	\$16,755,800	\$8,397,000	\$2,932,800	\$28,085,600

1/ Reflects the FY 2017 rental rates enacted by Laws 2016, Chapter 127, Section 6, with an office square footage rental rate of \$13.08 and storage square footage rental rate of \$4.74.

2/ Pursuant to A.R.S. § 41-792.01, agencies occupying state-owned buildings shall pay the higher of the amount reported [herein] by the Joint Legislative Budget Committee or the pro rata share based on actual occupancy.

3/ Represents funding for space occupied by the Attorney General - Department of Law for provision of legal services to the Department of Transportation.

LEASE-PURCHASE APPROPRIATIONS ^{1/}
Department of Administration Building System

	Fiscal Year 2017 - Appropriation Report			
	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS				
Administration, AZ Department of Sale/Lease-Back	\$84,117,400			\$84,117,400
Arizona Department of Administration Buildings ^{2/}				
Accountancy, State Board of		\$112,800		112,800
Administration, Arizona Department of Deaf and Hard of Hearing, Commission for the Equalization, State Board of	777,900	2,004,600	\$209,400	2,991,900
Tax Appeals, State Board of	88,300	216,500		216,500
Subtotal - ADOA Building	34,000			88,300
Corrections, Arizona Department of 4,000 Public Prison Beds ^{3/}	900,200	\$2,333,900	\$209,400	\$3,443,500
Water and Wastewater Projects ^{3/}	15,804,400			15,804,400
1,000 Public Prison Beds - Refinance ^{4/}	650,000			650,000
Subtotal - AZ Department of Corrections	3,075,800			3,075,800
Arizona Department of Environmental Quality Building ^{2/}	\$19,530,200	\$0	\$0	\$19,530,200
Criminal Justice Commission, Arizona Environmental Quality, Department of		10,500	165,200	175,700
Environmental Quality, Department of - WIFA		3,179,900		3,179,900
Forestry and Fire Management, Department of	180,600	-	106,500	106,500
Gaming, Department of		545,900	27,200	207,800
Housing, Department of	65,100	25,800	429,100	545,900
Insurance, Department of				520,000
Residential Utility Consumer Office		105,300		105,300
Technical Registration, State Board of		171,900		171,900
Tourism, Office of			184,800	184,800
Water Resources, Department of	747,100			747,100
Subtotal - ADEQ Building	\$992,800	\$4,039,300	\$912,800	\$5,944,900
Health Services, Department of				
Health Services Building - Refinance ^{5/}	1,920,500	1,280,700		3,201,200
Health Lab - Refinance ^{4/}		2,033,400		2,033,400
Arizona State Hospital Forensic Unit ^{3/}	3,062,700			3,062,700
Subtotal - Department of Health Services	\$4,983,200	\$3,314,100	\$0	\$8,297,300
GRAND TOTAL	\$110,523,800	\$9,687,300	\$1,122,200	\$121,333,300

- ^{1/} Pursuant to A.R.S. § 41-792.01, state agencies occupying buildings being lease-purchased by the Arizona Department of Administration (ADOA) shall pay the higher of the billed amount reported [herein] by the Joint Legislative Budget Committee Staff or the pro rata share of the lease-purchase based on actual occupancy.
- ^{2/} As reviewed by the JCCR in June 2015, ADOA refinanced the existing ADOA and ADEQ building PLTO to a traditional lease-purchase agreement. The ADOA and ADEQ buildings will now be under a lease-purchase agreement, as opposed to being owned by a developer, and then leased to the state. While a PLTO usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in 2029.
- ^{3/} As reviewed by the JCCR in June 2015, ADOA refinanced the existing ADC 4,000 prison bed lease-purchase agreement (2008A) and the ASH lease-purchase agreement (2008A).
- ^{4/} As reviewed by JCCR in October 2012, ADOA refinanced the existing ADC 1,000 prison bed lease-purchase agreement (2004B) and DHS health lab lease-purchase agreement (2002A).
- ^{5/} As reviewed by JCCR in October 2012, ADOA refinanced the existing DHS building PLTO into a traditional lease-purchase agreement. The DHS building will now be under a lease-purchase agreement, as opposed to being owned by a developer, and then leased to the state. While a PLTO usually requires a private entity to maintain the building until the life of the agreement is complete, the conversion of this agreement into a traditional lease-purchase has been accompanied by an agreement with a private entity that will continue to be responsible for the maintenance of the DHS building through the end of the issuance in 2029.

ECONOMIC AND REVENUE FORECAST

GENERAL FUND REVENUE

Summary of General Fund Forecast

The enacted FY 2017 budget assumes total net General Fund revenues of \$9.67 billion. This amount is a decrease of (0.7)% compared to enacted FY 2016 General Fund revenues.

Base revenues represent ongoing General Fund revenues, exclusive of tax law and revenue changes, one-time revenue adjustments, and any balance forward from the previous fiscal year. For FY 2017, base revenues are projected to increase 4.0% when compared to forecasted FY 2016 revenues. The detailed enacted budget revenue forecasts appear at the end of this section. *Table 6* compares the enacted FY 2017 forecast to the enacted FY 2016 forecast while *Table 7* compares the FY 2019 revenue planning estimates to the FY 2018 estimates.

General Fund Base Revenue Forecast

FY 2016

The original FY 2016 budget was based on total net revenues of \$9.10 billion. This amount was (5.0)% below actual FY 2015 collections.

In the original FY 2016 budget, base revenues were projected to be \$9.52 billion in FY 2016, or 3.8% above the prior fiscal year. In January 2016, the JLBC Baseline reduced the FY 2016 base revenue forecast downward to 3.5%. The JLBC Baseline projection was based on the “4-sector” forecast (*see below for more information on the 4-sector process*). Despite the lower percentage increase, the ongoing base revenue in the January Baseline was \$312 million higher than in the March 2015 enacted budget. The reason for this is that the actual FY 2015 base revenue was higher than the estimate used in the March 2015 enacted budget.

In its 2016 Regular Session revisions to the FY 2016 budget, the Legislature adopted the January 2016 JLBC Baseline base revenue forecast of 3.5% growth. In terms of total revenue, the revised FY 2016 budgeted amount is \$9.74 billion, or 1.7% above FY 2015.

The April 4-sector forecast projected base revenue growth of 3.9% for FY 2016. As noted above, the May 2016 enacted budget is based on the January 2016 4-sector forecast. *Table 1* includes the January and April 2016 4-sector estimates by major categories for FY 2016 through FY 2019.

FY 2017

The enacted FY 2017 budget forecasts total net revenues of \$9.67 billion for FY 2017. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenues are projected at \$10.16 billion. This amount reflects a base revenue increase of 4.0% above FY 2016. In comparison, the April 4-sector forecasted base revenue growth of 3.4% above FY 2016.

Table 2 below summarizes the changing revenue picture in FY 2016 to FY 2019 through the phases of budget development. The growth rates in the table reflect ongoing base revenues.

Long-Term Projections

The FY 2017 budget also incorporated revenue planning estimates for FY 2018 and FY 2019, which are shown in *Table 7*. The January 2016 and April 2016 4-sector consensus estimates for FY 2018 and FY 2019 are shown in *Table 1*.

The growth rates in the FY 2018 and FY 2019 revenue planning estimates are based on the January 4-sector forecast. Under the January 4-sector consensus estimate, base revenue would increase by 4.6% in both FY 2018 and FY 2019. In comparison, the April growth rates were 4.0% for FY 2018 and 4.6% for FY 2019.

4-Sector Forecast

The JLBC’s estimated growth rates for the “Big 3” revenue categories of sales, individual income and corporate income taxes are initially developed and revised using a 4-sector consensus process. This process is based on averaging the results of the following 4 forecasts:

- The Finance Advisory Committee panel forecast of January 2016. Consisting of 14 public and private sector economists, this independent panel meets 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund base model. The model is a simultaneous-equation model consisting of over 100 equations that are updated on an ongoing basis to accommodate changes in the economy. The model uses over 200 variables related to Arizona’s economy and is updated quarterly.
- EBR’s conservative forecast model, and
- JLBC Staff projections.

The estimates for the remaining revenue categories, which constitute about 10% of the total, were based on JLBC Staff estimates.

Table 1

**4-Sector Estimates
Forecast Percentages (FY 2016 - FY 2019)
Base Revenue ^{1/2/}**

	<u>FY 2016</u>					<u>FY 2017</u>				
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>Sales Tax</u>										
January	4.1%	3.0%	4.0%	4.0%	3.8%	5.2%	2.6%	5.6%	4.6%	4.5%
April	3.4%	3.3%	3.6%	3.1%	3.3%	4.2%	1.7%	5.7%	4.5%	4.0%
<u>Individual Income Tax</u>										
January	5.2%	1.9%	2.5%	4.6%	3.6%	5.4%	(0.1%)	4.6%	5.3%	3.8%
April	6.0%	4.5%	5.1%	6.3%	5.5%	5.5%	(0.3%)	5.2%	4.0%	3.6%
<u>Corporate Income Tax</u>										
January	4.1%	(4.6%)	5.4%	5.4%	2.6%	5.5%	(2.8%)	1.9%	4.4%	2.4%
April	(2.7%)	(4.5%)	0.0%	1.7%	(1.4%)	3.8%	(2.2%)	0.0%	2.7%	1.1%
<u>Overall ^{3/}</u>										
January	4.4%	2.0%	3.4%	4.2%	3.5%	5.1%	1.3%	4.7%	4.7%	4.0%
April	4.1%	3.3%	4.0%	4.4%	3.9%	4.5%	0.7%	4.8%	3.9%	3.4%
<u>FY 2018</u>										
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>Sales Tax</u>										
January	4.8%	4.7%	6.0%	4.5%	5.0%	4.3%	4.9%	6.0%	4.3%	4.9%
April	4.0%	3.2%	6.2%	4.5%	4.5%	4.1%	4.9%	5.8%	4.3%	4.9%
<u>Individual Income Tax</u>										
January	5.2%	4.6%	5.5%	4.5%	5.0%	4.4%	5.2%	5.7%	4.5%	4.9%
April	4.5%	3.2%	5.4%	4.8%	4.5%	5.5%	5.1%	5.4%	4.8%	5.2%
<u>Corporate Income Tax</u>										
January	4.8%	(5.5%)	(1.7%)	4.2%	0.8%	3.9%	(4.1%)	(5.5%)	4.0%	0.1%
April	3.1%	(7.5%)	(8.8%)	3.0%	(2.4%)	3.8%	(6.4%)	(8.0%)	3.0%	(1.3%)
<u>Overall ^{3/}</u>										
January	4.8%	4.0%	5.1%	4.3%	4.6%	4.2%	4.6%	5.2%	4.3%	4.6%
April	4.1%	2.7%	4.9%	4.4%	4.0%	4.6%	4.4%	4.9%	4.3%	4.6%

^{1/} Prior to any tax law or other revenue changes.

^{2/} The enacted FY 2017 budget utilized January 4-Sector base revenue estimates.

^{3/} The growth rates for each sector represent the weighted average of Big-3 revenue estimates plus JLBC Staff estimates of other base revenue categories.

	<u>% Change</u>
<u>FY 2016</u>	
Enacted FY 2016 Budget (March 2015)	3.8%
JLBC Baseline (January 2016)	3.5%
4-Sector Consensus (April 2016)	3.9%
Enacted FY 2017 Budget (May 2016)	3.5%
<u>FY 2017</u>	
4-Sector Consensus (January 2016)	4.0%
4-Sector Consensus (April 2016)	3.4%
Enacted FY 2017 Budget (May 2016)	4.0%
<u>FY 2018</u>	
4-Sector Consensus (January 2016)	4.6%
4-Sector Consensus (April 2016)	4.0%
Enacted FY 2017 Budget (May 2016)	4.6%
<u>FY 2019</u>	
4-Sector Consensus (January 2016)	4.6%
4-Sector Consensus (April 2016)	4.6%
Enacted FY 2017 Budget (May 2016)	4.6%

Revenue Adjustments

Table 3 provides an overview of base revenue growth rates for FY 2016 and FY 2017 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in Table 4) and one-time financing sources. The table shows the base and adjusted revenue growth rates based on the enacted FY 2017 budget.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that affect the state's revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As shown in footnote 1 of Table 3, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by \$(97.9) million in FY 2016. As noted above, the FY 2016 base revenue growth of 3.5% excludes these changes. The enacted budget assumes a base revenue growth rate of 4.0% in FY 2017. Actual General Fund revenue, which includes the impact of previously and newly enacted legislation, urban revenue sharing and one-time financing sources is estimated to decline by (0.7)% in FY 2017. The following section provides a detailed description of previously and newly enacted legislation with an ongoing revenue impact in FY 2016 through FY 2019. (See Table 4 for a complete list of each of the tax law and revenue changes affecting collections in FY 2016 through FY 2019.)

	<u>FY 2016</u>	<u>%</u>	<u>FY 2017</u>	<u>%</u>
Base Revenue	\$9,769.6 ^{1/}	3.5%	\$10,158.4	4.0%
Previously Enacted Tax Law Changes	N/A		(97.8)	
Newly Enacted Tax Law Changes	N/A		(27.1)	
Urban Revenue Sharing	(605.6)		(663.7)	
One-Time Financing Sources:				
Balance Forward	312.3		225.0	
Fund Transfers	217.0		79.4	
Tax Amnesty	<u>47.0</u>		<u>0.0</u>	
Subtotal	576.3		304.4	
Adjusted Revenue	<u>\$9,740.3</u>	1.7%	<u>\$9,674.2</u>	(0.7)%
^{1/} \$(97.9) million in previously enacted tax law changes are included in the FY 2016 base revenue amount. The FY 2016 increase of 3.5% shown above excludes these changes.				

As shown in Table 4, ongoing budget legislation enacted prior to the 2016 Regular Session is estimated to reduce General Fund revenue by \$(97.9) million in FY 2016, followed by an additional reduction of \$(97.8) million in FY 2017, \$(90.4) million in FY 2018, and \$(73.3) million in FY 2019. All revenue impacts in Table 4 are stated relative to the prior year.

Newly enacted ongoing legislation in 2016 is estimated to reduce General Fund revenue by \$(27.1) million in FY 2017, followed by an additional reduction of \$(23.4) million in FY 2018, and \$(4.3) million in FY 2019. As shown in Table 4, this means that the total combined ongoing revenue impact of all (previously and newly) enacted legislation is \$(124.9) million in FY 2017, followed by additional revenue reductions of \$(113.8) million in FY 2018, and \$(77.6) million in FY 2019.

Each of the previously and recently enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in Table 5.

Previously (Pre-2016) Enacted Legislation

1) **Corporate School Tuition Tax Credit** – Laws 2006, Chapter 14 established a tax credit for contributions by corporations and insurers to private school tuition organizations that provide scholarships and tuition grants to students of low-income families. Chapter 14

established a cap on this credit of \$5 million per year. Laws 2006, Chapter 325 increased the credit cap to \$10 million per year, and provided that the cap be increased by 20% annually, beginning in FY 2008. Credit donations were made up to the cap in each year between FY 2013 and FY 2016, and are currently projected to reach the cap of \$61.9 million in FY 2017, \$74.3 million in FY 2018, and \$89.2 million in FY 2019. Thus, this credit program is estimated to reduce corporate income and insurance premium tax collections by \$(8.6) million in FY 2016, followed by additional reductions of \$(10.3) million in FY 2017, \$(12.4) million in FY 2018, and \$(14.9) million in FY 2019.

2) Phase-Down of Corporate Income Tax Rate – Laws 2011, 2nd Special Session, Chapter 1 reduces the corporate income tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. This rate reduction is currently estimated to reduce corporate income tax collections by \$(48.5) million in FY 2016, followed by additional reductions of \$(47.4) million in FY 2017, \$(47.4) million in FY 2018, and \$(35.4) million in FY 2019.

3) Phase-In of Single Corporate Sales Factor – Laws 2011, 2nd Special Session, Chapter 1 increases the optional sales factor, which is used to calculate the apportionment of taxable income for multi-state corporations, from 80% to 100% over 4 years, beginning in TY 2014. This provision is currently estimated to reduce corporate income tax collections by \$(32.5) million in FY 2016, followed by additional reductions of \$(29.4) million in FY 2017, \$(26.6) million in FY 2018, and \$(16.5) million in FY 2019.

4) Job Tax Credit – Laws 2011, 2nd Special Session, Chapter 1 provides a \$3,000 annual individual and corporate income tax credit for each net new qualifying job added by an employer in the state. To qualify for the 3-year credit, the new employment position must: (1) be full-time, (2) pay at least the county median wage, and (3) include health insurance paid by the employer. In addition, a business cannot claim the credit unless it meets certain minimum job creation and capital investment requirements. Laws 2012, Chapter 343 removed the 400 maximum job tax credit claims per employer established by Chapter 1. The job tax credit is currently estimated to reduce revenues by \$(4.2) million in FY 2016, followed by an additional reduction of \$(3.1) million in FY 2017.

5) Expansion of Angel Investment Credit – Laws 2011, 2nd Special Session, Chapter 1 provided certain changes to the State's Angel Investment Tax Credit program, beginning in FY 2012. Under this program, qualified "angel" investors are eligible to receive up to a 35% credit over 3 years on investments in small businesses certified by the Arizona Commerce Authority. The credit program is capped at \$20 million. Chapter 1 extended the credit

authorization by 4 years, through the end of FY 2016. Additionally, Chapter 1 also increased the asset cap of small businesses qualified to receive credit-eligible angel investments from \$2 million to \$10 million, beginning in FY 2012. According to information provided by the Arizona Commerce Authority, the \$20 million credit cap was reached at the end of FY 2015. Relative to FY 2015, the expiration of the credit program is expected to generate a revenue gain of \$4.5 million in FY 2016.

6) Reduction of Long Term Capital Gains – Laws 2012, Chapter 343 reduces the individual income taxation of long-term capital gains on assets acquired after TY 2011 by 25% over 3 years, beginning in TY 2013. This provision is estimated to reduce individual income tax collections by \$(11.3) million in FY 2016, after which time it is fully phased in.

7) Qualified Facility Tax Credit – Laws 2012, Chapter 343 created a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state, beginning in TY 2013. The credit is 10% of the lesser of (1) the capital investment in the facility or (2) \$200,000 for each net new employee hired at the facility. To qualify for the credit, a company is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facility. Laws 2016, Chapter 372 modified the credit by reducing some of the minimum requirements for new employees and extended the credit program by 3 years, from TY 2019 to TY 2022. The credit is refundable but no single taxpayer can claim more than \$30 million per calendar year. The credit must be taken in equal installments over 5 years. The qualified facility credit is subject to an annual aggregate cap of \$70 million, which it shares with the renewable energy credit enacted in 2009. This provision is estimated to reduce revenue by \$(4.0) million in FY 2016, followed by additional revenue reductions of \$(4.0) million in FY 2017, \$(4.0) million in FY 2018, and \$(2.8) million in FY 2019.

8) Extension of Net Operating Loss Carry Forward – Laws 2012, Chapter 343 increases the net operating loss (NOL) carry-forward period for corporations from 5 years to 20 years, beginning in TY 2012. (A company incurs a net operating loss whenever its allowable deductions exceed its taxable income within the same taxable year.) Although the 20-year carry-forward provision became effective in TY 2012, it will not have a fiscal impact until TY 2018 (or FY 2019 for budgetary purposes). This is because any net operating loss incurred in TY 2012 would be carried forward initially for 5 years (from TY 2013 through TY 2017), which is the same period as allowed under prior law. Thus, it is only beginning in TY 2018 that the

extended net operating loss carry forward will generate tax savings for businesses over and above the amounts that would have been provided under prior law. The provision is estimated to reduce corporate income tax collections by \$(3.7) million in FY 2019.

9) Data Center TPT Exemption – Laws 2013, 1st Special Session, Chapter 9 provides, effective September 1, 2013, Transaction Privilege Tax (TPT) and Use Tax exemptions for equipment purchased by owners, operators, or co-location tenants of computer data centers certified by the Arizona Commerce Authority. To qualify for the exemption, newly-constructed data centers located in Maricopa and Pima Counties must make a minimum investment of \$50 million over 5 years. The corresponding minimum requirement in other counties is \$25 million. Existing data centers, which made an investment of at least \$250 million during the 6 years immediately preceding the act's effective date, are eligible for the same exemption with respect to future equipment purchases. The exemption is estimated to reduce General Fund revenue by \$(1.9) million in FY 2016.

10) Electricity and Natural Gas TPT Exemption for Manufacturers – Laws 2014, Chapter 7 exempts the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing or smelting operations from the state TPT and use tax. The exemption is estimated to reduce General Fund revenue collections by \$(3.6) million in FY 2016. (For subsequent changes to Laws 2014, Chapter 7, see *item 37) below.*)

11) Renewable Energy Facility Credit – Laws 2014, Chapter 8 created an individual and corporate income tax credit for businesses that invest at least \$300 million in new renewable energy facilities in Arizona that generate energy for self-consumption. At least 90% of the energy produced at each renewable energy facility must be used for self-consumption and primarily for manufacturing operations. Chapter 8 imposed the following credit caps: (1) \$1 million per facility per year, (2) \$5 million per taxpayer per year, and (3) \$10 million in the aggregate per year. The credit is estimated to reduce General Fund revenues by \$(3.0) million in FY 2016, followed by an additional reduction of \$(7.0) million in FY 2017.

Laws 2015, Chapter 6 expanded the credit program to include certified International Operations Centers (IOC). However, the credit requirements are different for an IOC than a manufacturer. To qualify for the credit, an IOC must make minimum capital investments of at least \$100 million per year for 10 years, and use at least 51% of the energy produced for self-consumption by the fifth year of operation. While Chapter 6 increased the annual per facility credit cap from \$1 million to \$5 million, it left the

\$10 million statewide aggregate cap unchanged. For this reason, the expansion of the credit program under Chapter 6 does not have any additional fiscal impact.

12) Inflation Indexing of Income Tax Brackets – Laws 2014, Chapter 10 provided a one-time inflation adjustment of the individual income tax rate brackets for TY 2015, which was estimated to result in a one-time revenue loss of \$(6.1) million in FY 2016. Laws 2015, Chapter 91 made inflation indexing of the tax brackets permanent, beginning in TY 2016. As a result, the original estimate for FY 2016 was revised from one-time to ongoing. While there would be an additional revenue loss as the brackets are inflated each year, these adjustments are being incorporated into the regular base revenue estimates.

13) Social Security Number (SSN) Requirement – Laws 2014, Chapter 68 requires individual taxpayers to provide the Department of Revenue a valid SSN to claim the Proposition 301 Sales Tax Credit, otherwise known as the Increased Excise Taxes Paid Credit (IETC). An individual income tax filer can claim a \$25 credit to offset the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. For taxpayers filing as single or as married person filing separately, the income requirement for claiming the credit is \$12,500 or less. Individual taxpayers had previously been able to claim also this credit using a federally-issued individual taxpayer identification number. The SSN requirement is effective January 1, 2015 and is projected to reduce the use of the credit, thereby increasing income tax collections by \$1.5 million, beginning in FY 2016.

14) Electricity and Natural Gas TPT Exemption for International Operations Centers – Laws 2015, Chapter 6 exempts the gross proceeds from sales of electricity and natural gas to the owner or operator of a business certified by the Arizona Commerce Authority as an "International Operations Center." The exemption is estimated to reduce General Fund revenue collections by \$(1.3) million, beginning in FY 2017.

15) Tax Fraud Prevention and Detection – Laws 2015, Chapter 8 (FY 2016 General Appropriation Act) appropriated \$3.2 million to the Department of Revenue (DOR) to contract with a vendor to provide tax fraud prevention services designed to detect fraudulently filed individual income tax returns. This program is expected to bring in \$9.3 million to the General Fund in FY 2016, followed by an additional \$6.0 million beginning in FY 2017.

Table 4

**Previously and Newly Enacted Budget Legislation with Ongoing Revenue Impact in FY 2016 through FY 2019
(\$ Millions) ^{1/2/}**

<u>Previously Enacted Legislation / Description of Provision</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Laws 2006, Ch. 14 & Ch. 325</u>				
1) Corporate school tuition credit for low-income students	\$(8.6)	\$(10.3)	\$(12.4)	\$(14.9)
<u>Laws 2011, 2nd SS, Ch. 1</u>				
2) Phases down corporate tax rate from 6.968% to 4.9% over 4 years, beginning in FY 2015	(48.5)	(47.4)	(47.4)	(35.4)
3) Phases in corporate sales factor from 80% to 100% over 4 years, beginning in FY 2015	(32.5)	(29.4)	(26.6)	(16.5)
4) Creates annual \$3,000 3-year new job tax credit with conditions ^{3/}	(4.2)	(3.1)	0.0	0.0
5) Increases small business eligibility for 35% "angel" investment tax credit from \$2 million to \$10 million in assets through FY 2016	4.5	0.0	0.0	0.0
<u>Laws 2012, Ch. 343</u>				
6) Phases in (over 3 years) a 25% reduction of long term capital gains on assets purchased after 2011 ^{4/}	(11.3)	0.0	0.0	0.0
7) Creates an income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities ^{4/}	(4.0)	(4.0)	(4.0)	(2.8)
8) Extends the Net Operating Loss (NOL) carry forward from 5 years to 20 years	0.0	0.0	0.0	(3.7)
<u>Laws 2013, 1st SS, Ch. 9</u>				
9) Exempts data center equipment from TPT ^{4/}	(1.9)	0.0	0.0	0.0
<u>Laws 2014, Ch. 7</u>				
10) Exempts electricity and natural gas purchased by manufacturing and smelting facilities from TPT ^{5/ 6/}	(3.6)	0.0	0.0	0.0
<u>Laws 2014, Ch. 8</u>				
11) Creates a tax credit for investment in new facilities that produce energy for self-consumption using renewable energy sources	(3.0)	(7.0)	0.0	0.0
<u>Laws 2014, Ch. 10 & Laws 2015, Ch. 91</u>				
12) Adjusts individual income tax rate brackets for inflation annually, beginning in TY 2015	(6.1)	0.0	0.0	0.0
<u>Laws 2014, Ch. 68</u>				
13) Requires individual taxpayers claiming the Proposition 301 low-income credit to provide a valid social security number	1.5	0.0	0.0	0.0
<u>Laws 2015, Ch. 6</u>				
14) Exempts electricity and natural gas purchased by International Operations Centers from TPT	0.0	(1.3)	0.0	0.0
<u>Laws 2015, Ch. 8</u>				
15) Fraud detection and prevention conducted by the Department of Revenue	9.3	6.0	0.0	0.0

<u>Previously Enacted Legislation / Description of Provision (Cont'd)</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Laws 2015, Ch. 8</u>				
16) Provides ongoing Judiciary fund transfers to General Fund ^{7/}	\$6.0	\$0.0	\$0.0	\$0.0
<u>Laws 2015, Ch. 10</u>				
17) Fraud assessment levied by the Department of Insurance	0.5	0.0	0.0	0.0
<u>Laws 2015, Ch. 14</u>				
18) Increases federal disproportionate share cap ^{5/}	5.5	0.0	0.0	0.0
<u>Laws 2015, Ch. 184</u>				
19) Exempts retaliatory insurance premium taxes	(1.5)	0.0	0.0	0.0
<u>Laws 2015, Ch. 220</u>				
20) Phases down insurance premium tax rate from 2.0% to 1.7% over 11 years ^{8/}	<u>0.0</u>	<u>(1.3)</u>	<u>0.0</u>	<u>0.0</u>
Subtotal – Revenue Impact over Prior Year for <u>Previously Enacted Budget Legislation</u>	\$(97.9)	\$(97.8)	\$(90.4)	\$(73.3)
<u>Newly Enacted Legislation / Description of Provision</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Laws 2016, Ch. 109</u>				
21) Increases the maximum amount claimed as a tax credit for contributions to charitable organizations ^{9/}	0.0	(2.6)	0.0	0.0
<u>Laws 2016, Ch. 117</u>				
22) Decreases ongoing Judiciary fund transfers ^{7/}	0.0	(1.0)	(2.0)	0.0
<u>Laws 2016, Ch. 118</u>				
23) Increases state income tax deduction from 10% to 100% of federal bonus depreciation over 2 years, beginning in FY 2017	0.0	(8.0)	(8.0)	0.0
<u>Laws 2016, Ch. 125</u>				
24) Grants distributors a 3.52% tobacco tax stamp allowance ^{11/}	0.0	0.0	0.0	0.0
<u>Laws 2016, Ch. 181</u>				
25) Exempts aerial application aircraft from TPT ^{12/}	0.0	0.0	0.0	0.0
<u>Laws 2016, Ch. 192</u>				
26) Diverts certification fees from General Fund to ADEQ ^{10/}	0.0	(0.4)	0.0	0.0
<u>Laws 2016, Ch. 221</u>				
27) Eliminates pest management fee deposit to General Fund ^{10/}	0.0	(0.2)	0.0	0.0
<u>Laws 2016, Ch. 223</u>				
28) Exempts the leasing or renting of billboards from TPT ^{13/}	0.0	0.0	0.0	0.0
<u>Laws 2016, Ch. 309</u>				
29) Extends due date to claim tax credit for contributions to charitable organizations	0.0	(1.7)	0.0	0.0
<u>Laws 2016, Ch. 357</u>				
30) Exempts natural gas transportation services provided to manufacturing and smelting facilities from TPT ^{14/}	0.0	(0.9)	0.0	0.0
<u>Laws 2016, Ch. 358</u>				
31) Accelerates 0.3% phase-down of insurance premium tax rate from 11 years to 6 years, beginning in FY 2017 ^{8/}	0.0	(3.0)	(4.1)	(4.3)

<u>Newly Enacted Legislation / Description of Provision (Cont'd)</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Laws 2016, Ch. 359</u>				
32) Exempts propane purchased by manufacturing and smelting facilities from TPT ^{15/}	0.0	(0.1)	0.0	0.0
<u>Laws 2016, Ch. 361</u>				
33) Exempts agricultural feed for use in noncommercial boarding of livestock from TPT	0.0	(1.0)	0.0	0.0
<u>Laws 2016, Ch. 367</u>				
34) Exempts aircraft and aircraft equipment operated by charter airlines from TPT ^{10/}	0.0	0.0	(2.3)	0.0
<u>Laws 2016, Ch. 368</u>				
35) Exempts sale of fine art to nonresidents for use outside the state from TPT	0.0	(1.3)	0.0	0.0
<u>Laws 2016, Ch. 373</u>				
36) Exempts entry fees for noncompetitive races sponsored by nonprofit organizations from TPT	0.0	0.0	0.0	0.0
<u>Laws 2016, Ch. 374</u>				
37) Modifies existing TPT exemption for electricity and natural gas purchased by manufacturing and smelting facilities ^{6/ 16/}	<u>0.0</u>	<u>(7.0)</u>	<u>(7.0)</u>	<u>0.0</u>
Subtotal – Revenue Impact over Prior Year for <u>Newly Enacted Budget Legislation</u>	\$0.0	\$(27.1)	\$(23.4)	\$(4.3)
Total – Revenue Impact over Prior Year for All (Previously and <u>Newly</u>) Enacted Budget Legislation	\$(97.9)	\$(124.9)	\$(113.8)	\$(77.6)
<p>^{1/} Represents marginal pricing: All revenue impacts are stated relative to the prior year. Unless otherwise noted, bill scoring reflects the estimates contained in the final budget agreement.</p> <p>^{2/} Some provisions have been revised since the enactment of the FY 2016 budget in March 2015.</p> <p>^{3/} Includes impact of Laws 2012, Chapter 343, which eliminated individual company cap of 400 eligible employees. In addition, Laws 2012, Chapter 343 provided that the credit be available to insurers through TY 2019. The TY 2019 deadline for insurers to claim the credit was subsequently eliminated by Laws 2016, Chapter 360. The imposition and subsequent removal of the TY 2019 deadline is not expected to have any fiscal impact.</p> <p>^{4/} Impact began in FY 2014.</p> <p>^{5/} Impact began in FY 2015.</p> <p>^{6/} The requirements to qualify for the TPT exemption created by Laws 2014, Chapter 7 were modified by Laws 2016, Chapter 374.</p> <p>^{7/} The amount of Judiciary fund transfers authorized by Laws 2015, Chapter 8 was reduced by Laws 2016, Chapter 117.</p> <p>^{8/} The scheduled insurance premium tax rate reduction provided by Laws 2015, Chapter 220 was accelerated by Laws 2016, Chapter 358.</p> <p>^{9/} The May 2016 budget agreement assumed an impact of \$(2.6) million, beginning in FY 2017. The JLBC Staff estimates the impact to be \$(11.0) million, beginning in FY 2017.</p> <p>^{10/} Represents JLBC Staff scoring. Final budget agreement did not include an estimate for the bill.</p> <p>^{11/} The May 2016 budget agreement did not include an estimate of this provision. The JLBC Staff estimates that the provision will increase General Fund revenue by \$103,000, beginning in FY 2017.</p> <p>^{12/} Impact is estimated to be \$(18,600), beginning in FY 2017.</p> <p>^{13/} Impact is estimated to be \$(10,000), beginning in FY 2017.</p> <p>^{14/} Impact is estimated to be \$(870,000), beginning in FY 2017.</p> <p>^{15/} Impact is estimated to be \$(91,000), beginning in FY 2017.</p> <p>^{16/} The May 2016 budget agreement assumed an impact of \$(7.0) million in FY 2017, followed by an additional impact of \$(7.0) million, beginning in FY 2018. The JLBC Staff estimates the impact to be \$(8.7) million in FY 2017, followed by an additional impact of \$(12.2) million, beginning in FY 2018.</p>				

16) Ongoing Judiciary Transfers – The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) contained specific transfers to be made during FY 2016. The enacted FY 2016 budget's 3-year plan assumed the ongoing continuation of \$6.0 million in fund transfers from various Superior Court and Supreme Court funds to the General Fund, beginning in FY 2016. (For subsequent changes to judiciary transfers, *see item 22*) below.)

17) Insurance Fraud Assessment – Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) continued the suspension of the statutory requirement that the Department of Insurance (DOI) set fees such that fee revenues are between 95% and 110% of the department's appropriation. This provision allows DOI to increase the fraud investigation assessment in order to offset a General Fund appropriation for insurance fraud investigators in the department's Fraud Unit. The provision is expected to increase General Fund revenue by \$516,600 annually, beginning in FY 2016.

18) Disproportionate Share Transfer Increase – Laws 2015, Chapter 14 (FY 2016 Health Budget Reconciliation Bill) increased the maximum Disproportionate Share Hospital payment allocation for the Maricopa Integrated Health System in FY 2015 and FY 2016. The act provided that any resulting increase in the amount of Federal Funds that the public hospital draws down with the added allocation be deposited to the General Fund. This provision is expected to increase revenue by \$5.5 million annually, beginning in FY 2016.

19) Retaliatory Tax Exemption – Laws 2015, Chapter 184 provides an exemption from Arizona's insurance premium retaliatory tax to out-of-state insurers doing business in Arizona, if the insurer's home state does not charge retaliatory taxes on Arizona insurers. Retaliatory taxes are owed by out-of-state insurers to the extent that the sum of insurance premium tax an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer's home state. The exemption is estimated to reduce revenue by \$(1.5) million annually, beginning in FY 2016.

20) Insurance Premium Tax Rate Reduction – Laws 2015, Chapter 220 gradually reduces the insurance premium tax rate from 2.0% in calendar year (CY) 2015 to 1.7% in CY 2026 and subsequent years. The rate reduction applies to life, vehicle, and other property and casualty lines of insurance. The law is estimated to reduce insurance premium tax collections to the General Fund by \$(1.3) million annually, beginning in FY 2017. (For subsequent changes to Chapter 220, *see item 31*) below.)

Newly (2016) Enacted Legislation

21) Increase of Charitable Tax Credit Cap – Laws 2016, Chapter 109 increases the maximum amount that an individual income taxpayer is allowed to claim for cash contributions to qualifying charitable organizations (QCO) and qualifying foster care charitable organizations (QFCO). Chapter 109 increases the maximum QCO credit from \$400 to \$800 for married couples filing joint returns and from \$200 to \$400 for all other filers. The maximum amount for the QFCO credit is increased from \$800 to \$1,000 for married couples filing joint returns and from \$400 to \$500 for all other filers. Additionally, Chapter 109 allows a taxpayer to receive separate credits for cash contributions to a QCO and a QFCO. Prior to Chapter 109, the maximum amount for both credits combined were \$800 for married couples filing joint returns and \$400 for all other filers. This provision is estimated to reduce General Fund revenue by \$(2.6) million annually, beginning in FY 2017.

22) Decrease of Judiciary Transfers – The FY 2017 General Appropriation Act (Law 2016, Chapter 117) authorizes total transfers of \$5.0 million and \$3.0 million in FY 2017 and FY 2018, respectively, from various Judiciary funds to the General Fund. As noted under *item 16*) above, the FY 2016 budget's 3-year plan enacted in March 2015 assumed ongoing Judiciary fund transfers to the General Fund of \$6.0 million annually, beginning in FY 2016. Thus, compared to previously budgeted amounts, Chapter 117 constitutes a fund transfer reduction of \$(1.0) million in FY 2017 and \$(3.0) million in FY 2018. In terms of the impact relative to the prior year, Chapter 117 results in General Fund reduction of \$(1.0) million in FY 2017 followed by an additional reduction of \$(2.0) million beginning in FY 2018.

23) Phase-in of Full Conformity to Federal Bonus Depreciation – Laws 2012, Chapter 343 provided an individual income tax deduction equal to 10% of the bonus depreciation allowance claimed on federal returns for qualified property purchased and placed in service in 2013 and later. Laws 2016, Chapter 118 increases the state income tax deduction to 55% of the federal bonus depreciation allowance in TY 2016 and 100% in TY 2017 and subsequent years. Current federal law provides a bonus depreciation allowance of 50% through TY 2017, 40% in TY 2018, and 30% in TY 2019. Therefore, under Chapter 118, the state individual income tax deduction is 27.5% (55% of 50% federal allowance) of the qualified investment amount in TY 2016. The corresponding state individual income tax deductions are 50% (100% of 50% federal allowance) in TY 2017, 40% (100% of 40% federal allowance) in TY 2018, and 30% (100% of 30% federal allowance) in TY 2019. The 2-year phase-in of full state conformity to federal bonus depreciation is estimated to

reduce individual income tax by \$(8.0) million in FY 2017, followed by an additional reduction of \$(8.0) million in FY 2018.

24) Tobacco Tax Stamp Allowance – Laws 2016, Chapter 125 (FY 2017 Revenue Budget Reconciliation Bill) grants cigarette distributors an administrative allowance of 3.52% for the purchase of tobacco tax stamps affixed to cigarette packs sold on tribal lands by tribal retailers. Additionally, Chapter 125 increases the discount rate that distributors pay on the purchase of all tobacco tax stamps from 96.0% to 96.48% of the face value of the stamps. The May 2016 budget agreement assumed that these provisions were revenue neutral.

25) Aerial Application Aircraft TPT Exemption – Laws 2016, Chapter 181 exempts aircraft built for agricultural use for the aerial application of pesticides or fertilizer or for aerial seeding from state TPT and use tax. Chapter 181 is estimated to reduce General Fund revenue by \$(18,600) annually, beginning in FY 2017.

26) Fee Shift to ADEQ – Laws 2016, Chapter 192 provides that fees collected for wastewater and drinking water operator certification be deposited in the Arizona Department of Environmental Quality's (ADEQ) Water Quality Fee Fund instead of the General Fund. The provision is estimated to decrease General Fund revenue by \$(357,000) annually, beginning in FY 2017.

27) Elimination of Pest Management Fee Deposit – Laws 2016, Chapter 221 establishes the Division of Pest Management within the Arizona Department of Agriculture (ADA) as of July 1, 2016. Moreover, Chapter 221 establishes the Pest Management Trust Fund for the exclusive purpose of supporting the Division of Pest Management and repeals statute establishing the Office of Pest Management as a self-sustaining 90/10 agency. Therefore, Chapter 221 effectively eliminates the deposit of pest management fees to the General Fund. The provision is expected to reduce General Fund revenue by \$(152,000) annually, beginning in FY 2017.

28) Billboard Rental TPT Exemption – Laws 2016, Chapter 223 exempts the leasing or renting of billboards from the personal property rental classification of state TPT. Chapter 223 is estimated to reduce General Fund revenue by \$(10,000) annually, beginning in FY 2017.

29) Extending Due Date for Charitable Tax Credit – Laws 2016, Chapter 309 provides that cash contributions to charitable organizations made on or before April 15 for purposes of claiming the charitable tax credit can be applied to either the current or preceding taxable year. This provision is estimated to reduce General Fund revenue by \$(1.7) million annually, beginning in FY 2017.

30) Gas Transportation Services TPT Exemption – Under current law (Laws 2014, Chapter 7), the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing or smelting operations are exempt from state TPT and use tax. Laws 2016, Chapter 357 expands this exemption to include natural gas transportation services. Chapter 357 is estimated to reduce General Fund revenue by \$(870,000) annually, beginning in FY 2017.

31) Accelerated Reduction of Insurance Premium Tax Rate – Laws 2015, Chapter 220 gradually reduces the insurance premium tax rate from 2.0% in CY 2015 to 1.7% in CY 2026 and subsequent years. Laws 2016, Chapter 358 replaces the rate schedule under Laws 2015, Chapter 220 with an accelerated schedule that gradually reduces the premium tax rate to 1.7% in CY 2021, or 5 years earlier than previously enacted. The accelerated rate reductions under Laws 2016, Chapter 358 are estimated to decrease insurance premium tax collections to the General Fund by \$(3.0) million in FY 2017, followed by further decreases of \$(4.1) million in FY 2018, and \$(4.3) million in FY 2019. The estimated revenue reductions under Laws 2016, Chapter 358 are over and above the estimated reductions under Laws 2015, Chapter 220.

32) Propane TPT Exemption for Manufacturers – Laws 2014, Chapter 7 exempts the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing or smelting operations from state TPT and use tax. Laws 2016, Chapter 359 expands this exemption to include liquefied petroleum gas (more commonly referred to as propane). Chapter 359 is estimated to reduce General Fund revenue by \$(91,000) annually, beginning in FY 2017.

33) Agricultural Feed TPT Exemption – Under current law, the sale of livestock or poultry feed to a person who is in the business of producing livestock or poultry commercially is exempt from state TPT. Laws 2016, Chapter 361 expands this exemption to include the sale of feed to a person who boards livestock non-commercially. Chapter 361 is estimated to reduce General Fund revenue by \$(1.0) million annually, beginning in FY 2017.

34) Charter Aircraft TPT Exemption – Laws 2016, Chapter 367 exempts the sale of aircraft and aircraft equipment to charter airlines under certain conditions from state TPT and use tax. The exemption is estimated to reduce General Fund revenue by \$(2.3) million annually, beginning in FY 2018.

35) Fine Art TPT Exemption – Laws 2016, Chapter 368 exempts the sale of fine art at an auction or gallery to a nonresident, for use outside the state, from state TPT.

The exemption is estimated to reduce General Fund revenue by \$(1.3) million annually, beginning in FY 2017.

36) Noncompetitive Racing Fee TPT Exemption – Laws 2016, Chapter 373 exempts the gross proceeds from entry fees paid to participate in noncompetitive races sponsored by nonprofit organizations from state and municipal TPT. Chapter 373 is not expected to have any fiscal impact.

37) Modification of Existing Electricity and Natural Gas TPT Exemption for Manufacturers – Laws 2016, Chapter 374 modifies the requirements to qualify for the existing TPT and use tax exemption for electricity and natural gas purchased by manufacturers and smelters. To qualify for the exemption under current law (Laws 2014, Chapter 7), a business must use at least 51% of the electricity or natural gas purchased in manufacturing or smelting operations. In addition, at least 51% of the business must be devoted to (“principally engaged in”) a manufacturing or smelting operation. Laws 2016, Chapter 374 changes the current eligibility requirements to one of the following: (1) at least 51% of the manufactured or smelted products are exported out of state, (2) at least 51% of gross income is derived from sale of manufactured or smelted products, (3) at least 51% of a business’ square footage in Arizona is used for manufacturing or smelting, (4) at least 51% of a business’ workforce in Arizona is employed in manufacturing or smelting operations, or (5) at least 51% of the value of a business’ assets in Arizona is used for manufacturing or smelting. Chapter 374 is estimated to reduce General Fund revenue by \$(7.0) million in FY 2017, followed by an additional reduction of \$(7.0) million, beginning in FY 2018. The estimated revenue reduction under Laws 2016, Chapter 374 is over and above the revenue impact under Laws 2014, Chapter 7.

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. As indicated in *Table 6*, total URS distributions will increase from \$605.6 million in FY 2016 to \$663.7 million in FY 2017. This URS increase results in a FY 2017 General Fund revenue loss of \$(58.0) million relative to FY 2016. As shown in *Table 7*, URS distributions are estimated to increase to \$676.2 million in FY 2018 and \$680.4 million in FY 2019, which will result in net General Fund revenue losses of \$(12.5) million and \$(4.2) million in FY 2018 and FY 2019, respectively.

One-Time Financing

As shown in *Table 5*, one-time financing sources are available in FY 2016 through FY 2019. The following is a discussion of the one-time financing sources.

FY 2016

The \$576.3 million in one-time financing sources for FY 2016 includes:

Tax Amnesty

Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) required the Department of Revenue to establish a tax amnesty program from September 1, 2015 through October 31, 2015. The program waived civil penalties and interest on unpaid tax liabilities for any period before January 1, 2014 for annual filers, and February 1, 2015 for all other filers. The tax amnesty program, which also applied to taxpayers under previously authorized audits, generated a total of \$47.0 million in General Fund revenues in FY 2016. Of this amount, \$32.9 million was collected from taxpayers already under audit. As noted on the following page, Laws 2016, Chapter 125 established another tax amnesty program for unpaid liabilities covering the same period of time, starting in FY 2017.

Fund Transfers

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) provided for a total of \$220.2 million in agency fund transfers to the General Fund in FY 2016. Due to a technical adjustment related to AHCCCS (monies that were supposed to be transferred in FY 2016 were instead transferred in FY 2015), this amount was later reduced to \$212.9 million. In addition, the May 2016 enacted budget includes a FY 2016 supplemental appropriation from the General Fund to the Universities of \$4.1 million. To make this appropriation budget neutral from a General Fund perspective, the enacted budget transfers \$4.1 million from the Health Insurance Trust Fund (HITF) to the General Fund. Therefore, total FY 2016 fund transfers to the General Fund are \$217.0 million.

Balance Forward

The FY 2015 General Fund ending balance carried into FY 2016 was \$312.3 million.

Table 5

FY 2016 through FY 2019 One-Time Financing Sources
(\$ in Millions)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Balance Forward	\$ 312.3	\$225.0	\$65.9	\$144.8
Budget Legislation				
Tax Amnesty	47.0	0.0	0.0	0.0
Fund Transfers	<u>217.0</u>	<u>79.4</u>	<u>0.5</u>	<u>0.5</u>
Subtotal	264.0	79.4	0.5	0.5
Total One-Time Financing	<u>\$576.3</u>	<u>\$304.4</u>	<u>\$66.4</u>	<u>\$145.3</u>

FY 2017

The \$304.4 million in one-time financing sources for FY 2017 includes:

Tax Amnesty

Laws 2016, Chapter 125 (FY 2017 Revenue Budget Reconciliation Bill) requires the Department of Revenue to establish a tax amnesty program for unpaid individual income, corporate income, and sales tax liabilities that are not under audit. The program waives civil penalties and interest on liabilities for any period before January 1, 2014 for annual filers, and February 1, 2015 for all other filers. While this tax amnesty program applies to unpaid liabilities for the same period as the program established under Laws 2015, Chapter 10, it does not extend to previously authorized audits. Taxpayers may choose to pay off tax liabilities at once in FY 2017 or over 3 years from FY 2017 to FY 2019. Due to the exclusion of audited liabilities and general uncertainty about participation in the program, the May 2016 enacted budget did not include any projected revenues for tax amnesty from FY 2017 to FY 2019.

Fund Transfers

The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) required a \$100.0 million transfer from the Health Insurance Trust Fund (HITF) to the General Fund in FY 2017. The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) amends Laws 2015, Chapter 8 by reducing the transfer from \$100.0 million to \$78.9 million. The FY 2017 General Appropriation Act also transfers \$461,600 from the Automation Operations Fund to the General Fund. This transfer offsets the General Fund's share of the increased operating costs for the state's accounting system, the Arizona Financial Information System (AFIS), in FY 2017. Therefore, total FY 2017 fund transfers to the General Fund are \$79.4 million.

Balance Forward

The FY 2016 General Fund ending balance carried into FY 2017 is projected to be \$225.0 million.

FY 2018

The \$66.4 million in one-time financing sources for FY 2018 includes:

Fund Transfers

As noted above, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorizes the transfer of \$461,600 from the Automation Operations Fund to the General Fund in FY 2017. The purpose of the transfer is to offset the General Fund's share of the increased costs for the state's accounting system in FY 2017. The enacted 3-year budget plan assumes that such transfer will occur also in FY 2018.

Balance Forward

The FY 2017 General Fund ending balance carried into FY 2018 is projected to be \$65.9 million.

FY 2019

The \$145.3 million in one-time financing sources for FY 2019 includes:

Fund Transfers

The enacted 3-year budget plan assumes that the Legislature will transfer \$461,600 from the Automation Operations Fund to the General Fund in FY 2019 to offset the General Fund cost of operating the state's accounting system.

Balance Forward

The FY 2018 General Fund ending balance carried into FY 2019 is projected to be \$144.8 million.

Table 6

GENERAL FUND REVENUE - FY 2015 - FY 2017

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2015	% CHANGE PRIOR YR	FORECAST FY 2016	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2017	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,192,293.8	4.7%	4,344,843.3	3.6%	152,549.5	4,540,556.3	4.5%	195,713.0
Income - Individual ^{1/}	3,761,344.0	8.6%	3,893,164.4	3.5%	131,820.4	4,042,414.0	3.8%	149,249.6
- Corporate	663,003.0	15.3%	582,875.3	-12.1%	(80,127.7)	596,731.3	2.4%	13,856.0
Property	36,515.9	42.6%	40,167.5	10.0%	3,651.6	42,175.8	5.0%	2,008.4
Luxury - Tobacco	23,645.8	-8.5%	23,768.1	0.5%	122.3	23,345.6	-1.8%	(422.5)
- Liquor	33,101.2	0.6%	33,599.7	1.5%	498.6	34,106.6	1.5%	506.9
Insurance Premium	449,546.8	9.2%	463,867.2	3.2%	14,320.5	477,698.2	3.0%	13,831.0
Other Taxes (Includes MV Tax)	7,539.9	8.7%	7,916.9	5.0%	377.0	8,098.9	2.3%	182.1
Subtotal - Taxes	9,166,990.3	7.3%	9,390,202.4	2.4%	223,212.1	9,765,126.8	4.0%	374,924.4
Other Non-Tax Revenues:								
Lottery	66,096.3	-9.3%	65,615.3	-0.7%	(480.9)	73,137.3	11.5%	7,522.0
Licenses, Fees and Permits	31,106.0	4.2%	32,039.2	3.0%	933.2	33,000.4	3.0%	961.2
Interest	10,213.9	-26.1%	13,566.3	32.8%	3,352.4	13,566.3	0.0%	0.0
Sales and Services	38,192.3	1.0%	36,282.7	-5.0%	(1,909.6)	37,008.4	2.0%	725.7
Other Miscellaneous	77,908.4	2.7%	80,762.3	3.7%	2,853.9	83,185.2	3.0%	2,422.9
Transfers and Reimbursements	57,015.4	3.2%	57,313.9	0.5%	298.5	59,033.3	3.0%	1,719.4
Disproportionate Share Revenue	87,821.9	16.5%	93,866.3	6.9%	6,044.4	94,321.6	0.5%	455.3
Subtotal - Other Non-Tax	368,354.3	2.1%	379,446.0	3.0%	11,091.7	393,252.4	3.6%	13,806.4
Subtotal On-Going Revenue	9,535,344.6	7.1% ^{1/}	9,769,648.5	2.5% ^{2/}	234,303.8	10,158,379.2	4.0%	388,730.8
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(97,800.0)	N/A	(97,800.0)
Newly Enacted Changes	0.0	N/A	0.0	N/A	0.0	(27,098.6)	N/A	(27,098.6)
Subtotal w/Tax Law Changes	9,535,344.6	7.1%	9,769,648.5	2.5%	234,303.8	10,033,480.6	2.7%	263,832.2
Urban Revenue Sharing (URS)	(608,935.7)	8.5%	(605,634.3)	-0.5%	3,301.4	(663,652.1)	9.6%	(58,017.8)
Subtotal w/Tax Law Changes/URS	8,926,408.9	7.0%	9,164,014.2	2.7%	237,605.2	9,369,828.5	2.2%	205,814.4
One-Time Financing Sources:								
Fund Transfers	78,123.5	-44.8%	217,017.7	177.8%	138,894.2	79,361.6	-63.4%	(137,656.1)
Tax Amnesty	0.0	N/A	47,048.5	N/A	47,048.5	0.0	-100.0%	(47,048.5)
Subtotal - One-Time Financing Sources	78,123.5	-44.8%	264,066.2	238.0%	185,942.7	79,361.6	-69.9%	(184,704.6)
Subtotal - Revenues	9,004,532.4	6.1%	9,428,080.4	4.7%	423,547.9	9,449,190.1	0.2%	21,109.9
Balance Forward	577,399.2	-35.5%	312,276.0	-45.9%	(265,123.2)	224,983.5	-28.0%	(87,292.5)
Total - Resources	9,581,931.6	2.1%	9,740,356.4	1.7%	158,424.7	9,674,173.6	-0.7%	(66,182.6)

^{1/} The 7.1% FY 2015 increase includes \$(90.5) million in tax law changes. Adjusting for these changes, the base FY 2015 increase is 8.1%.

^{2/} The 2.5% FY 2016 increase includes \$(97.9) million in tax law changes. Adjusting for these changes, the base FY 2016 increase is 3.5%.

Table 7

GENERAL FUND REVENUE - FY 2018 - FY 2019

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2018	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2019	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,755,136.1	4.7%	214,579.8	4,977,650.3	4.7%	222,514.2
Income - Individual	4,236,272.0	4.8%	193,858.0	4,436,899.3	4.7%	200,627.3
- Corporate	503,737.4	-15.6%	(92,993.9)	418,803.2	-16.9%	(84,934.2)
Property	44,284.6	5.0%	2,108.8	46,498.9	5.0%	2,214.2
Luxury - Tobacco	22,933.3	-1.8%	(412.3)	22,528.2	-1.8%	(405.0)
- Liquor	34,622.0	1.5%	515.4	35,145.2	1.5%	523.2
Insurance Premium	480,142.6	0.5%	2,444.3	484,258.3	0.9%	4,115.8
Other Taxes (Includes MV Tax)	8,285.2	2.3%	186.3	8,285.2	0.0%	0.0
Subtotal - Taxes	10,085,413.2	3.3%	320,286.3	10,430,068.6	3.4%	344,655.5
Other Non-Tax Revenues:						
Lottery	82,619.0	13.0%	9,481.6	92,583.0	12.1%	9,964.1
Licenses, Fees and Permits	33,466.1	1.4%	465.7	34,470.1	3.0%	1,004.0
Interest	13,566.3	0.0%	0.0	13,566.3	0.0%	0.0
Sales and Services	37,748.6	2.0%	740.2	38,503.5	2.0%	755.0
Other Miscellaneous	85,680.7	3.0%	2,495.6	88,251.1	3.0%	2,570.4
Transfers and Reimbursements	59,774.3	1.3%	741.0	59,507.5	-0.4%	(266.8)
Disproportionate Share Revenue	94,608.6	0.3%	287.0	94,727.4	0.1%	118.8
Subtotal - Other Non-Tax	407,463.5	3.6%	14,211.1	421,609.0	3.5%	14,145.5
Subtotal On-Going Revenue	10,492,876.7	3.3% ^{3/}	334,497.5	10,851,677.7	3.4% ^{4/}	358,801.0
Previously Enacted Tax Law Changes	(90,400.0)	-7.6%	7,400.0	(73,300.0)	-18.9%	17,100.0
Newly Enacted Changes	(23,400.0)	-13.6%	3,698.6	(4,300.0)	-81.6%	19,100.0
Subtotal w/Tax Law Changes	10,379,076.7	3.4%	345,596.1	10,774,077.7	3.8%	395,001.0
Urban Revenue Sharing (URS)	(676,193.8)	1.9%	(12,541.8)	(680,391.8)	0.6%	(4,198.0)
Subtotal w/Tax Law Changes/URS	9,702,882.8	3.6%	333,054.3	10,093,685.9	4.0%	390,803.0
One-Time Financing Sources:						
Fund Transfers	461.6	-99.4%	(78,900.0)	461.6	0.0%	0.0
Tax Amnesty	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	461.6	-99.4%	(78,900.0)	461.6	0.0%	0.0
Subtotal - Revenues	9,703,344.4	2.7%	254,154.3	10,094,147.5	4.0%	390,803.0
Balance Forward	65,904.6	-70.7%	(159,078.9)	144,809.2	119.7%	78,904.6
Total - Resources	9,769,249.0	1.0%	95,075.4	10,238,956.7	4.8%	469,707.6

^{3/} Adjusting for the \$(124.9) million in tax law changes in FY 2017, the base FY 2018 increase is 4.6%.

^{4/} Adjusting for the \$(113.8) million in tax law changes in FY 2018, the base FY 2019 increase is 4.6%.

BUDGET STABILIZATION FUND

Background

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. The BSF is also known as the “Rainy Day Fund.”

The Formula

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation.

The January budget documents of the JLBC and the Governor are to include estimates of the amounts to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount to be appropriated or transferred is based on calculations from the Arizona Economic Estimates Commission (EEC). This final calculation is required to be made no later than June 1 of the budget year. The EEC determines the annual growth rate of real adjusted state personal income, its trend growth rate over the past 7 years, and the calculated appropriation to or transfer from the BSF. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal.

Key features of the BSF can be summarized as follows:

- The deposit into or withdrawal from the BSF for a given fiscal year is determined by comparing the annual growth rate of real adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to its 7-year trend growth rate.
- Real adjusted personal income in the BSF formula is defined as Arizona personal income less transfer payments, adjusted by the gross domestic product price deflator index.
- Trend growth rate is defined as the average annual growth rate of real adjusted personal income for the most recent 7 calendar years.
- If the annual growth rate exceeds the trend growth rate, the “excess” percent multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF.
- If the annual growth rate of real adjusted personal income is both less than 2% and less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. This 2% floor avoids withdrawing monies from the BSF when economic conditions are slowing but there is not a recession.
- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.
- The BSF's total balance cannot be larger than 7.0% of the current year's General Fund revenues, excluding the beginning balance.
- In addition to the fixed income investments, the Treasurer is allowed to invest up to 25% of the BSF in equity securities (A.R.S. § 35-314.02).

Deposits/Withdrawals

FY 2015

In CY 2014, Arizona real adjusted personal income grew by 2.12%, with a trend growth rate of (0.26)%. Since the “excess” growth rate in CY 2014 was 2.38%, the formula recommended a BSF deposit of \$198.4 million in FY 2015. The Legislature did not authorize the deposit.

Laws 2014, Chapter 9 authorized the transfer of \$1.0 million in BSF interest earnings to the Arizona Commission on the Arts in FY 2015.

FY 2016

In CY 2015, Arizona real adjusted personal income increased by 3.07%, with a trend growth rate of 0.42%. Since the CY 2015 “excess” growth rate was 2.65%, the formula recommended a BSF deposit of \$236.8 million in FY 2016. The Legislature did not authorize the deposit.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorizes the Department of Child Safety and Department of Economic Security to use up to \$35.0 million each from the BSF to provide funding for reimbursement grants in FY 2016. Chapter 117 requires the BSF to be fully reimbursed by September 1, 2016.

Table 1

Budget Stabilization Fund^{1/}				
(\$ in Thousands)				
	Actual FY 2014	Actual FY 2015	Estimate FY 2016	Estimate FY 2017
General Fund Revenues				
Adjusted Revenues ^{2/}	\$8,337,631.3	\$8,934,730.0	\$9,164,014.2	\$9,369,828.5
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	583,634.2	625,431.1	641,481.0	655,888.0
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	0.85%	2.12%	3.07%	3.14%
7-Year Average Income Growth	<u>(0.38)%</u>	<u>(0.26)%</u>	<u>0.42%</u>	<u>2.13%</u>
Annual Difference	1.23%	2.38%	2.65%	1.01%
BSF Transactions				
Beginning BSF Balance	454,101.7	455,333.9	457,627.4	461,427.4
BSF Formula Recommendation	112,163.1	198,435.6	236,770.3	92,556.5
Actual Transfer In				
None	0.0	0.0	0.0	0.0
Actual Transfer Out				
Transfer of BSF Interest Income – L'13, 1 st SS, Ch. 9 ^{3/}	(2,000.0)	0.0	0.0	0.0
Transfer of BSF Interest Income – L'14, Ch. 9 ^{4/}	0.0	(1,000.0)	0.0	0.0
Transfer of BSF Interest Income – L'16, Ch. 117 ^{5/}	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(1,500.0)</u>
SUBTOTAL	(2,000.0)	(1,000.0)	0.0	(1,500.0)
Balance	452,101.7	454,333.9	457,627.4	459,927.4
Interest Earnings & Equity Gains/Losses ^{6/}	3,232.2	3,293.5	3,800.0	3,900.0
Ending BSF Balance	\$ 455,333.9	\$ 457,627.4	\$ 461,427.4^{7/}	\$ 463,827.4
Percent of Revenues	5.5%	5.1%	5.0%	4.9%

1/ BSF history prior to FY 2014 can be found on the JLBC website.

2/ Actual General Fund revenue for FY 2014 and FY 2015, as determined by the Economic Estimates Commission (EEC). Estimated General Fund revenue for FY 2016 and FY 2017, as reflected in the May 2016 enacted budget forecast.

3/ Laws 2013, 1st Special Session, Chapter 9 authorized a total transfer of \$2.0 million in BSF interest earnings in FY 2014. Of this amount, \$1.0 million was appropriated for deposit in the Arts Fund administered by the Arizona Commission on the Arts and \$1.0 million to the State Parks Revenue Fund administered by the Arizona State Parks Board.

4/ Laws 2014, Chapter 9 appropriated \$1.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2015.

5/ Laws 2016, Chapter 117 appropriates \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

6/ Interest earnings for FY 2016 and FY 2017 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.

7/ This amount excludes payments and reimbursements of BSF monies for wildland fire suppression claims provided under Laws 2016, Chapter 219.

FY 2017

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted personal income will increase by 3.14% in CY 2016. Since this is 1.01% above the estimated trend growth rate of 2.13%, the formula is projected to recommend a BSF deposit of \$92.6 million in FY 2017.

Laws 2016, Chapter 117 appropriates \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

Statutory Changes

The FY 2017 Budget Procedures Bill (Laws 2016, Chapter 127) suspends the requirement that the Legislature appropriates monies to or transfer monies from the

Budget Stabilization Fund pursuant to A.R.S. § 35-144 for FY 2017, FY 2018, and FY 2019.

Laws 2016, Chapter 219 authorizes BSF monies to be used to pay certain wildland fire suppression claims by the State Forester. The State Forester is required to certify a claim that has not yet been reimbursed by a federal agency and then the State Treasurer must pay the claim from the fund. After a federal agency makes payment on a claim, the State Forester must reimburse the Treasurer within 45 days. The Treasurer is required to deposit the reimbursed amount into the BSF. Not more than \$10 million in unreimbursed claims can be outstanding from the fund at any time.

CONSOLIDATED RETIREMENT REPORT

CONSOLIDATED RETIREMENT REPORT

Summary

The Consolidated Retirement Report (CRR) provides financial information on the state's retirement systems, including the state cost, contribution rates, and other related policy and legal issues.

This section includes information on the following:

- FY 2017 Impacts and Total Funding
 - Arizona State Retirement System (ASRS)
 - Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP)
 - Elected Officials' Retirement Plan (EORP) and Elected Officials' Defined Contribution Retirement System (EODC System)
 - University Optional Retirement Plan (UORP)
- 2016 Session Legislation
 - PSPRS Modifications and Proposition 124
 - Other Bills
- Litigation Issues
 - *Fields v. Elected Officials' Retirement Plan*
 - *Hall v. Elected Officials' Retirement Plan*
- Background
 - The Different Systems
 - Enrollment and Funded Status
 - Permanent Benefit Increase
 - Long-Term Contribution Rate Estimates

FY 2017 Impacts and Total Funding

The General Fund cost associated with all retirement systems in FY 2017 is estimated to be \$178.3 million and the Total State Funds cost is \$498.5 million. *(Please see Table 1 for the total costs.)*

The employer contribution rate for the retirement systems may change each year depending on the latest actuarial valuation. Some of the retirement costs may be covered by agencies' non-appropriated funding sources. Based on the January JLBC Baseline estimates, the FY 2017 employer contribution will increase for ASRS, PSPRS, and CORP as follows:

- ASRS – A General Fund increase of \$58,900 and a Total State Funds increase of \$245,800 as a result of a slightly higher FY 2017 ASRS contribution rate. The FY 2017 budget does not adjust agency budgets to account for these cost increases.
- PSPRS – A General Fund increase of \$418,600 and a Total State Funds increase of \$1.9 million. The budget includes \$1.53 million in Other Appropriated Funds in FY 2017 to fund the FY 2017 PSPRS contribution rate increase for the Department of Public Safety (DPS).
- CORP – A General Fund increase of \$914,000 and Total State Funds increase of \$959,500. The FY 2017 budget includes \$723,500 from General Fund in FY 2017 to fund the FY 2017 contribution rate increase in the Arizona Department of Corrections (ADC).
- EORP and the EODC System – Because elected officials' contribution rates are fixed in statute, there would not be an automatic FY 2017 cost increase. EORP actuaries, however, have indicated that current contribution rates will be enough to pay out members' benefits for only 15 more years. *(Please see EORP Funding Options in the FY 2017 JLBC Baseline for more information.)*
- UORP – Because the employer contribution rate is fixed at 7%, there is no change in the FY 2017 employer contribution rate.

Table 2 shows the total budgeted employer cost changes across retirement systems in the FY 2017 budget. The budget appropriates \$2.25 million to state agencies for

Table 1

Arizona Public Retirement FY 2017 System Employer Cost

	FY 2017 Change <u>1/</u>			FY 2017 Total Cost <u>2/</u>		
	General Fund	All Other Funds <u>3/</u>	Total	General Fund	All Other Funds <u>3/</u>	Total
Arizona State Retirement System	\$ 58,900	\$ 186,900	\$ 245,800	\$ 67,633,800	\$ 214,544,300	\$ 282,178,100
Public Safety Personnel Retirement System	418,600	1,445,600	1,864,200	19,423,200	61,189,200	80,612,400
Corrections Officer Retirement Plan	914,000	45,500	959,500	69,994,400	941,700	70,936,100
Elected Officials' Retirement Plan/Elected Officials' Defined Contribution Retirement System	-	-	-	7,938,100	109,900	8,048,000
University Optional Retirement Plan	-	-	-	13,272,000	43,469,000	56,741,000
Grand Total	\$ 1,391,500	\$ 1,678,000	\$ 3,069,500	\$ 178,261,500	\$ 320,254,100	\$ 498,515,600

1/ Represents the cost of the change in the employer contribution rate increase for all state agencies.

2/ Represents the JLBC estimate of the total cost of the system and does not reflect FY 2017 change in Personal Services costs.

3/ Includes both Other Appropriated Funds and Non-Appropriated Funds.

the FY 2017 rate increases discussed above, and an additional \$2.76 million for FY 2016 rate increases, for a total of \$5.0 million. The FY 2017 budgeted employer cost change is significantly lower than the \$27.4 million for employer retirement cost changes included in the FY 2016 budget because the FY 2016 rate increase reflected the increase in unfunded liabilities resulting from the court ruling in the *Fields* case. (Please see *Litigation* section for additional information.)

	FY 2016 Rate Increase	FY 2017 Rate Increase	Total
PSPRS			
General Fund	0	0	0
Other Appropriated Funds	1,814,300	1,528,500	3,342,800
Subtotal	\$ 1,814,300	\$ 1,528,500	\$ 3,342,800
CORP			
General Fund	947,700	723,500	1,671,200
Other Appropriated Funds	0	0	0
Subtotal	\$ 947,700	\$ 723,500	\$ 1,671,200
Total			
General Fund	947,700	723,500	1,671,200
Other Appropriated Funds	1,814,300	1,528,500	3,342,800
Grand Total	\$ 2,762,000	\$ 2,252,000	\$ 5,014,000

The following sections discuss FY 2017 contribution rates for the state's retirement systems and the fiscal impacts associated with those rates. Legal issues that affect the state's retirement systems are discussed at the end of the CRR.

ASRS

The General Fund cost associated with ASRS in FY 2017 is estimated to be \$67.6 million and the Total State Funds cost is \$282.2 million.

At its December 2015 meeting, the ASRS Board of Trustees decreased the system's employer contribution rate (0.01%), from 11.35% of Personal Services in FY 2016 to 11.34% in FY 2017. This reduction is offset by a 0.02% increase in a separate rate for disability insurance. The employer contribution rate for disability insurance will increase from 0.12% to 0.14%, for a total overall employer contribution rate of 11.48%, an increase of 0.01%. This higher contribution rate increases the General Fund cost by \$58,900 and the Total State Funds cost by \$245,800 in FY 2017. The FY 2017 budget does not increase agency budgets for these costs. (Please see Table 3 for historical ASRS contribution rates, excluding disability.)

The rate for disability insurance increased because of increased liabilities from individuals not recovering and coming off disability as anticipated and subpar asset performance.

(Please see Table 5 for reasons behind contribution rate changes and *Fields v. Elected Officials' Retirement Plan* section for more information on the case.)

Fiscal Year	Rate ^{1/}	Fiscal Year	Rate ^{1/}
FY 1983	7.00	FY 2001	2.17
FY 1984	7.00	FY 2002	2.00
FY 1985	6.27	FY 2003	2.00
FY 1986	5.67	FY 2004	5.20
FY 1987	5.53	FY 2005	5.20
FY 1988	4.00	FY 2006	6.90
FY 1989 ^{2/}	4.78	FY 2007	8.60
FY 1990 ^{2/}	1.29	FY 2008	9.10
FY 1991 ^{2/}	3.37	FY 2009	8.95
FY 1992 ^{2/}	3.17	FY 2010	9.00
FY 1993 ^{2/}	3.10	FY 2011	9.60
FY 1994 ^{2/}	2.65	FY 2012	10.50
FY 1995 ^{2/}	3.26	FY 2013	10.90
FY 1996	3.36	FY 2014	11.30
FY 1997	3.20	FY 2015	11.48
FY 1998	3.05	FY 2016	11.35
FY 1999	2.85	FY 2017	11.34
FY 2000	2.17		

^{1/} As a percent of salary, employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.

^{2/} Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

PSPRS and CORP

The General Fund cost associated with PSPRS in FY 2017 is estimated to be \$19.4 million and the Total State Funds cost is \$80.6 million. In addition, the General Fund cost associated with CORP is \$70.0 million in FY 2017 and the Total State Funds cost is \$70.9 million.

As a result of the court decision in *Fields v. Elected Officials' Retirement Plan* that overturned portions of the 2011 pension changes (Laws 2011, Chapter 357), the FY 2016 employer contribution rate for PSPRS and CORP increased significantly.

To diminish the immediate fiscal impact of the projected contribution rate increases in PSPRS and CORP, the PSPRS Board of Trustees adopted a policy in 2014 that allowed employers to choose to pay the full contribution amount immediately (which includes the impact of the *Fields* ruling) or a reduced rate that gradually increases to the

actuarial rate by FY 2018. The FY 2016 budget assumed all affected state employer groups would pay the full rate and provided \$17.8 million from the General Fund in added funding to cover the full contribution rate increase for the Department of Public Safety (DPS) and the Arizona Department of Corrections (ADC).

The projected FY 2017 employer contribution rate for PSPRS and CORP will also increase but the growth would be significantly lower than that of FY 2016. The FY 2017 rate increases for PSPRS and CORP are a result of asset losses and lower-than-estimated employee payroll growth. These variables are partially offset by decreases associated with not having a permanent benefit increase (PBI) this year given the low return on investments and more PSPRS and CORP members being subject to the 2011 pension changes (i.e., Tier 2), who have a less costly tier of benefits.

The budget includes the following funding for FY 2017 contribution rate increases for state agencies with employees enrolled in PSPRS or CORP:

- \$1,528,500 from Other Appropriated Funds for PSPRS rate increases for Department of Public Safety employees.
- \$723,500 from the General Fund for an increase in the employer contribution rate to CORP for the Arizona Department of Corrections (ADC).

The budget also includes the following increases associated with FY 2016 rate increases in PSPRS and CORP:

- \$1,752,000 from the Game and Fish Fund for the Game and Fish Department in FY 2016. This amount funds the costs associated with a 21.78% increase in the PSPRS contribution rate for Game and Fish wardens.
- \$62,300 in from the Liquor Licenses Fund in FY 2017 for the Department of Liquor Licenses and Control. This amount funds an 18.06% increase in the PSPRS contribution rate increase for liquor license investigators.
- \$947,700 from the General Fund in FY 2017 for the Judiciary. This amount funds a 3.83% CORP contribution rate increase for state-funded probation officers outside of Maricopa County.

PSPRS – The retirement system consists of numerous state and local subgroups, each with its own contribution rate (see Table 4). The aggregate employer rate increases from 41.37% to 42.61%, or 1.24%, if all subgroups used the full rather than the reduced contribution. Compared to employers, the aggregate employee contribution rate

remains flat at 11.65%. In addition, only employers pay 1.92% for supplemental disability insurance, an increase of 0.02% from FY 2016.

Table 4
PSPRS/CORP State Employer Group Retirement Rates
(Excludes Supplemental Disability)

Retirement System	Employer		Employee
	FY 2016	FY 2017	FY 2017 ^{1/}
<u>Public Safety Personnel Ret. System</u>			
Liquor License Investigators	69.19	78.18	11.65
Department of Public Safety ^{2/}	81.00	82.96	6.65
Northern Arizona University Police	48.83	52.13	11.65
University of Arizona Police	33.86	35.00	11.65
Arizona State University Police	35.31	34.20	11.65
Game and Fish Department	88.56	93.17	11.65
Attorney General Investigators	70.46	66.09	11.65
DEMA Firefighters	31.34	28.20	11.65
Parks Police	42.85	44.72	11.65
<u>Corrections Officer Ret. Plan</u>			
Corrections Officer - ADC	18.54	18.74	8.41
Corrections Officer - DJC	22.95	24.86	8.41
DPS Dispatchers ^{3/}	17.62	19.87	7.96
Probation Officers	19.95	20.08	8.41

^{1/} The PSPRS and CORP employee contributions are unchanged from FY 2016.
^{2/} The displayed rates reflect that 5% of the DPS member contribution is paid by the state.
^{3/} Dispatchers hired after November 24, 2009 are ASRS members.

CORP – As with PSPRS, CORP consists of subgroups. The FY 2017 CORP aggregate rate is 18.71%, an increase of 0.50% from FY 2016. The employee contribution rate remains flat at 8.40%. CORP employers also pay 0.27% for supplemental disability insurance, an increase of 0.02% from FY 2016.

(Please see Table 1 for the state costs of contribution rate increases, Table 5 for reasons for change in the contribution rates by system.)

Table 5
Reasons for Change in the Employer Contribution Rate ^{1/}

	ASRS	PSPRS	CORP
FY 2016 Contribution Rate	11.47%	41.37%	18.21%
Asset (Gain)/Loss	-0.01%	0.94%	0.51%
Payroll	0.00%	0.79%	0.32%
Long Term Disability Rate Change	0.02%	N/A	N/A
Tier 2 Employee Benefits	0.00%	-0.17%	-0.16%
Permanent Benefit Increase Effect	0.00%	-0.44%	-0.24%
Other	0.00%	0.12%	0.07%
FY 2017 Contribution Rate	11.48%	42.61%	18.71%
Net Change	0.01%	1.24%	0.50%

^{1/} Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group.

EORP and EODC System

The General Fund cost associated with EORP and the EODC System in FY 2017 is estimated to be \$7.9 million and the Total State Funds cost is \$8.0 million. These amounts exclude court fees used to offset the cost of the system, as those fees are now deposited directly into the EORP Trust Fund.

As part of closing EORP and establishing the EODC System, A.R.S. § 38-810 established a fixed employer contribution rate of 23.5% for members of both systems, effective January 1, 2014. The employer contribution rate for EORP members goes entirely to the EORP Fund, whereas only 17.5% of the EODC System employer contribution rate goes to the EORP Fund. The remaining 6% of the EODC System contribution rate is deposited into the individual employees' retirement investment account.

The \$7.9 million General Fund cost consists of both employer contribution rates and an annual General Fund deposit. The fixed 23.5% EORP and EODC System employer contributions to the EORP Fund are scheduled to continue until FY 2044. The \$5.0 million annual General Fund deposit into the EORP Fund is scheduled to continue until FY 2043.

Given fixed contributions, employer costs will not increase in FY 2017.

EORP Funding Options

These current contributions and deposit amounts do not account for the increase in EORP's total actuarial liability following the outcome of *Fields*. Plan actuaries estimate that given current funding levels, the closed EORP will have enough assets to pay member benefits for only the next 15 years. In order to extend this 15-year period and ensure payment of all benefits, the plan actuaries provide 4 possible 30-year funding options for EORP. (Please see the FY 2017 JLBC Baseline for more details on these options.)

UORP

The General Fund cost associated with UORP in FY 2017 is estimated to be \$13.3 million and the Total State Funds cost is \$56.7 million.

While some university employees are members of ASRS, others participate in the optional retirement plan. In this latter plan, employees and their employers each contribute 7% of the employee's gross earnings, which is then invested by the employee. These contribution rates are fixed in statute and do not change in FY 2017.

(Please see Table 6 for projected contribution rates for all systems through FY 2019.)

2016 Session Legislation

The retirement systems were affected by legislation relating to the following issues in the 2016 Regular Session:

PSPRS Modifications and Proposition 124

Laws 2016, Chapter 2 makes numerous changes to PSPRS pension benefits. The sections below discuss Proposition 124 and the repeal of Permanent Benefit Increase (PBI) mechanism, modifications to the Defined-Benefit plan for future PSPRS members, the creation of a new PSPRS defined contribution plan, and the potential fiscal impact of these changes.

PBI Repeal

Prior to Chapter 2, annual increases in the base pension benefit for PSPRS members were funded by a PBI mechanism that determined pension benefit increases based on the availability of excess investment earnings, with increases capped at 4% annually. Chapter 2 replaces the PBI with an annual cost-of-living adjustment (COLA) based on the average annual change in the Phoenix-Mesa Consumer Price Index, capped at 2% annually.

The replacement of the PBI with the COLA could reduce benefit increases for current PSPRS members. As a result, the Legislature adopted SCR 1019, which referred a measure to the ballot that included an amendment to Article XXIX, Section 1 of the Arizona Constitution specifying an exception to the provision that public retirement system benefits not be "diminished or impaired" to permit the changes enacted in Chapter 2. The ballot measure, known as Proposition 124, was approved by voters in the May 2016 special election.

Defined-Benefit Changes

Chapter 2 also modified the base defined-benefit pension for PSPRS members, but only for members hired on or after July 1, 2017 (i.e. Tier 3). These modifications for Tier 3 members include:

- A cap on annual pension compensation of \$110,000, adjusted once every 3 years based on an index of public safety wages. For employees hired before July 1, 2017, the annual compensation cap is \$265,000, and is adjusted annually by the Internal Revenue Service.
- Employee contributions equal to 50% of 1) the normal cost and 2) unfunded accrued actuarial liabilities solely attributable to Tier 3 members. The employee contribution rate for employees hired before July 1, 2017 is capped by law at 11.65%.
- Annual benefit increases based on the average annual change in the Phoenix-Mesa Consumer Price

Index, capped at 2% annually. The maximum allowable increase is lower than 2% if the funded ratio for the benefits of Tier 3 members falls below 90%, and no increase is allowed if the funded ratio falls below 70%. The aggregate annual benefit increase for employees hired before July 1, 2017 under the PBI mechanism was 4%.

- A minimum normal retirement age of 55. The current retirement age is 52.5 for members hired on or after January 1, 2012 but before July 1, 2017 (Tier 2 employees), and there is no minimum age for members hired before January 1, 2012 for members with at least 20 years of credited service.

Within 90 days of beginning employment, Tier 3 PSPRS members will be required to make an irrevocable choice to enroll in the modified defined-benefit plan or the defined-contribution plan discussed below.

Defined Contribution Plan and Hybrid Plan

Chapter 2 allows Tier 3 employees to enroll in a new PSPRS defined contribution (DC) plan instead of the modified defined-benefit pension plan. The DC plan requires participating employees to contribute 9% of their compensation into a 401(k)-style annuity account each year, with a matching 9% employer contribution.

The employer contributions vest at a rate of 10% per year, resulting in employer contributions and investment earnings being fully vested after 10 years. Vesting determines the share of employer contributions and investment earnings that the employee retains after terminating employment with his or her employer.

Tier 3 employees with employers that do not participate in the federal Social Security program are also allowed to enroll in a hybrid plan. The hybrid plan combines the Tier 3 defined benefit plan with a DC plan that includes a contribution equal to 3% of compensation from both the employer and the employee, subject to the same vesting provisions as the full DC plan.

Proposition 124 also resulted in the enactment of a provision in Chapter 2 that allows Tier 2 employees (i.e., employees hired on or after January 1, 2012, but before July 1, 2017) with an employer that does not participate in Social Security to add the DC plan to their defined benefit pension. Employers with Tier 2 employees who choose to opt into the DC benefit plan are required to contribute 4% of compensation instead of 3% to the annuity account for a specified number of years depending on the employee's date of hire. These temporary extra contributions by employers are intended to allow Tier 2 members to "catch up" to Tier 3 members in the hybrid plan, as Tier 2

members did not have the choice of a DC plan when they initially enrolled in PSPRS.

Fiscal Impact

The plan actuaries project that employer contribution rates in the first year of plan implementation will be 51.0%. This rate is lower than the projected 52.7% employer contribution rate if the *Hall* case results in additional provisions of Chapter 357 being overturned, but is higher than the 45.2% employer contribution rate if Chapter 357 is upheld. As a result, whether Chapter 2 results in savings for PSPRS employers in the short term depends on the outcome of the *Hall* case (see *Hall discussion below*).

Based on these employer contribution rate projections, the JLBC Staff estimates that if *Hall* overturns Chapter 357, Chapter 2 and Proposition 124 would result in savings for state and local employers of \$(26.8) million in FY 2018. If Chapter 357 is upheld, the cost to state and local employers is estimated to be \$91.4 million.

The primary reason for the difference in the 2 scenarios is related to the COLA created by Chapter 2 for current PSPRS members. The actuaries project that the COLA would provide higher average annual benefit increases than the Chapter 357 PBI for active PSPRS members, which only provides benefit increases if investment returns exceed 10.5% and if the funded status of the PSPRS Trust Fund is at least 60%.

Regardless of the outcome of *Hall*, the actuaries project that Chapter 2 will result in lower employer contribution rates over the long term. The estimated normal cost of benefits for Tier 3 enrollees is 9.8%, compared to 13.2% for employees hired on or after January 1, 2012. Based on these contribution rates, the JLBC Staff estimates that Chapter 2 will result in savings for state and local employers of \$(85.4) million in FY 2042.

However, due to the magnitude of PSPRS' current unfunded liabilities, the employer contribution rates are likely to far exceed the normal cost requirement for many years. The actuaries expect that aggregate PSPRS employer contribution rates will exceed 40% until at least 2030.

CORP Reverse Deferred Retirement Option Plan

Laws 2016, Chapter 74 permanently repeals a provision that would have resulted in the expiration on June 30, 2016 of the option for CORP members to voluntarily enroll in a reverse deferred retirement option plan (DROP). The reverse DROP plan allows CORP members with at least 24 years of credited service to receive a lump sum benefit on their date of retirement in addition to a

normal pension benefit. CORP members enrolled in DROP may continue working for up to 5 years once they enroll in the program.

Credit for Military Service

Laws 2016, Chapter 90 reduces the minimum period of military service from 10 years to 5 years for which members of PSPRS, CORP, or EORP may purchase credited service for periods of active military service. The bill also retroactively requires that from and after August 1, 2012, the discount rate used to calculate the benefits purchased for periods of military service shall be equal to the assumed rate of return on investments by the PSPRS Board of Trustees. From and after July 1, 2017, the discount rate shall be equal to the return of 10-year treasury notes plus 2%. The higher discount rate for service purchased before July 1, 2017 will temporarily reduce the cost of service purchases for veterans.

ASRS Eligible Rollovers

Laws 2016, Chapter 96 prohibits ASRS members from using distributions from Individual Retirement Accounts (IRA) to purchase credited service (i.e. indirect rollovers). Members may continue to use rollovers from retirement plans (i.e. direct rollovers) or direct transfers of retirement distributions from financial institutions to ASRS (i.e. Trustee-to-Trustee Transfers) to purchase credited service. Because the Internal Revenue Service (IRS) only withholds taxes for indirect rollovers, the taxes owed on service credit that is purchased using IRA distributions are sometimes reported incorrectly. The bill is intended to reduce reporting errors in the service purchase process.

Private Equity Fee Reporting

The FY 2017 Government Budget Reconciliation Bill (Laws 2016, Chapter 121) requires the ASRS Board of Trustees and the PSPRS Board of Trustees to include in their Comprehensive Annual Financial Reports an estimate of aggregate fees paid for private equity investments, including management fees and performance fees. This reporting requirement is intended to ensure consistent reporting of private equity fees across the retirement systems.

Public Safety Cancer Insurance Program

Laws 2016, Chapter 178 makes changes to the Firefighter, Peace Officer, and Corrections Officer Cancer Insurance program. Previously, only corrections officers and detention officers had the option of enrolling. Chapter 178 renames the program as the "Public Safety Cancer Insurance Program," and extends eligibility for the voluntary cancer insurance program to all CORP members with a participating employer. This would include health

care staff, parole officers, food services staff, and correctional employees eligible for CORP.

The bill also allows DPS to establish a voluntary cancer insurance program for CORP employees. Previously, only ADC, the Department of Juvenile Corrections, and local government employers were permitted to establish a voluntary cancer insurance program.

The Cancer Insurance program is a multiple employer group cancer insurance policy for active and retired firefighters, peace officers, and corrections employees administered by the PSPRS Board of Trustees. The policy covers medical treatments and out-of-pocket expenses for cancer that are not covered by health insurance, and has a maximum lifetime benefit of \$100,000. Statute caps the annual premium per employee at \$180 annually. The current premium is \$50.

The program is mandatory for firefighters and peace officers. Employers with a voluntary program must collect premiums from participating employees, and remit those payments to the PSPRS Board of Trustees.

Litigation Issues

Two recent court cases have a significant impact on PSPRS, CORP, and EORP.

Fields v. Elected Officials' Retirement Plan

Laws 2011, Chapter 357 made numerous changes to these systems. Among these changes were reducing PBIs and increasing employee contribution rates. (*Please see the Background section for more discussion of PBIs.*)

The Arizona Supreme Court ruled in *Fields v. Elected Officials' Retirement Plan*, however, that the reduction of PBIs for current retirees violated Article 29 of the Arizona Constitution, which specifies that "public retirement system benefits shall not be diminished or impaired." This ruling also applied to PSPRS and CORP retirees.

PSPRS staff estimates that the *Fields* ruling has increased unfunded liabilities for all systems by \$1.8 billion. The increased liabilities in PSPRS and CORP would be paid off over a fixed period of 22 years through an increase in employer contribution rates. When the EORP was closed, the fixed General Fund deposit and contribution rate assumed unfunded liabilities would be paid off by 2044. Because of the increased liabilities in EORP, those amounts may need to be adjusted to account for the fiscal impact of the *Fields* ruling.

Hall v. Elected Officials' Retirement Plan

In addition to *Fields*, there is other ongoing litigation challenging provisions of Chapter 357, which may result in more costs to non-ASRS pension systems. Among other issues, the plaintiffs in *Hall vs. The Elected Officials' Retirement Plan* are litigating the increased contribution rates for members who were active prior to the enactment of Chapter 357. Chapter 357 raised the contribution rates for active members of CORP, EORP, and PSPRS. In EORP (the defendant in the *Hall* case), the contribution rate gradually increased each year from 7% in FY 2011 to 13% in FY 2015. The pre-Chapter 357 employee contribution rates (7%) were fixed in statute. The plaintiffs argued that those statutory rates reflected a contractual agreement that could not be modified without employee consent.

Because the *Fields* decision regarding PBIs only applies to current retirees, the plaintiffs in *Hall*, who are current employees, are also challenging the Chapter 357 PBI structure. The plaintiffs argue that as active members of EORP prior to the enactment of Chapter 357, their benefits may not be "diminished or impaired." If the plaintiffs prevail in *Hall*, the additional fiscal impact of the court case would be lower in today's dollars than *Fields*, mainly because the ruling would reinstate PBIs for some active members who will not retire for many years.

PSPRS staff reports that if EORP loses the *Hall* case, then the case would likely apply to all PSPRS systems (PSPRS/CORP/EORP). PSPRS staff estimated in early 2015 that an adverse ruling in the *Hall* case would increase unfunded liabilities for all systems by \$1.3 billion. This additional liability would result in increased employer contribution rates in the fiscal year following the court decision.

In July 2013, the Maricopa County Superior Court ruled against EORP and decided that Chapter 357 applies only to members of EORP who joined the system after the enactment of Chapter 357. The ruling effectively blocks PBI changes from being applied to active members hired before Chapter 357. The ruling was appealed to the Arizona Court of Appeals in March 2015.

In June 2015, the Supreme Court agreed to transfer the case from the Court of Appeals and hear the case. All 5 justices recused themselves (given that they are members of EORP and would be affected by the ruling), however, and appointed a 5-person panel of lower-court judges who are not members of EORP. This panel heard oral arguments from the parties in February 2016. If the panel rules against EORP, then more active members in other systems (PSPRS and CORP) may also not be subject to Chapter 357. The panel's decision will not be appealable.

Background

The Different Systems

Most public employers in Arizona use 2 retirement systems: ASRS and PSPRS.

- ASRS provides retirement, survivors, health, and disability benefits to employees of most public employers, including public schools, most local and county governments, and the State of Arizona.
- PSPRS provides similar benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters.
- In addition, PSPRS staff administers CORP and EORP, which provide the same benefits as PSPRS to specified populations at the state and local levels. EORP is now closed to new enrollees. Elected officials who are elected after January 1, 2014 will be enrolled in the EODC System.

Some university employees are eligible to choose between ASRS or UORP. Unlike ASRS, UORP is a defined contribution plan where the employee and employer each contribute 7% of gross earnings, which is then invested by the employee. The retirement benefits depend on the performance of those chosen investments.

Enrollment and Funded Status

As of June 30, 2015, there were 610,112 active, inactive, retired, and Deferred Retirement Option Plan (DROP) members enrolled in ASRS, PSPRS, CORP, and EORP. Most employees (91%) are enrolled in ASRS. (*Please see Table 7 for more information.*)

Table 7 also shows each plan's assets and liabilities. To calculate the unfunded liability of each plan, actuaries use a modified amount for asset values to reflect certain plan assumptions. *Table 7* reflects current market values for assets and not the actuarial value. The funded status, or the amount of actuarial assets relative to the amount liabilities, of each plan is:

- 77.1% for ASRS;
- 49.0% for PSPRS;
- 57.3% for CORP; and
- 38.8% for EORP.

The above percentages exclude the retiree health portion of the pension plan.

Permanent Benefit Increase

PBIs are increases to a retiree's base benefit. They are dependent on pension performance and a number of other factors. PBIs are not tied to a cost of living index.

The *Fields* ruling reinstated the pre-Chapter 357 PBI mechanism, which requires that whenever the annual investment earnings from the fund exceed 9.0%, then half of those annual excess earnings are transferred to a PBI reserve account. The ruling applied to any individuals retiring prior to the enactment of Chapter 357. The transfer to the reserve account occurs regardless of the system's overall funded status.

PSPRS actuaries then determine the present value of the reserve account and the monthly benefit increase that the account balance can fund. The annual PBI is then provided in that amount up to a 4% increase. If after a 4% increase monies remain in the reserve account, then those monies would be available for the following year's PBI calculation.

Chapter 357 modifies the PBI structure for PSPRS, CORP, and EORP for members hired after the enactment of Chapter 357. This law allows for a PBI only if the fund has annual investment earnings in excess of 10.5% and the overall funded status is at least 60%. The amount of the PBI would be between 2% and 4%, depending on the funded status of the plan. Chapter 357 would have limited the PBI to the amount of earnings in the fund that exceed 10.5%. Any excess earning amount that was not used for a PBI in a given year would revert back to the fund balance instead of remaining in a separate account.

Laws 2016, Chapter 2 repeals the pre-Chapter 357 PBI mechanism as well as the Chapter 357 PBI mechanism for all members of PSPRS, and replaces it for all members with an annual cost-of-living adjustment (COLA) linked to the Phoenix-Mesa Consumer Price Index. The COLA will be capped at 2% annually. Members of CORP and EORP will continue to have their benefit increases funded based on the PBI mechanism. *(Please see 2016 Session Legislation for additional information.)*

Long-Term Contribution Rate Estimates

A.R.S. § 38-848 requires PSPRS to annually report on estimated contribution rates for the next 10 fiscal years. These estimates are required to include both aggregate rates for PSPRS and CORP, in addition to rates for each state employer group within those systems. *(Please see Table 8 for more information.)*

Table 6

Arizona Public Retirement System Contribution Rate Data ^{1/}

	FY 2016		FY 2017		FY 2018		FY 2019		
	Employer	Employee	Total	Employer	Employee	Total	Employer	Employee	Total
ASRS ^{2/3/}	11.47%	11.47%	22.94%	11.48%	11.48%	22.96%	11.47%	11.47%	22.94%
PSPRS ^{4/5/}	41.37%	11.65%	53.02%	42.61%	11.65%	54.26%	42.46%	11.65%	54.11%
CORP ^{4/5/}	18.21%	8.41%	26.62%	18.71%	8.41%	27.12%	18.34%	8.41%	26.75%
EORP ^{6/}	23.50%	13.00%	36.50%	23.50%	13.00%	36.50%	23.50%	13.00%	36.50%
EODC ^{6/}	6.00%	8.00%	14.00%	6.00%	8.00%	14.00%	6.00%	8.00%	14.00%
UORP ^{7/}	7.00%	7.00%	14.00%	7.00%	7.00%	14.00%	7.00%	7.00%	14.00%

^{1/} This table represents the full FY 2017 contribution rate and does not reflect the phase-in option for CORP and PSPRS. The rates for FY 2016 and FY 2017 are based on the valuation data from 2 years' prior (i.e., FY 2014 and FY 2015). The projected rates for FY 2018 and FY 2019 are based on FY 2015 valuation data.

^{2/} The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

^{3/} The ASRS contribution rate for each year assumes no growth in the system population.

^{4/} The contribution rates for PSPRS and CORP are aggregated. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group. (Please see *Table 4 for individual state employer groups.*)

^{5/} The employer contribution rates displayed for years FY 2018 and FY 2019 exclude the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%). Additionally, the employer contribution rates for all years displayed exclude the contribution rate associated with supplemental long term disability insurance (in FY 2017, that rate is 0.27%).

^{6/} Laws 2013, Chapter 217 established a fixed employer contribution rate for EORP and EODC System members of 23.5% that began January 1, 2014. Of the contribution rate for EODC System members, 6% is retained by the defined contribution system as an employer contribution to the member account and the remaining 17.5% is paid to the EORP Fund.

^{7/} A.R.S. § 15-1628 fixes the employer and employee contribution rates at 7%.

Membership	Arizona Public Retirement System Valuation Data as of June 30							
	ASRS		PSPRS		CORP		EORP	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Active (working and contributing)	203,201	203,252	18,526	18,409	14,595	14,184	843	738
State Active Members	25,992	26,105	1,348	1,351	8,699	8,539	114	97
Other Active Members ^{1/}	177,209	177,147	17,178	17,058	5,896	5,645	729	641
Inactive	215,325	219,346	1,563	1,923	1,687	2,318	149	171
Retired Members and Survivor Beneficiaries	126,255	131,536	10,524	11,034	4,090	4,410	1,053	1,116
Deferred Retirement Option Plan	<u>N/A</u>	<u>N/A</u>	<u>1,559</u>	<u>1,675</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total	544,781	554,134	32,172	33,041	20,372	20,912	2,045	2,025
Funding Status (dollar values in millions) ^{2/}	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015
Market Value of Assets	\$35,159	\$35,116	\$5,936	\$6,076	\$1,497	\$1,540	\$314	\$309
Total Actuarial Liability	\$42,826	\$44,574	\$12,233	\$12,686	\$2,638	\$2,740	\$796	\$813
Unfunded Actuarial Liability ^{3/}	\$9,904	\$10,014	\$6,214	\$6,468	\$1,126	\$1,169	\$483	\$498
Funded Status ^{3/}	76.3%	77.1%	49.2%	49.0%	57.3%	57.3%	39.4%	38.8%

^{1/} Includes city, county, political subdivision, higher education and other education active members.

^{2/} Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the funded status may vary for each employer group.

^{3/} Calculated on actuarial, not market, value of assets. Excludes the funded status of the retiree health portion of the plan.

Table 8

Arizona Public Retirement System Contribution Rate Historical and Trend Data (Full Rate)

	Actual													Projected				
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026		
ASRS																		
Employer	9.85%	10.74%	11.14%	11.54%	11.60%	11.47%	11.48%	11.47%	11.59%	10.96%	11.03%	10.63%	10.42%	10.16%	9.95%	9.92%		
Employee	9.85%	10.74%	11.14%	11.54%	11.60%	11.47%	11.48%	11.47%	11.59%	10.96%	11.03%	10.63%	10.42%	10.16%	9.95%	9.92%		
Total 1/	19.70%	21.48%	22.28%	23.08%	23.20%	22.94%	22.96%	22.94%	23.18%	21.92%	22.06%	21.26%	20.84%	20.32%	19.90%	19.84%		
PSPRS																		
Employer 2/3/	20.89%	22.68%	27.18%	30.44%	32.54%	41.37%	42.61%	42.46%	42.59%	42.92%	42.89%	42.93%	43.11%	43.09%	43.01%	42.91%		
Employee	7.65%	8.65%	9.55%	10.35%	11.05%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%		
Total	28.54%	31.33%	36.73%	40.79%	43.59%	53.02%	54.26%	54.11%	54.24%	54.57%	54.54%	54.58%	54.76%	54.74%	54.66%	54.56%		
CORP																		
Employer 2/3/	8.57%	9.50%	11.31%	13.68%	14.46%	18.21%	18.71%	18.34%	18.25%	18.28%	18.15%	18.06%	18.07%	17.99%	17.91%	17.84%		
Employee	8.40%	8.40%	8.40%	8.40%	8.40%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%	8.41%		
Total	16.97%	17.90%	19.71%	22.08%	22.86%	26.62%	27.12%	26.75%	26.66%	26.69%	26.56%	26.47%	26.48%	26.40%	26.32%	26.25%		
EORP																		
Employer	17.42%	17.96%	20.87%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%		
Employee	7.00%	11.50%	11.50%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%		
Total	24.42%	29.46%	32.37%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%	36.50%		

1/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

2/ The employer contribution rate displayed for years FY 2018 through FY 2026 excludes the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%).

3/ The employer contribution rate displayed for all years excludes the contribution rate associated with supplemental long term disability insurance (in FY 2017, that rate is 0.27%).

**GENERAL PROVISIONS OF THE
GENERAL APPROPRIATION ACT
AND OTHER OVERALL ISSUES**

GENERAL APPROPRIATION ACT BUDGET GENERAL PROVISIONS

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GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) provides direction with regard to several general provisions.

General Provisions

Statewide Adjustments — Each individual agency narrative refers to the allocation of statewide adjustments. The *Agency Detail and Allocations* section includes the specific adjustments for each agency. The adjustments are as follows:

Section 163 of the General Appropriation Act makes statewide adjustments totaling \$(7,585,800) from the General Fund and \$(7,463,100) from Other Appropriated Funds in FY 2017 for changes in 3 areas:

- **Employer Health Insurance Contribution Reduction:** \$(8,047,400) General Fund and \$(8,561,500) Other Appropriated Funds to annualize an FY 2016 reduction in the employer contribution rates for employee health insurance. *(Please see Health Insurance discussion below for more details.)*
- **Arizona Financial Information System Collections:** \$461,600 General Fund and \$521,600 Other Appropriated Funds for adjustments in agency Arizona Financial Information System (AFIS) charges. *(Please see the Arizona Department of Administration (ADOA) narrative for more details on AFIS charges.)*
- **Agency Relocation:** \$576,800 Other Appropriated Funds for one-time FY 2017 agency relocation costs. *(Please see the ADOA Capital narrative for more details.)*

In addition to the 3 adjustments above, Section 130 appropriates \$9,000,000 in Other Appropriated Funds from state agencies for the replacement of the state's electronic procurement system. *(Please see the ADOA Automation Projects Fund narrative for more details.)*

Expenditure Reporting — Section 165 continues to state that it is the intent of the Legislature that all budget units receiving appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. The purpose of this section is to ensure stability and consistency in the expenditure reporting regardless of yearly changes in appropriation formats. A different format may be used if agreed to by the Director of the JLBC and incorporated

into the budget instructions issued by the Governor's Office of Strategic Planning and Budgeting.

FTE Position Reporting — Section 166 continues to state that the Full Time Equivalent (FTE) Positions contained in the General Appropriation Act sections are subject to appropriation. The section directs the Director of ADOA to account for the utilization of all appropriated and non-appropriated FTE Positions, excluding FTE Positions in the Universities. The Director shall submit the FY 2017 report by October 1, 2017 to the Director of the JLBC. The Department of Economic Security and Department of Environmental Quality were also exempt from the ADOA report in prior years but will now have their positions reported by ADOA.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. This section defines FTE Positions as total number of hours worked, including both regular and overtime hours as well as hours taken as leave, divided by the number of hours in a work year. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. The Universities shall report to the JLBC Director in a manner comparable to the ADOA report.

Filled FTE Position Reporting — Section 167 continues to state that by October 1, 2016 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated and non-appropriated FTE Positions by fund source. The report shall reflect the number of filled, appropriated FTE Positions as of September 1, 2016.

Transfer Authority — Section 168 continues to require ADOA to provide a monthly report to the JLBC Staff on any agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements — Section 169 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2016 General Fund ending balance by September 15, 2016. Based on this information, JLBC Staff shall report to JLBC by October 15, 2016 as to whether FY 2017's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. Section 169 states the revenues are forecasted to be \$9,740,000,000 for FY 2016 and \$9,674,000,000 for FY 2017; while both figures include one-time revenues, the FY 2016 figure also includes the beginning balance.

Section 169 also provides revenue and expenditure estimates for FY 2018 and FY 2019 pursuant to A.R.S. § 35-125, which requires the General Appropriation Act to delineate the revenue and expenditure estimates for the budget year and the following 2 years based on existing statutory funding requirements. *(Please see the Budget Highlights section for more details on FY 2018 and FY 2019 estimates.)*

Expenditure Authority — Section 171 continues to state that for purposes of the General Appropriation Act, “expenditure authority” means that the fund sources are continuously appropriated monies that are included in the individual line items of appropriations.

JLBC Review — Section 172 continues to state that for purposes of the General Appropriation Act, “review by the Joint Legislative Budget Committee” means a review by a vote of a majority of a quorum of the members.

Statewide Standard Changes

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2017 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency’s individual appropriation in the FY 2017 General Appropriation Act. Statewide adjustment amounts are mentioned in any relevant agency narrative, but do not have additional discussion.

Employee Related Expenditures

Health Insurance — The state continues to self-insure state employee health benefits. Under self-insurance, the state assumes the risk of providing health coverage to state employees and pays the health claims directly. Therefore, if the costs of employee health coverage exceed estimates, the state will be responsible for those losses. Similarly, if the costs are less than estimated, the state will retain the savings.

Employees have a choice between an Exclusive Provider Organization (EPO, which is the self-insured equivalent of an HMO), a Preferred Provider Organization (PPO) and a Health Savings Account (HSA). Additional information on the current plan design can be found on page 481 of the *FY 2010 Appropriations Report*.

Employee and employer premiums for the CY 2016 plan year are shown in *Table 1* above. The FY 2017 budget included a total appropriated funds reduction of \$(16,608,900) to annualize the savings from reduced employer premiums for the plan year starting January 1, 2016. Rates for the upcoming CY 2017 plan year have not yet been released.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Employee and employer premiums for the CY 2016 plan year are shown in *Table 2*. The FY 2017 budget assumed employer premiums for the plan year starting January 1, 2016 would remain the same; however, rates for the upcoming plan year have not yet been released.

Table 1		
Health Insurance		
State Employee and Employer Monthly Contributions		
Calendar Year 2016		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Exclusive Provider Organization (EPO)</u>		
Employee	\$ 40.00	\$ 550.00
Employee Plus One Child	101.00	734.00
Employee Plus One Adult	119.00	1,130.00
Family	221.00	1,238.00
<u>Preferred Provider Organization (PPO)</u>		
Employee	102.00	559.00
Employee Plus One Child	144.00	791.00
Employee Plus One Adult	215.00	1,182.00
Family	251.00	1,379.00
<u>Health Spending Account (HSA) Option</u>		
Employee	20.00	432.00 <u>1/</u>
Employee Plus One Child	51.00	624.00 <u>1/</u>
Employee Plus One Adult	60.00	891.00 <u>1/</u>
Family	111.00	979.00 <u>1/</u>

1/ Includes deposit of \$60 into Single Employee account and \$120 into all other Employee accounts.

Table 2

**Dental Insurance
State Employee and Employer Monthly Contributions
Calendar Year 2016**

	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>DHMO</u>		
Employee	\$4.03	\$4.96
Employee + 1 Child	7.59	9.92
Employee + 1 Adult	8.06	9.92
Family	13.27	13.70
<u>PPO</u>		
Employee	30.98	4.96
Employee + 1 Child	50.56	9.92
Employee + 1 Adult	65.71	9.92
Family	104.56	13.70

(Please see the Health Insurance Trust Fund section in the ADOA narrative for more details on overall HITF balances.)

In addition to health and dental insurance, the following items are components of an agency's Employee Related Expenditures.

Employer Contribution Rates — *Table 3* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2017. These rates may be different from actual funded charges (e.g., the Social Security FICA maximum may increase.) Except for life insurance, these rates are calculated as a percent of Personal Services. Except as noted, the budget does not include funding for the changes in rates.

Life Insurance - \$17.94 per employee per year, unchanged from the FY 2016 rate.

Unemployment Insurance - 0.10% of Personal Services for each agency, unchanged from the FY 2016 rate.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2016 rate. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board.

The following agencies are not incorporated into state personnel system oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind
- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)

Table 3

FY 2017 Employer Contribution Rates

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$17.94
Unemployment Insurance	0.10%
Personnel Division Pro Rata	0.86%
Disability (Arizona State Retirement System)	0.14%
Disability (Non-State Retirement System)	0.27%
Information Technology Planning	0.20%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary max \$118,500)	6.20%
Medicare (no salary cap)	1.45%
<u>Retirement System</u>	<u>1/</u>
<u>1/</u>	See Consolidated Retirement Report section for contribution rates.

- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

Disability Insurance - For Arizona State Retirement System (ASRS) employees the employer pays 0.14% of Personal Services for disability insurance, an increase of 0.02% from the FY 2016 rate of 0.12%. The employee rate will also remain at 0.12%.

For non-ASRS employees the employer-only rate is 0.27% of Personal Services, an increase of 0.02% from the FY 2016 rate.

Information Technology Planning - 0.20% of Personal Services for each agency, unchanged from the FY 2016 rate. The government information technology review function in ADOA's budget is funded from an assessment on the payroll of all state agencies except the Universities.

Retiree Accumulated Sick Leave - 0.40% of Personal Services for each agency, unchanged from the FY 2016 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The fund is used to make payments to state employees who retire with 500 or more hours of sick leave. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

Workers' Compensation - The rates calculated by ADOA vary by individual agency and are unchanged from the FY 2016 workers' compensation rates. ADOA estimates the average statewide rate is 0.79% in FY 2016. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers' Compensation losses.

Federal Insurance Contributions Act (FICA) - Social Security taxes are paid at a rate of 6.20% up to \$118,500 of an employee's salary. The rate and the \$118,500 maximum are unchanged from FY 2016.

In addition, Medicare employer taxes are applied at a rate of 1.45% on the full level of an employee's salary. This rate is unchanged from FY 2016. Effective January 1, 2013, the federal Affordable Care Act imposed an additional 0.9% Medicare withholding on employees for the amount of salaries above \$200,000. Employees will continue to be withheld at 1.45% for salaries below \$200,000. This additional 0.9% withholding does not apply to the employer-paid portion of the Medicare tax.

State Retirement Systems - There are 4 state employee retirement systems -- ASRS, the Public Safety Personnel Retirement System (PSPRS), the Corrections Officers Retirement Plan (CORP), and the Elected Officials Retirement Plan (EORP). In addition, the Universities operate their own defined contribution plan. FY 2016 rates as determined by the state's retirement systems have changed from the FY 2015 rates. *(Please see the Consolidated Retirement Report for more information.)*

The FY 2017 budget adds a total of \$3,262,000 in appropriated funding for increased costs in non-ASRS employer retirement contributions in 4 agencies, appropriated within their respective budgets:

- \$723,500 GF for the Arizona Department of Corrections (ADC)
- \$947,700 GF for the Superior Court in the Judiciary
- \$62,300 OF for the Department of Liquor Licenses and Control (DLLC)
- \$1,528,500 OF for the Department of Public Safety (DPS)

(Please see the ADC, Superior Court, DLLC, and DPS narratives for more detail on these increases. Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.)

Other Operating Expenditures

The following items are included in agency's Other Operating Expenditures.

Risk Management — Individual agency budgets' Other Operating Expenditures include the Risk Management charges billed to agencies by the ADOA Risk Management Program. The billings vary by individual agency and are unchanged from the budgeted FY 2016 rates. *(Please see the Risk Management Charges table following this section for more details.)*

Monies are deposited into an ADOA fund for payment of costs associated with Risk Management losses. The state self-insures for Risk Management services by assessing agencies charges based on actuarial projections and paying claims against the state.

Section 110 of the General Appropriation Act includes a FY 2016 supplemental appropriation of \$3,614,100 from the Risk Management Fund and \$6,167,600 from the Health Insurance Trust Fund to refund a portion of certain fund balances to the federal government. In prior fiscal years, the state had transferred the balances of certain funds to the General Fund. If federal monies had been deposited into these funds, the federal government requires that they receive their own proportional share of fund transfers. The \$3,614,100 is intended to cover the state's obligation for transfers associated with excess retained earnings, disallowed costs, and FY 2015 fund transfers. The \$6,167,100 is intended to cover the state's obligation for a FY 2015 Health Insurance Trust Fund transfer. *(Please see the ADOA narrative for more details.)*

Attorney General — Section 164 outlines \$1,809,500 in charges to selected state agencies for Attorney General services, unchanged from the FY 2016 amount. *(Please see the Attorney General narrative for details.)*

Building Payments — The Other Operating Expenditures line of individual agency budgets includes rental charges for both state-owned and privately-owned space, lease-purchase payments, and privatized lease-to-own (PLTO) payments for certain buildings.

Rent charges in state-owned office space will remain at \$13.08/square foot, with the charge for state-owned storage space remaining at \$4.74/square foot. These rates are based upon usable square feet.

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or PLTO, including changes to those payments. *(Please refer to Statewide Adjustments above and the Rent, Lease-Purchase, and PLTO schedules in the Capital Outlay section for more details.)*

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will expend \$70,000,000 in FY 2017 for FY 2016 obligations. Agencies are permitted to make "administrative adjustments" for expenditures obligated in FY 2016 but for which the state was unbilled until FY 2017. An agency's administrative adjustments cannot exceed its prior year reversion, or unused appropriation authority. The \$70,000,000 is a decrease of \$(15,000,000)

from the estimated FY 2016 total of \$85,000,000. The FY 2017 amount is 64% of prior-year revertsments, roughly at the historical average of around 65%.

The revised FY 2016 estimate of \$85,000,000 is a \$15,000,000 increase from the originally-budgeted administrative adjustment total of \$70,000,000 for FY 2016. This amount is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends. The estimate is 58% of FY 2015 revertsments, within the range from previous years of below 30% to above 70%.

Revertsments — The budget assumes that state agencies will revert \$(110,682,500) of FY 2017 appropriations back to the General Fund because the agencies will not spend their entire appropriation. This amount is an increase of \$682,500 from the FY 2016 total of \$(110,000,000). The FY 2017 amount reflects 1.2% of total spending, a percentage based on historical averages.

The revised FY 2016 estimate of \$(110,000,000) is a decrease of \$1,380,700 from the originally-budgeted FY 2016 revertment total of \$(111,380,700). The revised FY 2016 amount also reflects 1.2% of total spending.

Budget Format — The format governs how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

Lump Sum - The appropriation for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review.

Lump Sum with Special Line Items - The appropriation for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include FTE Positions. Agencies are permitted to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review, though footnotes may place additional restrictions or notifications upon the agency prior to or associated with transfers between special line items or to or from the operating budget.

90/10 Agencies — The following 28 regulatory agencies are called "90/10" agencies for the fact that these

agencies retain 90% of their revenues and deposit the other 10% into the General Fund:

Arizona State Board of Accountancy
Acupuncture Board of Examiners
Board of Athletic Training
Board of Barbers
Board of Behavioral Health Examiners
State Board of Chiropractic Examiners
Registrar of Contractors
Board of Cosmetology
State Board of Dental Examiners
State Board of Funeral Directors and Embalmers
Board of Homeopathic and Integrated Medicine Examiners
Board of Massage Therapy
Arizona Medical Board
Naturopathic Physicians Medical Board
State Board of Nursing
Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
Board of Occupational Therapy Examiners
State Board of Dispensing Opticians
State Board of Optometry
Arizona Board of Osteopathic Examiners in Medicine and Surgery
Arizona State Board of Pharmacy
Board of Physical Therapy
State Board of Podiatry Examiners
State Board for Private Postsecondary Education
State Board of Psychologist Examiners
Board of Respiratory Care Examiners
State Board of Technical Registration
Arizona State Veterinary Medical Examining Board

Laws 2016, Chapter 221 eliminated the Office of Pest Management and transferred its regulatory functions to the Department of Agriculture.

SALARY ADJUSTMENTS FOR STATE EMPLOYEES SINCE FY 2007
(Shown in Nominal General Fund Dollars)

Fiscal Year	General Salary Adjustments					Additional Increases for Selected Classes		
	Dollars Appropriated	Effective Date	Annual Cost	% Salary Adjustment	% Performance Adjustment	Dollars Appropriated	Effective Date	Annual Cost
FY 2007	\$129,686,700 <u>1/</u>	July 1	\$129,686,700 <u>2/</u>	\$1,650/FTE <u>3/</u>	2.50%	\$31,761,600	July 1	\$31,761,600 <u>4/5/</u>
FY 2008	\$68,755,000	July 1	\$68,755,000 <u>6/</u>	3.0%	0.25%	\$9,149,200	July 1	\$9,149,200 <u>7/</u>
FY 2009	\$0	NA	\$0	-0-	-0-	\$0	NA	\$0
FY 2010	\$0	NA	\$0	-0-	-0-	\$0	NA	\$0
FY 2011	\$(33,464,400) <u>8/</u>	July 1	\$(33,464,400)	-2.30% <u>9/</u>	-2.75% <u>9/</u>	\$0	NA	\$0
FY 2012	\$(3,390,700) <u>10/</u>	July 1	\$(3,390,700)	-0 <u>10/</u>	-0-	\$0	NA	\$0
FY 2013	\$16,633,400 <u>11/</u>	Sept 29	\$23,500,000	5.00% <u>11/</u>	-0-	\$0	NA	\$0
FY 2014	\$0	NA	\$0	0.00%	-0-	\$0	NA	\$0
FY 2015	\$0	NA	\$0	0.00%	-0-	\$3,300,000	July 1	\$3,300,000 <u>12/</u>
FY 2016	\$0	NA	\$0	0.00%	-0-	\$0	NA	\$0
FY 2017	\$0	NA	\$0	0.00%	-0-	\$4,696,400	Varies	\$4,791,700 <u>13/14/</u>

- 1/ Salary Adjustment went into effect on March 11, 2006. \$39,854,000 was appropriated for the FY 2006 adjustments.
- 2/ Laws 2006, Chapter 1 originally appropriated \$130,241,800 for the salary adjustments. Laws 2006, Chapter 261 reduced the appropriation by \$(555,100).
- 3/ Equates to approximately 3.8%.
- 4/ Funds additional adjustments above the \$1,650 per FTE and 2.5% performance adjustment for the Auditor General's Office, state-employed nurses and corrections officers in ADC and DJC.
- 5/ Includes \$17 million that was reallocated from the ADC's Overtime Special Line Item for Salary Adjustments.
- 6/ Provides funding for the equivalent of a 3.0% adjustment to the Personal Services Base in the FY 2008 JLBC Baseline.
- 7/ Funds additional adjustments above the 3.0% pay adjustment and 0.25% performance adjustment for the General Accounting Office, Assistant Attorney Generals, supervisor correctional officers at ADC, security officers at the Arizona State Hospital, officers at DJC, and sworn officers at DPS.
- 8/ Represents General Fund savings from the pay reduction that were budgeted in FY 2011, along with uncaptured furlough savings realized in FY 2011 during the FY 2012 budget process.
- 9/ Represents 6 furlough days (2.3%) except for certain exempted positions and a (2.75)% pay reduction. Where possible, the (2.75)% reduction was intended to eliminate the FY 2007 and FY 2008 Performance Adjustments. The furlough was originally authorized for FY 2011 and FY 2012 only, while the salary reduction was permanent.
- 10/ Represents General Fund savings from the prior enacted mandatory 6 day furlough, less additional funding to restore the furlough for several smaller agencies. The FY 2011 General Appropriation Act assumed a fixed level of General Fund savings associated with the furlough - savings were actually \$3.5 million greater and were reflected in the FY 2012 budget. Laws 2011, Chapter 26 eliminated one of the 6 mandatory furlough days in FY 2011 and all furlough days in FY 2012, but the budget did not restore any of the associated funding except for \$158,800 from the General Fund to several smaller agencies in FY 2012.
- 11/ Originally represented a one-time critical retention payment to state employees in FY 2013. The payments were made to non-university state employees who were uncovered on the effective date of September 29, 2012, and were equal to 5% of an employee's annual salary level prorated for the remainder of the fiscal year, increasing an employee's annual salary by an effective rate of 3.75%. This adjustment included payments to employees who converted from covered to uncovered status as a result of the 2012 omnibus personnel bill (Laws 2012, Chapter 321). The FY 2014 budget subsequently made the 5% adjustment permanent.
- 12/ Funds a 2.0% pay increase for all employees at the Arizona Department of Public Safety (DPS).
- 13/ Funds a 3.0% pay increase for all sworn officers and civilian staff within the Highway Patrol division at DPS, effective July 1, 2016.
- 14/ Funds the first half-year of a 1.5% pay increase for all Supreme Court, Court of Appeals, and Superior Court Justices. The pay raise becomes effective on January 1, 2017 and will be followed by another 1.5% increase effective on January 1, 2018.

STATE OF ARIZONA
ELECTED OFFICIALS' SALARIES

	Jan. 1, 2002	Jan. 1, 2007 *	Jan. 1, 2009 *	Jan. 1, 2017 *
Governor	\$ 95,000	\$ 95,000	\$ 95,000	\$ 95,000
Secretary of State	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Treasurer	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Attorney General	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Superintendent of Public Instruction	\$ 85,000	\$ 85,000	\$ 85,000	\$ 85,000
Corporation Commissioners	\$ 79,500	\$ 79,500	\$ 79,500	\$ 79,500
Mine Inspector	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Supreme Court Chief Justice ^{1/}	\$ 129,150	\$ 145,294	\$ 160,000	\$ 162,400
Other Supreme Court Justices ^{1/}	\$ 126,525	\$ 142,341	\$ 155,000	\$ 157,325
Appellate Judges ^{1/}	\$ 123,900	\$ 139,388	\$ 150,000	\$ 152,250
Superior Court Judges ^{1/}	\$ 120,750	\$ 135,844	\$ 145,000	\$ 147,175
Legislators	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,000

* There were no changes in elected officials' salaries between January 1, 2002 and January 1, 2007, January 1, 2007 and January 1, 2009, or January 1, 2009 and January 1, 2017.

^{1/} These salaries will increase by another 1.5% in January 2018.

AGENCY DETAIL AND ALLOCATIONS

DETAILED LIST OF GENERAL FUND CHANGES BY AGENCY

	FY 2016 GF 1/ Baseline	FY 2016 Changes	FY 2016 GF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 GF Enacted Budget
OPERATING SPENDING CHANGES						
DOA - Arizona Department of Administration	10,377,300		10,377,300			10,264,500
DOA - Statewide Adjustments					(44,100)	
DOA - Procurement Funding					500,000	
DOA - Office of Economic Opportunity Transfer					(568,700)	
APF - Automation Projects Fund/ADOA	7,783,000		7,783,000			14,881,600
APF - Remove ADOA Accounting Automation				(2,383,000)		
APF - ADE Automation (One-time)				(5,400,000)	7,300,000	
APF - DCS Automation				5,000,000	(418,400)	
APF - DOA Procurement (One-time)					3,000,000	
OAH - Office of Administrative Hearings	861,700		861,700			860,500
OAH - Statewide Adjustments					(1,200)	
AAM - Commission of African-American Affairs	125,000		125,000			125,000
AGR - Department of Agriculture	8,287,400		8,287,400			9,162,700
AGR - Statewide Adjustments					(56,900)	
AGR - Weights and Measures Transfer				1,262,800		
AGR - Weights and Measures Consolidation Savings				(330,600)		
AXS - AHCCCS	1,205,162,300		1,205,162,300			1,750,941,400
AXS - Statewide Adjustments					(139,400)	
AXS - Acute Care Formula				50,511,800	(50,953,400)	
AXS - Behavioral Health Services Transfer				517,304,700		
AXS - Behavioral Health Services Caseload/Inflation				28,840,700		
AXS - Hiring Freeze BHS Admin Savings				(607,500)	(456,700)	
AXS - Other Adjustments				(80,400)		
AXS - ALTCS Adult Dental					1,359,300	
ATT - Attorney General	23,623,700		23,623,700			24,664,800
ATT - Statewide Adjustments					(108,300)	
ATT - Internet Crimes Against Children Shift				350,000		
ATT - Post Conviction Relief Unit					799,400	
CHA - State Board for Charter Schools	1,200,900		1,200,900			1,185,200
CHA - Statewide Adjustments					(8,900)	
CHA - Remove One-Time Equipment Funding				(6,800)		
DCS - Department of Child Safety	356,448,200		391,412,800			379,179,400
DCS - Statewide Adjustments					(684,400)	
DCS - Remove One-Time Backlog Funding				(12,408,200)	12,408,200	
DCS - Preventative Services				4,000,000	1,000,000	
DCS - Internet Crimes Against Children Shift				(350,000)		
DCS - Backlog Privatization		2,700,000			2,700,000	
DCS - Central Administrative Staff					6,685,700	
DCS - Case Aides and Overtime					2,500,000	
DCS - Attorney General					5,000,000	
DCS - Emergency and Residential Placement					8,000,000	
DCS - Foster Care					2,000,000	
DCS - Independent Living Subsidy					250,000	
DCS - Adoption Subsidy					6,000,000	
DCS - Permanent Guardianship					101,600	
DCS - Out-of-Home Support Services					12,500,000	
DCS - Child Care					2,000,000	
DCS - GF Savings					(25,000,000)	
DCS - TANF Swap (w/ DES)					(3,971,700)	
DCS - Additional Services and Staffing		32,264,600				
ACA - Arizona Commerce Authority	26,800,000		26,800,000			21,800,000
ACA - Reduce Competes Fund Deposit				(5,000,000)		

	FY 2016 GF 1/ Baseline	FY 2016 Changes	FY 2016 GF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 GF Enacted Budget
CCO - Arizona Community Colleges	54,373,200		54,373,200			54,312,700
CCO - Enrollment Decrease (Operating Aid)				(972,100)		
CCO - Enrollment Decrease (STEM Aid)				(230,300)		
CCO - Changes in NAV (Equalization Aid)				934,700		
CCO - Rural County Allocation Adjustment					207,200	
COR - Corporation Commission	614,200		614,200			2,611,600
COR - Statewide Adjustments					(2,600)	
COR - Automation Funding (One-time)					2,000,000	
ADC - Department of Corrections	1,029,900,600		1,035,107,500			1,046,682,600
ADC - Statewide Adjustments					(5,875,600)	
ADC - 1,000 New Medium Security Beds				17,098,500		
ADC - Health Care Inflation Adjustment		5,200,000		5,133,200		
ADC - Retirement Adjustment				723,500		
ADC - Remove Leap Year Funding				(929,100)		
ADC - Private Prison Monitoring				528,000		
ADC - Northern Community Corrections Center					COP Savings	
ADC - Re-Entry Planners					103,500	
ADC - Named Claimants		6,900				
CF - County Funding	6,000,500		6,000,500			14,000,500
CF - Additional County Distribution (One-time)					8,000,000	
SDB - Arizona State Schools for the Deaf and the Blind	21,596,400		21,596,400			21,378,100
SDB - Statewide Adjustments					(218,300)	
OEC - Office of Economic Opportunity	0		0			1,068,700
OEC - ADOA Funding Transfer to Create Agency					568,700	
OEC - Small Water Systems Fund Deposit (One-time)					500,000	
DES - Department of Economic Security	496,181,900		502,934,200			530,124,400
DES - Statewide Adjustments					(420,100)	
DES - DD Caseload/Inflation Funding		6,752,300		27,829,900		
DES - DD 1% Provider Rate Increase					2,959,300	
DES - TANF Savings				(3,971,700)		
DES - ALTCS Adult Dental					1,233,400	
DES - DD Room and Board Shortfall					Other Fund	
DES - APS Caseload Growth					Other Fund	
DES - Vocational Rehabilitation					2,000,000	
DES - TANF Swap (w/ DCS)					3,971,700	
DES - Domestic Violence Shelter - Maricopa County (One-time)					50,000	
DES - Domestic Violence Shelter - Yuma County (One-time)					50,000	
DES - ABLE Account Funding (One-time)					240,000	
BOE - State Board of Education	1,325,200		1,325,200			1,094,000
BOE - Funding Shift to ADE					(231,200)	
ADE - Arizona Department of Education	3,941,873,900		3,941,873,900			4,069,375,800
ADE - Statewide Adjustments					(67,300)	
ADE - Base Adjustment				(3,145,000)		
ADE - Enrollment Growth				83,575,700	(10,000,000)	
ADE - Higher Average Cost Per Pupil				19,500,000		
ADE - Inflation				64,745,200	(8,775,400)	
ADE - New Construction				(43,194,700)	(6,956,500)	
ADE - Homeowner's Rebate				30,988,300	1,164,100	
ADE - Land Trust Distribution				(363,700)		
ADE - Multi-Site Charters Small School Weight				(6,500,000)		
ADE - District Sponsored Charter Phase-Out				(1,148,000)		
ADE - JTED Funding				(30,000,000)	29,000,000	
ADE - Current Year Funding				(31,000,000)		
ADE - Empowerment Scholarship Accounts				700,000		
ADE - Small School Weight for Multi-Site Charter					6,500,000	
ADE - Increased Assessment Costs					Other Fund	
ADE - District Sponsored Charter Schools @ 100% (One-time)					1,148,000	
ADE - Backfill Current Year-Funding (One-time)					31,000,000	
ADE - Code Writers Pilot (One-time)					Other Fund	

	FY 2016 GF 1/ Baseline	FY 2016 Changes	FY 2016 GF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 GF Enacted Budget
ADE - Geographic Literacy (One-time)					100,000	
ADE - AP Testing Incentives (One-time)					FY 18	
ADE - Funding Shift from SBE					231,200	
EMA - Department of Emergency & Military Affairs	11,102,700		11,849,400			12,619,500
EMA - Statewide Adjustments					(6,700)	
EMA - NEMF Increase				38,500		
EMA - Restore State Match for Army/Air Guard Facilities		746,700			1,485,000	
DEQ - Department of Environmental Quality	7,000,000		7,000,000			2,823,600
DEQ - WQARF Fund Shift					(4,176,400)	
OEO - Governor's Office of Equal Opportunity	189,000		189,000			189,100
OEO - Statewide Adjustments					100	
EQU - State Board of Equalization	642,800		642,800			643,000
EQU - Statewide Adjustments					200	
EXE - Board of Executive Clemency	956,000		956,000			952,600
EXE - Statewide Adjustments					(3,400)	
DFI - Dept of Financial Institutions	3,008,000		3,008,000			2,978,200
DFI - Statewide Adjustments					(17,200)	
DFI - Appraisal Consolidation Savings				(12,600)		
BFS - Department of Fire, Building & Life Safety	2,202,000		2,202,000			0
BFS - Agency Consolidation					(2,202,000)	
FOR - Department of Forestry and Fire Management	9,012,300		9,159,000			10,442,800
FOR - Statewide Adjustments					(23,700)	
FOR - Risk Management Increase		146,700			146,700	
FOR - Fire Management Software					85,000	
FOR - Inmate Fire Crew Carriers (One-time)					190,000	
FOR - Wildland Fire Engines (One-time)					112,500	
FOR - Fire, Building & Life Safety Consolidation					920,000	
GAM - Department of Gaming	1,779,500		1,779,500			1,979,500
GAM - Statewide Adjustments						
GAM - Breeder's Award Fund Deposit (One-time)					200,000	
GEO - Arizona Geological Survey	941,000		941,000			0
GEO - Consolidation into UA					(941,000)	
GOV - Office of the Governor	6,889,000		6,889,000			6,849,900
GOV - Statewide Adjustments					(39,100)	
OSP - Gov's Office of Strategic Planning & Budgeting	1,994,000		1,994,000			1,994,000
DHS - Department of Health Services	602,738,300		602,738,500			86,551,700
DHS - Statewide Adjustments					(394,700)	
DHS - Behavioral Health Services Transfer				(517,304,700)		
DHS - Non-Medicaid Funds for ASH					AHCCCS FN	
DHS - Additional 29 Security Officers/Nurses ASH					1,512,800	
DHS - Restoration to Competency Program					Study Comm.	
DHS - Named Claimants		200				
AZH - Arizona Historical Society	3,157,200		3,157,200			2,722,900
AZH - Statewide Adjustments					(6,000)	
AZH - Transfer Mines and Minerals Museum to UA					(428,300)	
PAZ - Prescott Historical Society	825,800		825,800			824,500
PAZ - Statewide Adjustments					(1,300)	
DOH - Department of Housing	0		0			811,400
DOH - Statewide Adjustments					(3,400)	
DOH - Fire, Building & Life Safety Consolidation					814,800	

	FY 2016 GF 1/ Baseline	FY 2016 Changes	FY 2016 GF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 GF Enacted Budget
IND - Independent Redistricting Commission	1,115,300		1,115,300			1,115,300
INS - Department of Insurance	5,867,400		5,867,400			5,824,300
INS - Statewide Adjustments					(31,700)	
INS - Remove One-Time Equipment Funding				(11,400)		
SPA - Judiciary - Supreme Court	17,951,100		17,951,100			19,219,500
SPA - Statewide Adjustments					(190,900)	
SPA - 2 New Supreme Court Justices					500,000	
SPA - 1.5% Judicial Pay Raise (In '17 and '18)					10,600	
SPA - IT Funding (One-time)					948,700	
COA - Judiciary - Court of Appeals	14,315,500		14,315,500			14,280,400
COA - Statewide Adjustments - Division I					(47,200)	
COA - Statewide Adjustments - Division II					(19,800)	
COA - 1.5% Judicial Pay Raise (In '17 and '18)					31,900	
SUP - Judiciary - Superior Court	73,911,400		73,911,400			79,517,800
SUP - Dependency Surge					3,000,000	
SUP - Adult Standard Probation Growth					1,000,000	
SUP - Probation Salary Shortfall					601,200	
SUP - Probation CORP Adjustment					947,700	
SUP - 1.5% Judicial Pay Raise (In '17 and '18)					57,500	
DJC - Department of Juvenile Corrections	26,984,600		26,984,600			24,180,400
DJC - Statewide Adjustments					(304,200)	
DJC - Admission/Population Changes				(1,000,000)	(1,500,000)	
LAN - State Land Department	12,520,500		12,520,500			12,491,400
LAN - Statewide Adjustments					(61,200)	
LAN - CAP Fees					32,100	
Legislature						
AUD - Auditor General	17,933,300		17,933,300			18,066,500
AUD - Statewide Adjustments					(66,800)	
AUD - Audit Funding (One-time)					200,000	
HOU - House of Representatives	13,289,500		13,289,500			13,201,500
HOU - Statewide Adjustments					(88,000)	
JLBC - Joint Legislative Budget Committee	2,490,900		2,490,900			2,488,300
JLBC - Statewide Adjustments					(2,600)	
LEG - Legislative Council	8,233,300		8,233,300			8,215,400
LEG - Statewide Adjustments					(17,900)	
SEN - Senate	8,223,900		8,223,900			9,408,500
SEN - Statewide Adjustments					(65,400)	
SEN - Additional Funding					1,250,000	
MIN - State Mine Inspector	1,215,200		1,215,200			1,212,500
MIN - Statewide Adjustments					(2,700)	
NAV - Arizona Navigable Steam Adjudication Comm.	126,600		126,600			124,000
NAV - Statewide Adjustments					(2,600)	
POS - Commission for Postsecondary Education	1,396,800		1,396,800			1,396,800
DPS - Department of Public Safety	93,374,800		93,374,800			121,195,700
DPS - Statewide Adjustments					(202,200)	
DPS - Moving Program From Weights and Measures				136,200		
DPS - Testing Sexual Assault Kits (One-time)					500,000	
DPS - Border Strike Task Force					6,778,800	
DPS - Border Strike Task Force Local Support					1,261,700	
DPS - Border Strike Task Force (One-time)					14,600,000	

	FY 2016 GF 1/ Baseline	FY 2016 Changes	FY 2016 GF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 GF Enacted Budget
DPS - 3% Salary Increase Sworn Officers + HP Civilian					4,596,400	
DPS - Civil Air Patrol					150,000	
PSP - Public Safety Personnel Retirement System	6,000,000		6,000,000			6,000,000
RAD - Radiation Regulatory Agency	1,595,000		1,595,000			1,563,100
RAD - Statewide Adjustments					(1,900)	
RAD - NEMF Decrease				(30,000)		
REA - State Real Estate Department	2,985,200		2,985,200			2,994,900
REA - Statewide Adjustments					(9,100)	
REA - Fire, Building & Life Safety Consolidation					18,800	
REV - Department of Revenue	30,338,600		30,343,900			31,998,300
REV - Statewide Adjustments					(340,300)	
REV - Military Withholding Refunds (One-time)					2,000,000	
REV - Named Claimants		5,300				
SFB - School Facilities Board	216,878,100		230,599,400			228,094,400
SFB - Statewide Adjustments					(5,800)	
SFB - New School Construction				(1,075,000)	23,078,600	
SFB - Lease-Purchase Changes		(1,278,700)		(128,500)		
SFB - Access Our Best Public Schools Fund Deposit				(2,400,000)	(21,500,000)	
SFB - Credit Enhancement Transaction Costs (One-time)					500,000	
SFB - Building Renewal Grants (One-time FY 16/FY 17)		15,000,000			15,000,000	
SFB - Refinancing Agreement				(2,253,000)		
SOS - Secretary of State	24,306,500		30,436,500			14,969,200
SOS - Statewide Adjustments					(37,300)	
SOS - Remove One-Time Special Election Funding				(9,300,000)		
SOS - Presidential Preference Election (One-time)		6,130,000				
TAX - State Board of Tax Appeals	266,400		266,400			266,600
TAX - Statewide Adjustments					200	
TOU - Office of Tourism	7,110,400		7,110,400			7,112,000
TOU - Statewide Adjustments					1,600	
DOT - Department of Transportation	50,400		50,400			50,400
TRE - State Treasurer	1,205,100		1,205,100			1,205,100
OTR - Governor's Office on Tribal Relations	57,400		57,400			57,500
OTR - Statewide Adjustments					100	
UNI - Universities						
UNI - Arizona Board of Regents	21,928,400		21,928,400			21,928,400
UNI - ASU - Tempe/DPC	239,189,400		241,084,400			253,541,200
UNI - Statewide Adjustments					964,300	
UNI - Refinance Adjustment				716,100	(951,900)	
UNI - Additional Resources (Baseline Adjustment)				3,745,500	(122,200)	
UNI - Additional Resources (Budget - One-time)					7,000,000	
UNI - School of Civic and Economic Thought and Leadership					3,000,000	
UNI - FY 2016 Health Insurance Adjustment Supplemental		1,895,000				
UNI - ASU - East Campus	22,162,700		22,345,400			22,575,300
UNI - Statewide Adjustments					83,900	
UNI - Additional Resources (Baseline)				298,000	30,700	
UNI - FY 2016 Health Insurance Adjustment Supplemental		182,700				
UNI - ASU - West Campus	28,754,100		28,959,600			29,281,100
UNI - Statewide Adjustments					104,800	
UNI - Additional Resources (Baseline)				367,500	54,700	
UNI - FY 2016 Health Insurance Adjustment Supplemental		205,500				

	FY 2016 GF 1/ Baseline	FY 2016 Changes	FY 2016 GF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 GF Enacted Budget
UNI - Northern Arizona University	100,917,600		100,957,800			105,227,000
UNI - Statewide Adjustments					21,000	
UNI - Refinance Adjustment				(1,246,400)		
UNI - Additional Resources (Baseline)				1,433,200	101,600	
UNI - Additional Resources (Budget - One-time)					4,000,000	
UNI - FY 2016 Health Insurance Adjustment Supplemental		40,200				
UNI - UA - Main Campus	179,499,400		180,830,100			197,059,600
UNI - Statewide Adjustments					691,800	
UNI - Refinance Adjustment				4,384,800		
UNI - Additional Resources (Baseline)				2,314,300	(259,000)	
UNI - Additional Resources (Budget - One-time)					8,000,000	
UNI - Center for the Philosophy of Freedom					2,000,000	
UNI - Transfer Mines and Minerals Museum to UA					428,300	
UNI - FY 2016 Health Insurance Adjustment Supplemental		1,330,700				
UNI - UA - Health Sciences Center	68,393,500		68,815,400			68,859,800
UNI - Statewide Adjustments					230,600	
UNI - Additional Resources (Baseline)				41,500	194,200	
UNI - FY 2016 Health Insurance Adjustment Supplemental		421,900				
VSC - Department of Veterans' Services	6,077,800		6,077,800			6,054,100
VSC - Statewide Adjustments					(23,700)	
WAT - Department of Water Resources	12,803,100		12,803,100			13,012,600
WAT - Statewide Adjustments					(40,500)	
WAT - Water Protection Fund Deposit (One-time)					250,000	
WEI - Department of Weights & Measures	1,399,000		1,400,300			0
WEI - Agency Consolidation (To Dept. of Agriculture)				(1,262,800)		
WEI - Agency Consolidation (To Dept. of Public Safety)				(136,200)		
WEI - Named Claimants		1,300				
OTH - Other						
OTH - FY 16 Supplemental/Ex-Appropriation	29,409,300	(29,409,300)	0	(29,409,300)		0
OTH - Debt Service Payments	84,114,600		84,114,600	2,800		84,117,400
OTH - Civic Center Debt Service	20,449,000		20,449,000			20,449,000
OTH - FY 2017 HITF Rate Reduction	0		0	(7,800,000)	7,800,000	0
OTH - Unallocated HITF Rate Reduction	(600)		(600)	600		0
OTH - Unallocated AFIS Cost Charges	17,400		17,400	(17,400)		0
OTH - Rio Nuevo Distribution	10,000,000		10,000,000			10,000,000
OTH - Universities Eliminate Deferral (One-time)	0	200,000,000	200,000,000			0
OTH - DCS Eliminate Deferral (One-time)	0	11,000,000	11,000,000			0
OTH - DES Eliminate Deferral (One-time)	0	21,000,000	21,000,000			0
OTH - Administrative Adjustments	85,000,000		85,000,000	(15,000,000)		70,000,000
OTH - Revertments	(110,000,000)		(110,000,000)		(682,500)	(110,682,500)
TOTAL - OPERATING SPENDING CHANGES	9,234,830,900	274,342,000	9,509,172,900	136,097,600	132,840,500	9,503,769,000
CAPITAL SPENDING						
ADOA Building Renewal	5,000,000		5,000,000	(5,000,000)	8,000,000	8,000,000
Veterans Home - Flagstaff	0		0		10,000,000	10,000,000
Transportation Funding	0		0		86,500,000	86,500,000
Navajo Nation Highway Construction	1,200,000		1,200,000	(1,200,000)		0
TOTAL - CAPITAL SPENDING	6,200,000	0	6,200,000	(6,200,000)	104,500,000	104,500,000
TOTAL - ALL SPENDING	9,241,030,900	274,342,000	9,515,372,900	129,897,600	237,340,500	9,608,269,000
REVENUE CHANGES						
Ongoing Revenue						
REV - Ongoing Revenue	9,164,014,200		9,164,014,200	232,912,900		9,396,927,100
REV - Increase Charitable Tax Credit Limit	0		0		(2,600,000)	(2,600,000)
REV - Decrease Ongoing Judiciary Transfer	0		0		(1,000,000)	(1,000,000)

	FY 2016 GF <u>1/</u> Baseline	FY 2016 Changes	FY 2016 GF Revised	FY 17 Baseline <u>2/</u> Above FY 16	FY 2017 Changes	FY 2017 GF Enacted Budget
REV - Bonus Depreciation 10% to 100% Over 2 Years	0		0		(8,000,000)	(8,000,000)
REV - Aerial Applicators Aircraft TPT Exemption	0		0		(18,600)	(18,600)
REV - Divert DEQ General Fund Fees	0		0		(357,000)	(357,000)
REV - Eliminate Pest Management Fee Deposit	0		0		(152,000)	(152,000)
REV - Billboard Rental/Lease TPT Exemption	0		0		(10,000)	(10,000)
REV - Charitable Tax Credit Due Date Extension	0		0		(1,700,000)	(1,700,000)
REV - Gas Transportation Services TPT Exemption	0		0		(870,000)	(870,000)
REV - Insurance Premium Tax Phase Down	0		0		(3,000,000)	(3,000,000)
REV - Propane Used in Manufacturing/Smelting TPT Exemption	0		0		(91,000)	(91,000)
REV - Agricultural Feed TPT Exemption	0		0		(1,000,000)	(1,000,000)
REV - Fine Arts TPT Exemption	0		0		(1,300,000)	(1,300,000)
REV - Electricity/Natural Gas for Manufacturing TPT Exemption	0		0		(7,000,000)	(7,000,000)
One-Time Revenue						
REV - Beginning Balance	312,276,000		312,276,000	187,049,500	(274,342,000)	224,983,500
REV - Enacted FY 2016 Tax Amnesty	47,048,500		47,048,500	(47,048,500)		0
REV - Enacted FY 2016 Fund Transfers	212,941,700		212,941,700	(212,941,700)		0
REV - ADOA - Supplemental FY 2016 Health Insurance Trust	4,076,000		4,076,000	(4,076,000)		0
REV - ADOA - Enacted FY 2017 Health Insurance Trust Fund	0		0	100,000,000	(21,100,000)	78,900,000
REV - ADOA - Automation Operations Fund	0		0		461,600	461,600
TOTAL - REVENUE CHANGES <u>3/</u>	9,740,356,400	0	9,740,356,400	255,896,200	(322,079,000)	9,674,173,600
ENDING BALANCE	499,325,500	(274,342,000)	224,983,500	125,998,600	(559,419,500)	65,904,600

1/ Represents original FY 2016 agency appropriations adjusted for revisions in Community Colleges, Arizona Department of Education, and Secretary of State.

2/ Represents FY 2017 Baseline cost above FY 2016 estimate.

3/ Represents all revenue changes, including fund transfers.

DETAILED LIST OF OTHER FUND CHANGES BY AGENCY

	FY 2016 OF 1/ Baseline	FY 2016 Changes	FY 2016 OF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 OF Enacted Budget
OPERATING SPENDING CHANGES						
SBA - State Board of Accountancy	1,939,100		1,939,100			1,937,000
SBA - Statewide Adjustments					(2,100)	
ACU - Acupuncture Board of Examiners	159,100		159,100			178,500
ACU - Statewide Adjustments					300	
ACU - Remove One-Time Rulemaking Funding				(3,000)	0	
ACU - Annual Leave Payout for Retiring Executive Director					13,200	
ACU - Board Member Training					5,900	
ACU - Rulemaking					3,000	
DOA - Arizona Department of Administration	183,628,300		193,419,500			188,225,000
DOA - Statewide Adjustments					(68,000)	
DOA - State Surplus Materials Fund Revenue Adjustment				550,000		
DOA - State Boards' Office and CSB Consolidation					540,700	
DOA - State Boards' Ofc. and CSB Support to Add'l Agencies					50,000	
DOA - AFIS Maintenance and Upgrade Charges					1,838,500	
DOA - Adjust Insurance Claims Related Expenditures					1,010,500	
DOA - Analog Communication Services Maintenance (One-Time)					100,000	
DOA - Capitol Mall Repair and Expansion (One-Time)					75,000	
DOA - Federal Reimbursement		9,781,700				
DOA - State Information Security and Privacy Office (Fund in APF)					In APF	
DOA - Government Transformation Office Funding (One-time)					500,000	
DOA - Named Claimants		9,500				
APF - Automation Projects Fund/ADOA	24,794,400		24,794,400			47,774,700
APF - ADE Automation				(5,400,000)	5,700,000	
APF - Remove ADOA Accounting Automation				(2,383,000)		
APF - ADOA ASET Funding				(7,975,000)	12,098,400	
APF - Remove One-Time DEQ Automation				(5,000,000)		
APF - DES IT Security Projects				(936,400)	1,294,700	
APF - DCS Automation				5,000,000	(418,400)	
APF - ADC Automation				8,000,000		
APF - DOR Automation - Enterprise Tax System Assessment					1,000,000	
APF - DOA Procurement					12,000,000	
OAH - Office of Administrative Hearings	12,300		0			0
OAH - Remove Healthcare Group Fund Monies		(12,300)		(12,300)	0	
AGR - Department of Agriculture	0		0			3,129,900
AGR - Statewide Adjustments					(9,400)	
AGR - Weights and Measures Transfer				1,439,800	0	
AGR - Pest Management Transfer					1,699,500	
AXS - AHCCCS	143,447,500		169,696,800			215,012,700
AXS - Statewide Adjustments					2,800	
AXS - Acute Care Caseload/Inflation		26,249,300		28,715,400	4,950,600	
AXS - Behavioral Health Services Caseload/Inflation					798,800	
AXS - Behavioral Health Services Transfer				37,017,200		
AXS - Other Adjustments				80,400		
ART - Arizona Commission on the Arts	0		0			1,500,000
ART - One-Time Funding (BSF)					1,500,000	
BAT - Board of Athletic Training	118,900		118,900			119,100
BAT - Statewide Adjustments					200	
ATT - Attorney General	43,854,000		45,654,000			44,319,700
ATT - Statewide Adjustments					(134,900)	
ATT - Internet Crimes Against Children Enforcement		1,800,000		900,000		
ATT - Post Conviction Relief Funding Shift					(799,400)	
ATT - One-time Funding					500,000	
ATA - Automobile Theft Authority	5,297,500		5,297,500			5,295,500
ATA - Statewide Adjustments					(2,000)	

	FY 2016 OF 1/ Baseline	FY 2016 Changes	FY 2016 OF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 OF Enacted Budget
BAR - Board of Barbers	335,400		335,400			370,700
BAR - Statewide Adjustments					400	
BAR - Online Licensing Software (IT Footnote)					34,900	
BHE - Board of Behavioral Health Examiners	1,760,500		1,760,500			1,759,100
BHE - Statewide Adjustments					(1,400)	
DCS - Department of Child Safety	160,667,600		180,858,800			178,139,100
DCS - Statewide Adjustments					(800)	
DCS - Litigation Costs (One-time)		2,867,600				
DCS - General Fund Offset					13,500,600	
DCS - TANF Swap (w/ DES)					3,971,700	
DCS - Additional Services and Staffing		17,323,600				
BCE - State Board of Chiropractic Examiners	451,400		451,400			451,100
BCE - Statewide Adjustments					(300)	
ROC - Registrar of Contractors	12,187,500		12,187,500			12,165,400
ROC - Statewide Adjustments					(22,100)	
COR - Corporation Commission	26,364,100		26,364,100			26,325,600
COR - Statewide Adjustments					(115,500)	
COR - Baseline Increased Risk Management Funding					77,000	
ADC - Department of Corrections	46,876,200		46,876,200			50,470,000
ADC - Statewide Adjustments					(2,200)	
ADC - Radio Replacement					2,800,000	
ADC - Northern Region Community Corrections Center					200,000	
ADC - Transition Program Funding					596,000	
COS - Board of Cosmetology	1,807,700		1,807,700			1,805,200
COS - Statewide Adjustments					(2,500)	
JUS - Arizona Criminal Justice Commission	5,956,200		5,956,200			6,445,400
JUS - Statewide Adjustments					(2,400)	
JUS - Crime Victim Compensation and Assistance Fund					125,800	
JUS - Funding for Statistical Analysis Center					365,800	
SDB - AZ State Schools for the Deaf and the Blind	11,561,400		11,561,400			11,677,700
SDB - Statewide Adjustments					(29,600)	
SDB - Base Level Increase (Prop 123)				554,100		
SDB - Enrollment Decrease				(408,200)		
HEA - Comm for the Deaf & the Hard of Hearing	4,312,800		4,312,800			4,309,500
HEA - Statewide Adjustments					(3,300)	
DEN - Board of Dental Examiners	1,215,500		1,215,500			1,214,500
DEN - Statewide Adjustments					(1,000)	
DES - Department of Economic Security	306,981,800		297,076,800			293,945,000
DES - Statewide Adjustments					(106,500)	
DES - Long Term Care System Fund Adjustment				(4,697,300)		
DES - DERS RSA Vocational Rehabilitation					450,000	
DES - Domestic Violence Fund Increase					1,780,000	
DES - TANF Swap (w/ DCS)					(13,763,000)	
DES - DD Room and Board Shortfall (One-time)					600,000	
DES - APS Caseload Growth (One-time)					2,000,000	
DES - Area Agencies on Aging/Adult Services					700,000	
DES - Cash Benefits Line - TANF		(9,905,000)				
BOE - State Board of Education	379,800		379,800			0
BOE - Funding Shift to ADE					(379,800)	
ADE - Arizona Department of Education	229,058,100		231,918,100			233,394,800
ADE - Statewide Adjustments					(10,000)	
ADE - Professional Development				2,700,000		
ADE - Land Trust Distribution				363,700		
ADE - Language Pilot Technical Change				(246,800)		

	FY 2016 OF 1/ Baseline	FY 2016 Changes	FY 2016 OF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 OF Enacted Budget
ADE - Professional Development		2,700,000				
ADE - Tribal College Dual Enrollment		160,000		160,000	90,000	
ADE - Funding Shift from SBE					379,800	
ADE - Empowerment Scholarship Account Administration					400,000	
ADE - Code Writers Pilot					500,000	
DEQ - Department of Environmental Quality	69,273,300		69,273,300			76,334,900
DEQ - Statewide Adjustments					(63,400)	
DEQ - WQARF Program Funding Shift					4,176,400	
DEQ - WQARF Funding Increase (One-time)					2,948,600	
COL - Arizona Exposition and State Fair Board	11,616,100		11,616,100			11,613,300
COL - Statewide Adjustments					(2,800)	
DFI - Dept of Financial Institutions	2,279,100		2,279,100			2,268,100
DFI - Statewide Adjustments					(6,800)	
DFI - Board of Appraisal Consolidation Savings					(4,200)	
EMB - Board of Funeral Directors and Embalmers	352,200		352,200			373,300
EMB - Statewide Adjustments					(2,900)	
EMB - Data System Update and On-Line Renewals (IT Footnote)					24,000	
FIS - Arizona Game and Fish Department	41,845,400		43,597,400			42,238,600
FIS - Statewide Adjustments					(86,600)	
FIS - Remove One-Time Equipment Funding				(936,200)		
FIS - Curtailing the Spread of Aquatic Invasive Species (One-Time)					375,000	
FIS - Watercraft Law Enforcement Resources (One-Time)					246,000	
FIS - Wildlife Ranger Salary Increase					795,000	
FIS - Public Safety Retirement		1,752,000				
GAM - Department of Gaming	16,367,000		16,367,000			16,318,700
GAM - Statewide Adjustments					(48,300)	
DHS - Department of Health Services	88,098,200		106,159,100			52,867,300
DHS - Statewide Adjustments					(93,800)	
DHS - Behavioral Health Services Caseload/Inflation		18,059,800				
DHS - Behavioral Health Services Transfer				(37,017,200)		
DHS - Newborn Screening Program Contract Increase					400,000	
DHS - Arizona State Hospital Equipment (One-Time)					230,100	
DHS - Alzheimer's Research (One-time)					1,000,000	
DHS - Pediatric Autoimmune Disorders					250,000	
DHS - Named Claimants		1,100				
HOM - Board of Homeopathic & Integrated Medicine Examiners	102,800		102,800			103,000
HOM - Statewide Adjustments					200	
DOH - Department of Housing	318,500		318,500			318,500
IND - Industrial Commission	19,940,300		19,940,300			19,881,300
IND - Statewide Adjustments					(59,000)	
SPA - Judiciary - Supreme Court	28,952,200		28,952,200			29,208,800
SPA - Statewide Adjustments					6,600	
SPA - Felony Pre-Trial Intervention Program (One-time)					250,000	
SUP - Judiciary - Superior Court	12,066,600		12,066,600			11,953,300
SUP - Statewide Adjustments					(113,300)	
DJC - Department of Juvenile Corrections	16,132,100		16,132,100			15,379,800
DJC - Statewide Adjustments					(12,300)	
DJC - Admission/Population Changes (County Savings)					(740,000)	
LAN - State Land Department	4,525,400		4,525,400			4,797,100
LAN - Statewide Adjustments					(300)	
LAN - Risk Management Premium					52,000	
LAN - Streambed Navigability Litigation					220,000	
Legislature						
LEG - Legislative Council	0		0			250,000

	FY 2016 OF 1/ Baseline	FY 2016 Changes	FY 2016 OF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 OF Enacted Budget
LEG - Hearing Loop Installation (One-time)					250,000	
LIQ - Department of Liquor Licenses & Control	3,355,300		3,355,300			3,007,400
LIQ - Statewide Adjustments					(10,200)	
LIQ - Remove One-Time Automation Funding				(400,000)		
LIQ - PSPRS Increase					62,300	
LOT - Arizona State Lottery Commission	108,373,000		108,373,000			113,437,800
LOT - Statewide Adjustments					(35,700)	
LOT - Sales Adjustment				5,100,500		
MAS - Board of Massage Therapy	455,800		455,800			470,100
MAS - Statewide Adjustments					400	
MAS - Remove One-Time On-Line Licensing Funding				(15,000)		
MAS - Attorney General Representation					13,900	
MAS - On-Line Renewal Application (IT Footnote)					15,000	
MED - Arizona Medical Board	6,426,000		6,426,000			6,463,600
MED - Statewide Adjustments					(12,400)	
MED - Licensing Compact Funding					50,000	
MIN - State Mine Inspector	112,800		112,800			112,900
MIN - Statewide Adjustments					100	
NAT - Naturopathic Physicians Medical Board	179,700		179,700			184,200
NAT - Statewide Adjustments					500	
NAT - Technology Update (IT Footnote)					4,000	
NAV - Navigable Stream Adjudication Commission	200,000		200,000			200,000
NUR - State Board of Nursing	4,802,600		4,802,600			4,784,800
NUR - Statewide Adjustments					(17,800)	
NCI - Nursing Care Inst. Administrators Board	422,100		422,100			445,400
NCI - Statewide Adjustments					(700)	
NCI - On-Line Application and License Renewal (IT Footnote)					24,000	
OCC - Board of Occupational Therapy Examiners	172,000		172,000			170,700
OCC - Statewide Adjustments					(1,300)	
DIS - State Board of Dispensing Opticians	136,800		136,800			140,000
DIS - Statewide Adjustments					200	
DIS - Travel					3,000	
OPT - State Board of Optometry	230,200		230,200			210,100
OPT - Statewide Adjustments					(1,300)	
OPT - Board Member Training					5,000	
OPT - Remove One-Time Database Upgrade Funding				(23,800)		
OST - AZ Board of Osteopathic Examiners in Medicine/Surgery	803,700		803,700			940,500
OST - Statewide Adjustments					(1,200)	
OST - Expedited Licensure Process					32,900	
OST - Database and Licensing System Expenses (IT Footnote)					25,100	
OST - Replacement of IT Equipment (One-Time/IT Footnote)					33,000	
OST - Formal Hearing Expenses					47,000	
APC - Arizona Parents Comm. On Drug Education and Prevention	0		0			300,000
APC - Middle/High School Prevention Programs (One-time)					300,000	
SPB - Arizona State Parks Board	12,854,800		12,854,800			14,486,900
SPB - Statewide Adjustments					(17,900)	
SPB - Funding Increase to Offset Fed. Reduction (JLBC Review)					1,500,000	
SPB - Arizona Trail (One-time)					150,000	
PER - Personnel Board	375,700		375,700			375,300
PER - Statewide Adjustments					(400)	
PES - Office of Pest Management	1,699,500		1,699,500			0
PES - Department of Agriculture Transfer					(1,699,500)	

	FY 2016 OF 1/ Baseline	FY 2016 Changes	FY 2016 OF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 OF Enacted Budget
PHA - Arizona State Board of Pharmacy	2,020,500		2,020,500			2,135,200
PHA - Statewide Adjustments					(5,300)	
PHA - Software Upgrade for Licensing (IT Footnote)					100,000	
PHA - Leave Payout Funding (One-Time)					20,000	
PHY - Board of Physical Therapy Examiners	480,400		480,400			484,200
PHY - Statewide Adjustments					(2,800)	
PHY - Remove One-Time Funding				(71,400)		
PHY - Attorney General Representation					35,000	
PHY - Laptop Replacement (IT Footnote)					10,000	
PHY - Online Licensing Software (IT Footnote)					33,000	
PIO - Arizona Pioneers' Home	6,204,900		6,204,900			6,174,600
PIO - Statewide Adjustments					(30,300)	
POD - State Board of Podiatry Examiners	148,200		148,200			148,400
POD - Statewide Adjustments					200	
POS - Commission for Postsecondary Education	1,534,800		1,534,800			1,534,100
POS - Statewide Adjustments					(700)	
PRI - Board for Private Postsecondary Education	996,300		996,300			396,100
PRI - Statewide Adjustments					(200)	
PRI - Eliminate One-Time Transfer				(600,000)		
PSY - State Board of Psychologist Examiners	448,500		448,500			475,400
PSY - Statewide Adjustments					(1,100)	
PSY - Remove One-Time Funding				(12,000)	4,000	
PSY - Attorney General Services					20,000	
PSY - Treatment and Rehabilitation					16,000	
DPS - Department of Public Safety	164,164,700		164,164,700			171,389,100
DPS - Statewide Adjustments					(650,800)	
DPS - \$2.3 M Patrol Shift to CJEF Funds					Yes	
DPS - PSPRS Employer Rate Increase					1,528,500	
DPS - Border Strike Task Force (One-time)					4,000,000	
DPS - Virtual Law Enforcement Training (One-time - CCW Fund)					2,100,000	
DPS - 3% Salary Increase Sworn Officers + HP Civilian					246,700	
RAD - Radiation Regulatory Agency	851,200		851,200			848,100
RAD - Statewide Adjustments					(3,100)	
RUC - Residential Utility Consumer Office	1,335,000		1,335,000			1,331,400
RUC - Statewide Adjustments					(3,600)	
RES - Board of Respiratory Care Examiners	300,100		300,100			300,300
RES - Statewide Adjustments					200	
RET - Arizona State Retirement System	27,981,600		27,981,600			27,484,200
RET - Statewide Adjustments					(80,800)	
RET - Remove One-Time Automation Funding				(200,000)		
RET - Remove One-Time IT Security Funding				(216,600)		
REV - Department of Revenue	47,484,400		47,484,400			46,234,900
REV - Statewide Adjustments					(18,800)	
REV - Remove One-Time TPT IT Changes				(1,230,700)		
REV - Enterprise Tax System Assessment					APF	
SFB - School Facilities Board	23,900,000		23,900,000			0
SFB - Access Our Best Public Schools Fund				(2,400,000)	(21,500,000)	
SFB - Reallocate \$23.9 M to School Credit Enhancement Program			Yes			
SOS - Secretary of State	3,683,500		3,683,500			3,681,500
SOS - Statewide Adjustments					(2,000)	
SBO - State Boards' Office	215,800		215,800			0
SBO - State Boards' Office and CSB Consolidation (IT Footnote)					(215,800)	

	FY 2016 OF 1/ Baseline	FY 2016 Changes	FY 2016 OF Revised	FY 17 Baseline 2/ Above FY 16	FY 2017 Changes	FY 2017 OF Enacted Budget
TEC - State Board of Technical Registration	2,122,600		2,122,600			2,916,400
TEC - Statewide Adjustments					(6,200)	
TEC - E-Licensing and Case Management System					800,000	
DOT - Department of Transportation	367,364,400		367,367,900			373,809,500
DOT - Statewide Adjustments					(1,386,900)	
DOT - Vehicle for Hire Program Shift				233,500		
DOT - Highway Maintenance Workload					1,710,500	
DOT - Statewide Drainage Structures					4,300,000	
DOT - Phoenix Area Freeway Lighting					1,500,000	
DOT - Named Claimants		3,500				
DOT - Rail Transit State Safety Oversight Grant Match (Air Quality)					88,000	
TRE - State Treasurer	5,044,000		5,044,000			5,018,100
TRE - Statewide Adjustments					(13,800)	
TRE - Remove One-Time Border Security Funding				(12,100)		
UNI - Universities						
UNI - ASU - Tempe/DPC	551,220,900		551,220,900			551,220,900
UNI - ASU - East Campus	37,722,900		37,722,900			37,722,900
UNI - ASU - West Campus	45,841,400		45,841,400			45,841,400
UNI - Northern Arizona University	145,286,600		145,286,600			145,286,600
UNI - UA - Main Campus	361,149,600		361,149,600			361,149,600
UNI - UA - Health Sciences Center	44,053,800		44,053,800			44,053,800
VSC - Department of Veterans' Services	31,889,500		32,167,500			32,046,800
VSC - Statewide Adjustments					(120,700)	
VSC - State Home for Veterans' Contract Increase		278,000			278,000	
VME - Veterinary Medical Examining Board	545,200		545,200			651,900
VME - Statewide Adjustments					(3,200)	
VME - Expert Witness Fees					8,000	
VME - On-Line Licensing Software (IT Footnote)					68,300	
VME - Position Reclassifications					33,600	
WAT - Department of Water Resources	2,356,300		2,356,300			2,119,100
WAT - Statewide Adjustments					200	
WAT - Eliminate One-Time Water Banking Funding				(237,400)		
WEI - Department of Weights & Measures	1,769,200		1,769,200			0
WEI - Agency Consolidation (To Dept. of Agriculture)				(1,439,800)		
WEI - Agency Consolidation (To Dept. of Transportation)				(329,400)		
OTH - Other						
OTH - FY 16 Supplemental/Ex-Appropriation	30,909,300	(30,909,300)	0	(30,909,300)		0
OTH - Agency Relocation (Agency Allocations)	0		0		576,800	576,800
OTH - AFIS Cost Charges (Agency Allocations)	4,484,100		4,484,100	(4,484,100)	3,000	3,000
OTH - Unallocated HITF Rate Reduction	(2,952,200)		(2,952,200)	2,952,200		0
OTH - FY 2017 HITF Rate Reduction	0		0	(8,561,500)	3,939,000	(4,622,500)
TOTAL - OPERATING SPENDING CHANGES	\$3,576,193,800	40,159,500	\$3,616,353,300	(\$22,391,700)	66,210,600	\$3,620,012,700
CAPITAL SPENDING CHANGES						
Building Renewal						
Arizona Department of Administration	9,000,000		9,000,000		10,000,000	19,000,000
ADC Building Renewal	5,464,300		5,464,300			5,464,300
Game & Fish Department	530,000		530,000			530,000
Juvenile Corrections	0		0		1,100,000	1,100,000
Arizona Lottery Commission	103,600		103,600	14,500		118,100
Arizona Department of Transportation	3,396,800		3,396,800		835,500	4,232,300
New Projects						
ADOT Statewide Highway Construction	30,452,000		30,452,000	19,640,000		50,092,000

	FY 2016 OF <u>1/</u> Baseline	FY 2016 Changes	FY 2016 OF Revised	FY 17 Baseline <u>2/</u> Above FY 16	FY 2017 Changes	FY 2017 OF Enacted Budget
ADOT Controlled Access	88,663,000		88,663,000	5,719,000		94,382,000
ADOT Debt Service	115,356,000		115,356,000	10,785,000		126,141,000
ADOT Airport Planning	21,791,800		21,791,800	(2,711,900)		19,079,900
ADOT De-Icer Storage	2,280,000		2,280,000	(2,280,000)		0
ADOT Vehicle Wash Systems	2,910,000		2,910,000	(2,910,000)	5,530,000	5,530,000
Game and Fish Radio Towers	0		0		306,000	306,000
Game and Fish Boat Structures			0		874,900	874,900
Game and Fish Capital Projects	0		0		3,867,000	3,867,000
Arizona Exposition and State Fair	1,000,000		1,000,000	(1,000,000)	1,000,000	1,000,000
State Parks Board	1,500,000		1,500,000	(1,500,000)	1,500,000	1,500,000
TOTAL - CAPITAL SPENDING CHANGES	\$282,447,500	0	\$282,447,500	\$25,756,600	25,013,400	\$333,217,500
TOTAL - OPERATING & CAPITAL SPENDING	\$3,858,641,300	40,159,500	\$3,898,800,800	\$3,364,900	91,224,000	\$3,953,230,200
FUND TRANSFERS						
APF/DOA - Automation Projects Fund						
APF/DOA - Automation Operations from ADOA	5,700,000		5,700,000	(4,200,000)	5,920,600	7,420,600
APF/DOA - State Web Portal from ADOA	3,775,000		3,775,000	(3,775,000)	5,650,000	5,650,000
APF/DOA - IT Fund from DOA	0		0	0	527,800	527,800
APF/DOA - Statewide Transfers for ADOA Procurement	0		0		9,000,000	9,000,000
APF/DOA - ELAS Fund from ADE	1,600,000		1,600,000			1,600,000
APF/DOA - Emissions Inspection Fund from DEQ	5,000,000		5,000,000	(5,000,000)		0
APF/DOA - ACI Fund from ADC	0		0	1,000,000		1,000,000
APF/DOA - Inmate Store Proceeds from ADC	0		0	1,000,000		1,000,000
APF/DOA - Penitentiary Land Earnings Fund from ADC	0		0	1,000,000		1,000,000
APF/DOA - Charitable, Penal & Reformatory Land Fund from ADC	0		0	1,000,000		1,000,000
APF/DOA - Special Services Fund from ADC	0		0	4,000,000		4,000,000
APF/DOA - Special Admin Fund from DES	936,400		936,400	(936,400)	1,294,700	1,294,700
APF/DOA - Liability Setoff Program Revolving Fund from DOR	0		0		1,000,000	1,000,000
Other Transfers						
ADC - Radios - Corrections Fund from Inmate Store Proceeds	0		0		1,000,000	1,000,000
ADC - Radios - Corrections Fund from DOC Revolving Fund	0		0		500,000	500,000
ADC - Radios - Corrections Fund from Penitentiary Land Earnings	0		0		400,000	400,000
ADC - Radios - Corrections Fund from Special Services Fund	0		0		400,000	400,000
ADC - Radios - Corrections Fund from Char., Penal & Ref. Fund	0		0		500,000	500,000
GAM - Racing Regulation Fund from Racing Admin Fund	0		0		23,700	23,700
ADOT - Motor Vehicle to SETIF	710,000		710,000	(710,000)	1,100,000	1,100,000
TOTAL - FUND TRANSFERS	\$17,721,400	0	\$17,721,400	(\$6,621,400)	27,316,800	\$38,416,800

1/ Represents original FY 2016 agency appropriations adjusted for revisions in Attorney General, Arizona Department of Education, Lottery Commission, and the Universities.

2/ Represents FY 2017 Baseline cost above FY 2016 estimate.

**CROSSWALK OF FY 2017 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
GENERAL FUND 1/**

	GF General Appropriation Act - Individual Agency <u>2</u> /	GF AFIS Collections Adjustment <u>3</u> /	GF Health Insurance Reduction Adjustment <u>4</u> /	GF FY 2017 Additional Appropriations <u>5</u> /	GF Prior Year Statutory Appropriations <u>6</u> /	GF FY 2017 Approp Rpt Total
<u>BUDGET UNITS</u>						
Administration, Arizona Department of	\$10,877,300	\$2,500	(\$46,600)	(568,700) <u>7</u> /		\$10,264,500
Administration, Arizona Department of Automation Projects Fund	14,881,600 <u>8</u> /	0	0			14,881,600
Administrative Hearings, Office of	861,700	100	(1,300)			860,500
African-American Affairs, Arizona Commission of	125,000	0	0			125,000
Agriculture, Arizona Department of	9,021,200	4,000	(60,900)		198,400	9,162,700
AHCCCS	1,751,080,800	33,300	(172,700)			1,750,941,400
Attorney General - Department of Law	24,688,100	21,200	(129,500)		85,000	24,664,800
Charter Schools, State Board for	1,194,100	200	(9,100)			1,185,200
Child Safety, Department of	379,863,800	0	(684,400)		<u>9</u> /	379,179,400
Commerce Authority, Arizona	21,800,000 <u>10</u> /	0	0			21,800,000
Community Colleges, Arizona	48,957,100	0	0		5,355,600 <u>11</u> /	54,312,700
Corporation Commission	2,614,200 <u>12</u> /	2,200	(4,800)			2,611,600
Corrections, State Department of	1,052,558,200	112,500	(5,988,100)			1,046,682,600
County Funding	14,000,500 <u>13</u> /	0	0			14,000,500
Deaf and the Blind, Schools for the	21,596,400	4,100	(222,400)			21,378,100
Economic Opportunity, Office of	0	0	0	1,068,700 <u>7</u> /		1,068,700
Economic Security, Department of	530,304,500 <u>14</u> /	136,400	(556,500)	240,000 <u>15</u> /	<u>16</u> /	530,124,400
Education, State Board of	1,325,200	0	0	(231,200) <u>17</u> /		1,094,000
Education, Department of	3,088,484,200 <u>18</u> /	5,600	(72,900)	231,200 <u>17</u> /	980,727,700 <u>19</u> /	4,069,375,800
Emergency and Military Affairs, Department of	7,111,800	4,400	(11,100)		5,514,400	12,619,500
Environmental Quality, Department of	0	0	0		2,823,600 <u>20</u> /	2,823,600
Equal Opportunity, Governor's Office of	189,000	100	0			189,100
Equalization, State Board of	642,800	200	0			643,000
Executive Clemency, Board of	956,000	200	(3,600)			952,600
Financial Institutions, State Department of	2,995,400 <u>21</u> /	1,600	(18,800)			2,978,200
Forestry and Fire Management, Arizona Department of	7,466,500	4,100	(27,800)		3,000,000	10,442,800
Gaming, Department of	1,779,500	0	0	200,000 <u>22</u> /		1,979,500
Governor, Office of the	6,889,000	2,600	(41,700)			6,849,900
Governor's Office of Strategic Planning and Budgeting	1,994,000	0	0			1,994,000
Health Services, Department of	86,946,400	25,500	(420,200)			86,551,700
Historical Society, Arizona	3,157,200	2,300	(8,300)	(428,300) <u>23</u> /		2,722,900
Historical Society, Prescott	825,800	200	(1,500)			824,500
Housing, Department of	814,800	600	(4,000)			811,400
Independent Redistricting Commission	1,115,300	0	0			1,115,300
Insurance, Department of	5,856,000	5,100	(36,800)			5,824,300
Judiciary						
Supreme Court	19,410,400	9,200	(200,100)			19,219,500
Court of Appeals	14,347,400	700	(67,700)			14,280,400

	GF General Appropriation Act - Individual Agency <u>2/</u>	GF AFIS Collections Adjustment <u>3/</u>	GF Health Insurance Reduction Adjustment <u>4/</u>	GF FY 2017 Additional Appropriations <u>5/</u>	GF Prior Year Statutory Appropriations <u>6/</u>	GF FY 2017 Approp Rpt Total
Superior Court	79,517,800	0	0			79,517,800
SUBTOTAL - Judiciary	113,275,600	9,900	(267,800)	0	0	113,017,700
Juvenile Corrections, Department of	24,484,600	7,800	(312,000)			24,180,400
Land Department, State	12,552,600	2,500	(63,700)			12,491,400
Legislature						
Auditor General	18,133,300	1,200	(68,000)			18,066,500
House of Representatives	13,289,500	1,700	(89,700)			13,201,500
Joint Legislative Budget Committee	2,490,900	100	(2,700)			2,488,300
Legislative Council	8,233,300	800	(18,700)			8,215,400
Senate	9,473,900	1,800	(67,200)			9,408,500
SUBTOTAL - Legislature	51,620,900	5,600	(246,300)	0	0	51,380,200
Mine Inspector, State	1,215,200	800	(3,500)			1,212,500
Navigable Stream Adjudication Commission	126,600	0	(2,600)			124,000
Postsecondary Education, Commission for	1,396,800	0	0			1,396,800
Public Safety, Department of	121,397,900	1,900	(204,100)			121,195,700
Public Safety Personnel Retirement System	0	0	0		6,000,000	6,000,000
Radiation Regulatory Agency	775,300	1,100	(3,000)		789,700	1,563,100
Real Estate Department, State	3,004,000	1,500	(10,600)			2,994,900
Revenue, Department of	30,338,600	46,700	(387,000)	2,000,000 <u>24/</u>		31,998,300
School Facilities Board	227,600,200	400	(6,200)	500,000 <u>25/</u>		228,094,400
Secretary of State	15,006,500	5,200	(42,500)			14,969,200
Tax Appeals, State Board of	266,400	200	0			266,600
Tourism, Office of	7,110,400	1,600	0			7,112,000
Transportation, Department of	50,400	0	0			50,400
Treasurer, State	1,205,100	0	0			1,205,100
Tribal Relations, Governor's Office on	57,400	100	0			57,500
Universities						
Board of Regents	21,928,400	0	0			21,928,400
Arizona State University - Tempe/DPC	240,303,600 <u>26/</u>	0	964,300		12,273,300 <u>27/28/</u>	253,541,200
Arizona State University - East Campus	21,574,400	0	83,900		917,000 <u>28/</u>	22,575,300
Arizona State University - West Campus	29,176,300	0	104,800		0 <u>28/</u>	29,281,100
Northern Arizona University	97,459,200 <u>29/</u>	0	21,000		7,746,800 <u>28/</u>	105,227,000
University of Arizona - Main Campus	179,961,100 <u>30/</u>	0	691,800	428,300 <u>23/</u>	15,978,400 <u>28/</u>	197,059,600
University of Arizona - Health Sciences Center	68,629,200	0	230,600		0 <u>28/</u>	68,859,800
SUBTOTAL - Universities	659,032,200	0	2,096,400	428,300	36,915,500	698,472,400
Veterans' Services, Department of	6,077,800	3,000	(26,700)			6,054,100
Water Infrastructure Finance Authority	500,000 <u>31/</u>	0	0	(500,000) <u>7/</u>		0
Water Resources, Department of	13,053,100 <u>32/</u>	4,300	(44,800)			13,012,600
Weights and Measures, Department of	0	0	0			0
OPERATING BUDGET TOTAL	8,393,121,000	\$461,600	(\$8,047,400)	2,940,000	\$1,041,409,900	\$9,429,885,100
Capital Outlay Projects	18,000,000	0	0	0	0	18,000,000
Debt Service Payments	84,117,400 <u>33/</u>	0	0	0	0	84,117,400
Civic Center Debt Service	20,449,000 <u>34/</u>	0	0	0	0	20,449,000
Rio Nuevo Distribution	10,000,000 <u>35/</u>	0	0	0	0	10,000,000

	GF General Appropriation Act - Individual Agency <u>2/</u>	GF AFIS Collections Adjustment <u>3/</u>	GF Health Insurance Reduction Adjustment <u>4/</u>	GF FY 2017 Additional Appropriations <u>5/</u>	GF Prior Year Statutory Appropriations <u>6/</u>	GF FY 2017 Approp Rpt Total
AFIS Systems Collections	461,600 <u>3/</u>	(461,600)	0	0	0	0
HITF Employer Rate Reduction	(8,047,400) <u>4/</u>	0	8,047,400	0	0	0
Transportation Funding	86,500,000	0	0	0	0	86,500,000
Administrative Adjustments	70,000,000	0	0	0	0	70,000,000
Revertments	(110,682,500)	0	0	0	0	(110,682,500)
GRAND TOTAL	\$8,563,919,100	\$0	\$0	2,940,000	\$1,041,409,900	\$9,608,269,000

1/ This chart provides a crosswalk between an agency's appropriation in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) and the individual agency amount as it appears in the *FY 2017 Appropriations Report*.

2/ Represents individual agency section of the FY 2017 General Appropriation Act and other direct appropriations in the General Appropriation Act.

3/ Section 163 of the FY 2017 General Appropriation Act appropriates \$461,600 from the General Fund and \$521,600 from Other Appropriated Funds for Arizona Financial Information System (AFIS) collections. Section 163 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

4/ Section 163 of the FY 2017 General Appropriation Act ex-appropriates (reduces) \$(8,047,400) from the General Fund and \$(8,561,500) from Other Appropriated Funds in FY 2017 for reduced employer health insurance contributions. Section 163 requires JLBC Staff to determine the agency-by-agency distribution of these funds.

5/ Appropriations separate from the FY 2017 General Appropriation Act. Individual bill detail appears in the "Budget Detail" section.

6/ Represents ongoing statutory appropriations or appropriations enacted prior to the 52nd Legislature, 2nd Regular Session.

7/ Appropriated by Laws 2016, Chapter 372, which created the Office of Economic Opportunity (OEO) through the consolidation of various components of existing state agencies. An amount of \$(568,700) was transferred from the Department of Administration and \$(500,000) was transferred from the Water Infrastructure Finance Authority to OEO totaling \$1,068,700.

8/ Sections 129 and 130 of the FY 2017 General Appropriation Act.

9/ Section 9 of the FY 2017 General Appropriation Act eliminates the \$11,000,000 payment deferral to providers in FY 2017 by appropriating \$11,000,000 in FY 2016 for these deferred payments.

10/ Includes \$21,500,000 from Section 134 and \$300,000 from Section 135 of the FY 2017 General Appropriation Act.

11/ Includes \$2,730,500 for rural county reimbursement, which represents an estimated cost.

12/ Includes \$2,000,000 from Section 136 of the FY 2017 General Appropriation Act.

13/ Includes \$5,500,500, \$500,000 and \$8,000,000 from Section 128 of the FY 2017 General Appropriation Act.

14/ Includes \$50,000 from Section 137 and \$50,000 from Section 138 of the FY 2017 General Appropriation Act.

15/ Appropriated by Laws 2016, Chapter 214.

16/ Section 9 of the FY 2017 General Appropriation Act eliminates the \$21,000,000 payment deferral to providers in FY 2017 by appropriating \$21,000,000 in FY 2016 for these deferred payments.

17/ Laws 2016, Chapter 138 transfers \$231,200 from the General Fund and \$379,800 from the Teacher Certification Fund from the Board of Education to the Department of Education in FY 2017 as part of the clarification of the agencies' duties and powers.

18/ Includes \$31,000,000 from Section 141 of the FY 2017 General Appropriation Act.

19/ Includes \$50,000,000 appropriated annually from FY 2017 through FY 2020 by Laws 2015, 1st Special Session, Chapter 1. The sum of \$75,000,000 is appropriated annually in FY 2021 through FY 2025.

20/ The FY 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) continues to suspend the requirement to appropriate \$15,000,000 from the General Fund to the Water Quality Assurance Revolving Fund. In prior years, the General Fund appropriation was reduced to \$7,000,000. In FY 2017, the Environment BRB reduces the General Fund appropriation to \$2,823,600 and appropriates \$4,250,000 from the Vehicle Emissions Inspection Fund and \$2,875,000 from the Air Quality Fund for a total of \$9,948,600.

21/ Section 44 of the FY 2017 General Appropriation Act states that \$817,200 reverts from the General Fund and \$817,200 is appropriated to the Board of Appraisal Fund if the Board of Appraisal Fund is not repealed in the 52nd Legislature, 2nd Regular Session. The legislative session ended without repealing the Board of Appraisal Fund.

22/ Appropriated by Laws 2016, Chapter 342.

GF General Appropriation Act - Individual Agency <u>2/</u>	GF AFIS Collections Adjustment <u>3/</u>	GF Health Insurance Reduction Adjustment <u>4/</u>	GF FY 2017 Additional Appropriations <u>5/</u>	GF Prior Year Statutory Appropriations <u>6/</u>	GF FY 2017 Approp Rpt Total
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- 23/ The FY 2017 Agency Consolidation BRB (Laws 2017, Chapter 128), transfers \$428,300 and 1 FTE Position from the Arizona Historical Society to the University of Arizona for use in operating the Mines and Minerals Museum.
- 24/ Appropriated by the FY 2017 Revenue BRB (Laws 2017, Chapter 125).
- 25/ Appropriated by the FY 2017 Credit Enhancement BRB (Laws 2017, Chapter 129).
- 26/ Includes \$7,000,000 from Section 149 of the FY 2017 General Appropriation Act.
- 27/ The FY 2017 Higher Education BRB (Laws 2016, Chapter 130) amends Laws 2014, Chapter 18, Section 134 by changing the General Fund appropriation reduction to Arizona State University from \$(2,329,800) to \$(3,281,700).
- 28/ Section 9 of the FY 2017 General Appropriation Act eliminates the \$200,000,000 universitywide payment deferral in FY 2017. Section 3 of the General Appropriation Act appropriates \$200,000,000 in FY 2016 for these deferred payments.
- 29/ Includes \$4,000,000 from Section 149 of the FY 2017 General Appropriation Act.
- 30/ Includes \$8,000,000 from Section 149 of the FY 2017 General Appropriation Act.
- 31/ Includes \$500,000 from Section 150 of the FY 2017 General Appropriation Act. Chapter 372 subsequently transfers these monies to Office of Economic Opportunity.
- 32/ Includes \$250,000 from Section 151 of the FY 2017 General Appropriation Act.
- 33/ Section 152 of the FY 2017 General Appropriation Act.
- 34/ Section 153 of the FY 2017 General Appropriation Act.
- 35/ Section 154 of the FY 2017 General Appropriation Act.

**CROSSWALK OF FY 2017 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS
OTHER FUNDS 1/**

	OF General Appropriation Act - Individual Agency <u>2/</u>	OF AFIS Collections Adjustment <u>3/</u>	OF Health Insurance Reduction Adjustment <u>4/</u>	OF FY 2017 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2017 Approp Rpt Total
<u>BUDGET UNITS</u>						
Accountancy, State Board of						
Board of Accountancy Fund	\$1,939,100	\$1,400	(\$3,500)			\$1,937,000
Acupuncture Board of Examiners						
Acupuncture Board of Examiners Fund	178,200	300	0			178,500
Administration, Arizona Department of						
Air Quality Fund	927,300	0	0			927,300
Arizona Financial Information System Collections Fund	9,406,300	0	0			9,406,300
Automation Operations Fund	23,964,100	4,600	(31,100)			23,937,600
Capital Outlay Stabilization Fund	18,082,800	5,000	(18,200)			18,069,600
Corrections Fund	571,200	300	(1,100)			570,400
Federal Surplus Materials Revolving Fund	464,600	200	(300)			464,500
Information Technology Fund	3,442,100 <u>7/</u>	900	(7,000)			3,436,000
Motor Vehicle Pool Revolving Fund	10,148,800	5,300	(2,800)			10,151,300
Personnel Division Fund	12,885,100	1,100	(28,300)			12,857,900
Risk Management Revolving Fund	93,033,400	32,800	(19,900)			93,046,300
Special Employee Health Insurance Trust Fund	5,262,300	3,500	(9,700)			5,256,100
Special Services Revolving Fund	590,700	1,500	0			592,200
State Surplus Materials Revolving Fund	2,947,900	900	(1,800)			2,947,000
State Web Portal Fund	4,543,000	300	(900)			4,542,400
Telecommunications Fund	2,023,400	400	(3,700)			2,020,100
Total - Arizona Department of Administration	<u>188,293,000</u>	<u>56,800</u>	<u>(124,800)</u>	<u>0</u>	<u>0</u>	<u>188,225,000</u>
Administration, Arizona Department of -						
Automation Projects Fund	47,774,700 <u>8/</u>	0	0			47,774,700
Agriculture, Arizona Department of						
Air Quality Fund	1,439,800	600	(6,000)			1,434,400
Pest Management Trust Fund	0	1,000	(5,000)	1,699,500 <u>9/</u>		1,695,500
Total - AZ Department of Agriculture	<u>1,439,800</u>	<u>1,600</u>	<u>(11,000)</u>	<u>1,699,500</u>	<u>0</u>	<u>3,129,900</u>
AHCCCS						
Budget Neutrality Compliance Fund	3,563,300	0	0			3,563,300
Children's Health Insurance Program Fund	3,672,200	9,800	(7,100)			3,674,900
Prescription Drug Rebate Fund - State	113,778,800	200	(100)			113,778,900
Substance Abuse Services Fund	2,250,200	0	0			2,250,200
Tobacco Products Tax Fund						
Emergency Health Services Account	18,747,200	0	0			18,747,200
Tobacco Tax and Health Care Fund						
Medically Needy Account	72,998,200	0	0			72,998,200
Total - AHCCCS	<u>215,009,900</u>	<u>10,000</u>	<u>(7,200)</u>	<u>0</u>	<u>0</u>	<u>215,012,700</u>
Arts, Arizona Commission on the						
Budget Stabilization Fund	1,500,000 <u>10/</u>	0	0			1,500,000
Athletic Training, Board of						

	General Appropriation Act - Individual Agency <u>2/</u>	OF AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	OF FY 2017 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2017 Approp Rpt Total
Athletic Training Fund	118,900	200	0			119,100
Attorney General - Department of Law						
Antitrust Enforcement Revolving Fund	244,800	300	(800)			244,300
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,086,800	1,800	(8,200)			2,080,400
Collection Enforcement Revolving Fund	6,869,700	1,900	(26,400)			6,845,200
Consumer Protection-Consumer Fraud Rev. Fund	5,594,000 <u>11/</u>	1,800	(20,100)			5,575,700
Interagency Service Agreements Fund	15,573,000	2,300	(66,800)			15,508,500
Internet Crimes Against Children Enforcement Fund	900,000	0	0			900,000
Risk Management Revolving Fund	9,426,900	1,300	(21,500)			9,406,700
Victims' Rights Fund	3,759,400	400	(900)			3,758,900
Total - Attorney General - Department of Law	<u>44,454,600</u>	<u>9,800</u>	<u>(144,700)</u>	<u>0</u>	<u>0</u>	<u>44,319,700</u>
Automobile Theft Authority						
Automobile Theft Authority Fund	5,297,500	500	(2,500)			5,295,500
Barbers, Board of						
Board of Barbers Fund	370,300	400	0			370,700
Behavioral Health Examiners, Board of						
Board of Behavioral Health Examiners Fund	1,760,500	1,600	(3,000)			1,759,100
Child Safety, Department of						
Child Abuse Prevention Fund	1,459,300	0	0			1,459,300
Children and Family Services Training Program Fund	207,900	300	(1,100)			207,100
Federal Child Care and Development Fund Block Grant	27,000,000	0	0			27,000,000
Federal Temporary Assistance for Needy Families Block Grant	149,472,700	0	0			149,472,700
Total - Department of Child Safety	<u>178,139,900</u>	<u>300</u>	<u>(1,100)</u>	<u>0</u>	<u>0</u>	<u>178,139,100</u>
Chiropractic Examiners, State Board of						
Board of Chiropractic Examiners Fund	451,400	300	(600)			451,100
Contractors, Registrar of						
Registrar of Contractors Fund	12,187,500	6,900	(29,000)			12,165,400
Corporation Commission						
Arizona Arts Trust Fund	50,100	0	(200)			49,900
Investment Management Regulatory and Enforcement Fund	712,600	200	(3,900)			708,900
Public Access Fund	6,586,400	1,200	(28,800)			6,558,800
Securities Regulatory and Enforcement Fund	4,930,700	800	(21,900)			4,909,600
Utility Regulation Revolving Fund	14,161,300	2,700	(65,600)			14,098,400
Total - Corporation Commission	<u>26,441,100</u>	<u>4,900</u>	<u>(120,400)</u>	<u>0</u>	<u>0</u>	<u>26,325,600</u>
Corrections, State Department of						
Alcohol Abuse Treatment Fund	555,300	200	0			555,500
Corrections Fund	30,317,800	0	0			30,317,800
Penitentiary Land Fund	979,200	100	0			979,300
Prison Construction and Operations Fund	13,686,000	300	0			13,686,300
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,200	300	0			1,861,500
State Education Fund for Correctional Education	673,400	100	(4,000)			669,500

	General Appropriation Act - Individual Agency <u>2/</u>	OF AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	OF FY 2017 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2017 Approp Rpt Total
Transition Program Fund	1,803,300	800	0	596,000 <u>12/</u>		2,400,100
Total - State Department of Corrections	49,876,200	1,800	(4,000)	596,000	0	50,470,000
Cosmetology, Board of						
Board of Cosmetology Fund	1,807,700	1,900	(4,400)			1,805,200
Criminal Justice Commission, Arizona						
Criminal Justice Enhancement Fund	648,800	1,200	(3,400)			646,600
Drug and Gang Prevention Resource Center Fund	604,900	200	(600)			604,500
State Aid to County Attorneys Fund	973,600	100	0			973,700
Victim Compensation and Assistance Fund	4,220,500	700	(600)			4,220,600
Total - Arizona Criminal Justice Commission	6,447,800	2,200	(4,600)	0	0	6,445,400
Deaf and the Blind, Arizona Schools for the						
Schools for the Deaf and the Blind Fund	11,707,300	200	(29,800)			11,677,700
Deaf and the Hard of Hearing, Comm. for the						
Telecommunication Fund for the Deaf	4,312,800	1,200	(4,500)			4,309,500
Dental Examiners, State Board of						
Dental Board Fund	1,215,500	1,200	(2,200)			1,214,500
Economic Security, Department of						
Child Support Enforcement Administration						
Fund	16,719,600	1,400	(88,400)			16,632,600
Domestic Violence Services Fund	4,000,000	0	0			4,000,000
Federal Child Care and Development Fund						
Block Grant	107,773,600	0	0			107,773,600
Federal Temporary Assistance for Needy						
Families Block Grant	72,964,700	0	0			72,964,700
Health Services Lottery Monies Fund	700,000 <u>13/</u>	0	0			700,000
Long Term Care System Fund	26,554,000	6,500	(900)			26,559,600
Public Assistance Collections Fund	424,600	0	(2,700)			421,900
Special Administration Fund	5,539,700 <u>14/</u>	0	(11,000)			5,528,700
Spinal and Head Injuries Trust Fund	2,324,800	300	(1,400)			2,323,700
Statewide Cost Allocation Plan Fund	1,000,000	0	0			1,000,000
Workforce Investment Act Grant	56,050,500	0	(10,300)			56,040,200
Total - Department of Economic Security	294,051,500	8,200	(114,700)	0	0	293,945,000
Education, State Board of						
Teacher Certification Fund	379,800	0	0	(379,800) <u>15/</u>		0
Education, Department of						
Department of Education Empowerment						
Scholarship Account Fund	799,000	0	(1,100)			797,900
Department of Education Professional						
Development Revolving Fund	2,700,000	0	0			2,700,000
Permanent State School Fund	219,804,200	0	0			219,804,200
Proposition 301 Fund	7,000,000	0	0			7,000,000
Teacher Certification Fund	1,971,800	0	(8,900)	379,800 <u>15/</u>		2,342,700
State Web Portal Fund	0	0	0	500,000 <u>16/</u>		500,000
Tribal College Dual Enrollment Program Fund	250,000	0	0			250,000
Total - Department of Education	232,525,000	0	(10,000)	879,800	0	233,394,800
Environmental Quality, Department of						
Air Quality Fund	5,369,300	0	(7,900)	2,875,000 <u>17/</u>		8,236,400

	General Appropriation Act - Individual Agency <u>2/</u>	OF AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	OF FY 2017 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2017 Approp Rpt Total
Emergency Response Fund	132,800	0	0			132,800
Emissions Inspection Fund	28,381,700	0	(11,200)	4,250,000 <u>17/</u>		32,620,500
Hazardous Waste Management Fund	1,738,800	0	(4,200)			1,734,600
Indirect Cost Recovery Fund	13,373,700	37,900	(36,400)			13,375,200
Permit Administration Fund	7,129,700	0	(15,600)			7,114,100
Recycling Fund	1,356,300	0	(3,400)			1,352,900
Solid Waste Fee Fund	1,241,000	0	(2,000)			1,239,000
Underground Storage Tank Fund Revolving Fund	22,000	0	0			22,000
Water Quality Fee Fund	10,528,000	0	(20,600)			10,507,400
Total - Department of Environmental Quality Exposition and State Fair Board, Arizona	69,273,300	37,900	(101,300)	7,125,000	0	76,334,900
Arizona Exposition and State Fair Fund	11,616,100	2,900	(5,700)			11,613,300
Financial Institutions, Department of						
Board of Appraisal Fund	817,200 <u>18/</u>	500	(2,600)			815,100
Financial Services Fund	1,457,700	500	(5,200)			1,453,000
Total - Department of Financial Institutions	2,274,900	1,000	(7,800)	0	0	2,268,100
Funeral Directors and Embalmers, Board of						
Board of Funeral Directors' and Embalmers' Fund	376,200	400	(3,300)			373,300
Game and Fish Department, Arizona						
Capital Improvement Fund	1,000,900	300	0			1,001,200
Game and Fish Fund	35,769,000	19,300	(100,700)			35,687,600
Game, Nongame, Fish and Endangered Species Fund	346,500	100	(800)			345,800
Watercraft Licensing Fund	5,192,600	3,400	(8,200)			5,187,800
Wildlife Endowment Fund	16,200	0	0			16,200
Total - Arizona Game and Fish Department	42,325,200	23,100	(109,700)	0	0	42,238,600
Gaming, Department of						
Tribal-State Compact Fund	2,089,900	1,100	(9,200)			2,081,800
Racing Regulation Fund	2,894,200	500	(8,700)			2,886,000
State Lottery Fund	300,000	0	0			300,000
Arizona Benefits Fund	11,082,900	1,200	(33,200)			11,050,900
Total - Department of Gaming	16,367,000	2,800	(51,100)	0	0	16,318,700
Health Services, Department of						
Arizona State Hospital Fund	9,575,300	0	(13,300)			9,562,000
ASH Land Earnings Fund	880,100	0	0			880,100
Capital Outlay Stabilization Fund	1,559,900	0	0			1,559,900
Child Fatality Review Fund	95,000	100	(400)			94,700
Disease Control Research Fund	0	0	0	250,000 <u>19/</u>		250,000
Emergency Medical Services Operating Fund	5,368,800	2,300	(13,200)			5,357,900
Environmental Laboratory Licensure Revolving Fund	926,400	500	(2,700)			924,200
Federal Child Care and Development Fund Block Grant	876,100	200	(4,000)			872,300
Health Services Licensing Fund	9,264,200	6,800	(38,700)			9,232,300
Indirect Cost Fund	8,559,800	0	(13,700)			8,546,100
Newborn Screening Program Fund	7,138,300	2,200	(10,400)			7,130,100
Nursing Care Institution Resident Protection						

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Revolving Fund	138,200	0	0			138,200
Tobacco Tax and Health Care Fund						
Health Research Account	2,000,000 <u>20/</u>	0	0		2,000,000	4,000,000
Tobacco Tax and Health Care Fund						
Medically Needy Account	700,000	0	0			700,000
Vital Records Electronic Systems Fund	3,629,000	1,000	(10,500)			3,619,500
Total - Department of Health Services	50,711,100	13,100	(106,900)	250,000	2,000,000	52,867,300
Homeopathic and Integrated Medicine						
Examiners, Board of						
Board of Homeopathic and Integrated Medicine						
Examiners' Fund	102,800	200	0			103,000
Housing, Department of						
Housing Trust Fund	318,500	1,200	(1,200)			318,500
Industrial Commission of Arizona						
Administrative Fund	19,940,300	8,800	(67,800)			19,881,300
Judiciary - Supreme Court						
Confidential Intermediary and Fiduciary Fund	488,400	500	0			488,900
Court Appointed Special Advocate Fund	2,942,800	400	0			2,943,200
Criminal Justice Enhancement Fund	4,363,800	1,400	0			4,365,200
Defensive Driving School Fund	4,197,300	1,200	0			4,198,500
Health Services Lottery Monies Fund	250,000 <u>21/</u>	0	0			250,000
Judicial Collection Enhancement Fund	14,014,900	3,000	0			14,017,900
State Aid to the Courts Fund	2,945,000	100	0			2,945,100
Total - Judiciary - Supreme Court	29,202,200	6,600	0	0	0	29,208,800
Judiciary - Superior Court						
Criminal Justice Enhancement Fund	5,542,000	0	(106,800)			5,435,200
Judicial Collection Enhancement Fund	6,022,200	0	(7,000)			6,015,200
Drug Treatment and Education Fund	502,400	500	0			502,900
Total - Judiciary - Superior Court	12,066,600	500	(113,800)	0	0	11,953,300
SUBTOTAL - Judiciary	41,268,800	7,100	(113,800)	0	0	41,162,100
Juvenile Corrections, Department of						
Criminal Justice Enhancement Fund	531,300	200	0			531,500
Department of Juvenile Corrections						
Local Cost Sharing Fund	11,260,000	0	0			11,260,000
State Charitable, Penal and Reformatory						
Institutions Land Fund	2,000,100	0	0			2,000,100
State Education Fund for Committed Youth	1,600,700	200	(12,700)			1,588,200
Total - Department of Juvenile Corrections	15,392,100	400	(12,700)	0	0	15,379,800
Land Department, State						
Due Diligence Fund	500,000	0	0			500,000
Environmental Special Plate Fund	260,500	100	0			260,600
Trust Land Management Fund	4,036,900	900	(1,300)			4,036,500
Total - State Land Department	4,797,400	1,000	(1,300)	0	0	4,797,100
Legislature						
Legislative Council						
Telecommunication Fund for the Deaf	250,000 <u>22/</u>	0	0			250,000
Liquor Licenses and Control, Department of						

	General Appropriation Act - Individual Agency <u>2/</u>	OF AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	OF FY 2017 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2017 Approp Rpt Total
Liquor Licenses Fund	3,017,600	1,000	(11,200)			3,007,400
Lottery Commission, Arizona State State Lottery Fund	113,473,500	3,800	(39,500)			113,437,800
Massage Therapy, Board of Board of Massage Therapy Fund	469,700	600	(200)			470,100
Medical Board, Arizona Arizona Medical Board Fund	6,426,000	5,700	(18,100)	50,000 <u>23/</u>		6,463,600
Mine Inspector, State Aggregate Mining Reclamation Fund	112,800	100	0			112,900
Naturopathic Physicians Medical Board Naturopathic Physicians Medical Board Fund	183,700	500	0			184,200
Navigable Stream Adjudication Commission Arizona Water Banking Fund	200,000	0	0			200,000
Nursing, State Board of Board of Nursing Fund	4,802,600	4,600	(22,400)			4,784,800
Nursing Care Institution Administrators Board Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	446,100	800	(1,500)			445,400
Occupational Therapy Examiners, Board of Occupational Therapy Fund	172,000	200	(1,500)			170,700
Opticians, State Board of Dispensing Board of Dispensing Opticians Fund	139,800	200	0			140,000
Optometry, State Board of Board of Optometry Fund	211,400	500	(1,800)			210,100
Osteopathic Examiners, Arizona Board of Board of Osteopathic Examiners Fund	941,700	1,000	(2,200)			940,500
Parents Comm. on Drug Education & Prevention, AZ Drug Treatment and Education Fund	300,000 <u>24/</u>	0	0			300,000
Parks Board, Arizona State State Parks Revenue Fund	14,504,800 <u>25/</u>	9,800	(27,700)			14,486,900
Personnel Board, State Personnel Board Subaccount of the Personnel Division Fund	375,700	300	(700)			375,300
Pest Management, Office of Pest Management Fund	1,699,500	0	0	(1,699,500) <u>9/</u>		0
Pharmacy, Arizona State Board of Arizona State Board of Pharmacy Fund	2,140,500	3,200	(8,500)			2,135,200
Physical Therapy, Board of Board of Physical Therapy Fund	487,000	500	(3,300)			484,200
Pioneers' Home, Arizona Miners' Hospital Fund	2,040,000	100	(11,200)			2,028,900
State Charitable Fund	4,164,900	1,600	(20,800)			4,145,700
Total - Arizona Pioneers' Home	6,204,900	1,700	(32,000)	0	0	6,174,600
Podiatry Examiners, State Board of Podiatry Fund	148,200	200	0			148,400
Postsecondary Education, Commission for						

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Postsecondary Education Fund	1,534,800	600	(1,300)			1,534,100
Private Postsecondary Education, Board for Board for Private Postsecondary Education Fund	396,300	200	(400)			396,100
Psychologist Examiners, State Board of Board of Psychologist Examiners Fund	476,500	400	(1,500)			475,400
Public Safety, Department of Arizona Deoxyribonucleic Acid Identification System Fund	4,997,300	600	(28,300)			4,969,600
Arizona Highway Patrol Fund	24,198,200	700	(85,800)			24,113,100
Arizona Automated Fingerprint Identification System Fund	2,910,500	400	(700)			2,910,200
Automobile Theft Authority Fund	3,000,000	0	0			3,000,000
Concealed Weapons Permit Fund	3,493,900	0	(4,900)			3,489,000
Crime Laboratory Assessment Fund	872,400	0	(2,200)			870,200
Crime Laboratory Operations Fund	13,660,600	0	(63,300)			13,597,300
Criminal Justice Enhancement Fund	2,872,700	0	(12,200)			2,860,500
Drug and Gang Prevention Resource Center Fund	1,000,000	0	0			1,000,000
GIITEM Border Security and Law Enforcement Subaccount	2,527,700	0	0			2,527,700
Highway User Revenue Fund	96,409,200	0	(403,100)			96,006,100
Motorcycle Safety Fund	205,000	0	0			205,000
Parity Compensation Fund	2,139,700	0	(10,300)			2,129,400
Public Safety Equipment Fund	2,893,000	700	0			2,893,700
Risk Management Revolving Fund	1,269,300	0	(5,600)			1,263,700
Safety Enforcement and Transportation Infrastructure Fund - Department of Public Safety Subaccount	1,559,100	0	(7,300)			1,551,800
State Aid to Indigent Defense Fund	700,000	0	0			700,000
State Highway Fund	7,331,300	0	(29,500)			7,301,800
Total - Department of Public Safety	172,039,900	2,400	(653,200)	0	0	171,389,100
Radiation Regulatory Agency State Radiologic Technologist Certification Fund	272,500	0	(900)			271,600
Radiation Regulatory Fee Fund	578,700	400	(2,600)			576,500
Total - Radiation Regulatory Agency	851,200	400	(3,500)	0	0	848,100
Residential Utility Consumer Office Residential Utility Consumer Office Revolving Fund	1,335,000	300	(3,900)			1,331,400
Respiratory Care Examiners, Board of Board of Respiratory Care Examiners Fund	300,100	900	(700)			300,300
Retirement System, Arizona State Long-Term Disability Trust Fund Administration Account	2,800,000	0	0			2,800,000
Arizona State Retirement System Administration Account	24,765,000	10,700	(91,500)			24,684,200
Total - Arizona State Retirement System	27,565,000	10,700	(91,500)	0	0	27,484,200
Revenue, Department of						

	General Appropriation Act - Individual Agency <u>2/</u>	OF AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	OF FY 2017 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2017 Approp Rpt Total
Department of Revenue Administrative Fund	45,176,800	700	(18,800)			45,158,700
Liability Setoff Program Revolving Fund	398,000	200	(300)			397,900
Tobacco Tax and Health Care Fund	678,900	0	(600)			678,300
Total - Department of Revenue	46,253,700	900	(19,700)	0	0	46,234,900
Secretary of State						
Election Systems Improvement Fund	2,941,500	200	(600)			2,941,100
Records Services Fund	742,000	800	(2,400)			740,400
Total - Secretary of State	3,683,500	1,000	(3,000)	0	0	3,681,500
State Boards' Office						
Special Services Revolving Fund	0	0	0			0
Technical Registration, State Board of						
Technical Registration Fund	2,922,600	2,000	(8,200)			2,916,400
Transportation, Department of						
Air Quality Fund	162,200	100	(600)			161,700
Driving Under the Influence Abatement Fund	153,200	100	(1,100)			152,200
Highway User Revenue Fund	652,700	1,200	(4,200)			649,700
Motor Vehicle Liability Insurance						
Enforcement Fund	1,316,100	700	(8,100)			1,308,700
Safety Enforcement and Transportation						
Infrastructure Fund - Department of						
Transportation Subaccount	1,875,500	600	(7,800)			1,868,300
State Aviation Fund	1,622,900	1,600	(8,700)			1,615,800
State Highway Fund	349,410,200	205,000	(1,486,900)			348,128,300
Transportation Department Equipment Fund	18,545,500	35,100	(106,000)			18,474,600
Vehicle Inspection and Certificate of Title						
Enforcement Fund	1,458,100	400	(8,300)			1,450,200
Total - Department of Transportation	375,196,400	244,800	(1,631,700)	0	0	373,809,500
Treasurer, State						
Law Enforcement and Boating Safety Fund	2,183,800	0	0			2,183,800
State Treasurer Empowerment Scholarship						
Account Fund	79,700	0	(300)			79,400
State Treasurer's Operating Fund	2,571,800	0	(12,500)			2,559,300
State Treasurer's Management Fund	196,600	0	(1,000)			195,600
Total - State Treasurer	5,031,900	0	(13,800)	0	0	5,018,100
Universities						
Arizona State University - Tempe/DPC						
University Collections Fund	551,220,900	0	0			551,220,900
Arizona State University - East Campus						
University Collections Fund	35,722,900	0	0			35,722,900
Technology and Research Initiative Fund	2,000,000	0	0			2,000,000
Total - Arizona State University - East Campus	37,722,900	0	0	0	0	37,722,900
Arizona State University - West Campus						
University Collections Fund	44,241,400	0	0			44,241,400
Technology and Research Initiative Fund	1,600,000	0	0			1,600,000
Total - Arizona State University - West Campus	45,841,400	0	0	0	0	45,841,400
Northern Arizona University						
University Collections Fund	145,286,600	0	0			145,286,600

	General Appropriation Act - Individual Agency <u>2/</u>	OF AFIS Collections Adjustment <u>3/</u>	Health Insurance Reduction Adjustment <u>4/</u>	OF FY 2017 Additional Appropriations <u>5/</u>	OF Prior Year Statutory Appropriations <u>6/</u>	OF FY 2017 Approp Rpt Total
University of Arizona - Main Campus						
University Collections Fund	361,149,600	0	0			361,149,600
University of Arizona - Health Sciences Center						
University Collections Fund	44,053,800	0	0			44,053,800
SUBTOTAL - Universities	1,185,275,200	0	0	0	0	1,185,275,200
Veterans' Services, Department of						
State Veterans' Conservatorship Fund	902,900	500	(4,200)			899,200
State Home for Veterans Trust Fund	31,264,600	6,100	(123,100)			31,147,600
Total - Department of Veterans' Services	32,167,500	6,600	(127,300)	0	0	32,046,800
Veterinary Medical Examining Board						
Veterinary Medical Examining Board Fund	655,100	500	(3,700)			651,900
Water Resources, Department of						
Assured and Adequate Water Supply Admin Fund	266,600	100	(400)			266,300
Water Resources Fund	641,200	200	0			641,400
Water Banking Fund	1,211,100	300	0			1,211,400
Total - Department of Water Resources	2,118,900	600	(400)	0	0	2,119,100
Weights and Measures, Department of						
Air Quality Fund	0	0	0			0
Motor Vehicle Liability Insurance Enf. Fund	0	0	0			0
Total - Department of Weights and Measures	0	0	0	0	0	0
OPERATING BUDGET TOTAL	\$3,616,954,800	518,600	(3,939,000)	8,521,000	2,000,000	3,624,055,400
AFIS Systems Collections	521,600 <u>3/</u>	(518,600)				3,000
HITF Employer Rate Reduction	(8,561,500) <u>4/</u>		3,939,000			(4,622,500)
Agency Relocation	576,800					576,800
Capital Outlay Projects	333,217,500					333,217,500
GRAND TOTAL	3,942,709,200	\$0	\$0	\$8,521,000	\$2,000,000	\$3,953,230,200

CROSSWALK OF FY 2017 GENERAL APPROPRIATION ACT TO APPROPRIATIONS REPORT TOTALS EXPENDITURE AUTHORITY

AHCCCS	\$9,414,083,400	\$0	(\$229,700)			\$9,413,853,700
Child Safety, Department of	\$415,806,600	0	(537,200)			415,269,400
Economic Security, Department of	944,708,000	18,400	(617,300)			944,109,100
Health Services, Department of	0	0	0			0
GRAND TOTAL	\$10,774,598,000	\$18,400	(\$1,384,200)	\$0	\$0	\$10,773,232,200

1/ This chart provides a crosswalk between an agency's appropriation in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) and the individual agency amount as it appears in the FY 2017 Appropriations Report.

General Appropriation Act - Individual Agency	OF AFIS Collections Adjustment	Health Insurance Reduction Adjustment	OF FY 2017 Additional Appropriations	OF Prior Year Statutory Appropriations	OF FY 2017 Approp Rpt Total
<u>2/</u>	<u>3/</u>	<u>4/</u>	<u>5/</u>	<u>6/</u>	

- 2/ Represents individual agency section of FY 2017 General Appropriation Act and other direct appropriations in the General Appropriation Act.
- 3/ Section 163 of the FY 2017 General Appropriation Act appropriates \$461,600 from the General Fund and \$521,600 from Other Appropriated Funds for the Arizona Financial Information System (AFIS) collections. Section 163 requires JLBC Staff to determine the agency-by-agency distribution of these funds.
- 4/ Section 163 of the FY 2017 General Appropriation Act ex-appropriates (reduces) \$(8,047,400) from the General Fund and \$(8,561,500) from Other Appropriated Funds in FY 2017 for reduced employer health insurance contributions. Section 163 requires JLBC Staff to determine the agency-by-agency distribution of these funds.
- 5/ Appropriations separate from the FY 2017 General Appropriation Act. Individual bill detail appears in the "Budget Detail" section.
- 6/ Represents ongoing statutory appropriations or appropriations enacted prior to the 52nd Legislature, 2nd Regular Session.
- 7/ Includes \$500,000 from Section 131 of the FY 2017 General Appropriation Act.
- 8/ Sections 129 and 130 of the FY 2017 General Appropriation Act.
- 9/ Laws 2016, Chapter 221 transfers the Office of Pest Management to be a division within the Department of Agriculture.
- 10/ Section 132 of the FY 2017 General Appropriation Act.
- 11/ Section 133 of the FY 2017 General Appropriation Act.
- 12/ Appropriated by Laws 2017, Chapter 153.
- 13/ Section 139 of the FY 2017 General Appropriation Act.
- 14/ Section 140 of the FY 2017 General Appropriation Act.
- 15/ Laws 2016, Chapter 138 transfers \$231,200 from the General Fund and \$379,800 from the Teacher Certification Fund from the Board of Education to the Department of Education in FY 2017 as part of the clarification of the agencies' duties and powers.
- 16/ Appropriated by the FY 2017 K-12 Education Budget Reconciliation (BRB) (Laws 2017, Chapter 124).
- 17/ The FY 2017 Environment Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 120) continues to suspend the requirement to appropriate \$15,000,000 from the General Fund to the Water Quality Assurance Revolving Fund. In prior years, the General Fund appropriation was reduced to \$7,000,000. In FY 2017, the Environment BRB reduces the General Fund appropriation to \$2,823,600 and appropriates \$4,250,000 from the Vehicle Emissions Inspection Fund and \$2,875,000 from the Air Quality Fund for a total of \$9,948,600.
- 18/ Section 44 of the FY 2017 General Appropriation Act states that \$817,200 reverts from the General Fund and \$817,200 is appropriated to the Board of Appraisal Fund if the Board of Appraisal Fund is not repealed in the 52nd Legislature, 2nd Regular Session. The legislative session ended without repealing the Board of Appraisal Fund.
- 19/ Appropriated by Laws 2016, Chapter 207.
- 20/ Section 142 of the FY 2017 General Appropriation Act.
- 21/ Section 144 of the FY 2017 General Appropriation Act.
- 22/ Section 146 of the FY 2017 General Appropriation Act.
- 23/ Appropriated by Laws 2016, Chapter 137.
- 24/ Section 147 of the FY 2017 General Appropriation Act.
- 25/ Section 144 and 148 of the FY 2017 General Appropriation Act.

SUMMARY OF RISK MANAGEMENT CHARGES 1/

<u>Agency</u>	<u>FY 2017 Charge</u>
Accountancy, Arizona State Board of	\$3,000
Acupuncture Board of Examiners	1,000
Administration, Arizona Department of	1,543,300
Administrative Hearings, Office of	3,900
African-American Affairs, Arizona Commission of	1,000
Agriculture, Arizona Department of	135,300
AHCCCS	226,500
Arts, Arizona Commission on the	5,000
Athletic Training, Board of	1,000
Attorney General - Department of Law	398,900
Automobile Theft Authority	2,200
Barbers, Board of	1,200
Behavioral Health Examiners, Board of	5,200
Charter Schools, State Board for	16,400
Child Safety, Department of	2,278,000
Chiropractic Examiners, State Board of	4,300
Citizens Clean Election Commission	1,700
Commerce Authority, Arizona	16,100
Constable Ethics Standards and Training Board	1,000
Contractors, Registrar of	22,400
Corporation Commission	194,600
Corrections, State Department of	7,929,700
Cosmetology, Board of	4,700
Criminal Justice Commission, Arizona	8,000
Deaf and the Blind, Arizona State Schools for the	320,900
Deaf and the Hard of Hearing, Commission for the	4,200
Dental Examiners, State Board of	3,200
Early Childhood Development & Health, Arizona	70,600
Economic Opportunity, Office of	--- 2/
Economic Security, Department of	2,256,700
Education, Department of	142,300
Emergency and Military Affairs, Department of	546,300
Environmental Quality, Department of	197,000
Equal Opportunity, Governor's Office of	1,000
Equalization, State Board of	4,400
Executive Clemency, Board of	3,200
Exposition and State Fair Board, Arizona	270,700
Financial Institutions, Department of	12,700
Forestry and Fire Management, Arizona Department of	495,200
Funeral Directors and Embalmers, State Board of	1,200
Game and Fish Department, Arizona	683,100
Gaming, Department of	42,100
Governor, Office of the	50,200
Governor's Office of Strategic Planning and Budgeting	4,000
Health Services, Department of	884,700
Historical Society, Arizona	115,100
Historical Society of Arizona, Prescott	13,200
Homeland Security, Arizona Department of	6,900
Homeopathic and Integrated Medicine Examiners, Board of	1,000
Housing, Arizona Department of	14,200
Independent Redistricting Commission	1,000
Industrial Commission of Arizona	97,000
Insurance, Department of	26,900
Judiciary - Supreme Court	186,100
Judiciary - Court of Appeals, Division I	20,300
Judiciary - Court of Appeals, Division II	7,500
Judiciary - Superior Court	1,481,200
Juvenile Corrections, Department of	242,600
Land Department, State	972,700
Legislature - Auditor General	41,900
Legislature - House of Representatives	72,100
Legislature - Joint Legislative Budget Committee	7,400
Legislature - Legislative Council	25,200
Legislature - Senate	63,500
Liquor Licenses and Control, Department of	12,600

<u>Agency</u>	<u>FY 2017 Charge</u>
Lottery Commission, Arizona State	32,800
Massage Therapy, Board of	1,300
Medical Board, Arizona	21,700
Mine Inspector, State	9,800
Naturopathic Physicians Medical Board	1,800
Navigable Stream Adjudication Commission, Arizona	1,000
Nursing, State Board of	14,200
Nursing Care Institution of Administrators and Assisted Living Facility Managers, Board of Examiners of	2,300
Occupational Therapy Examiners, Board of	1,800
Opticians, State Board of Dispensing	1,000
Optometry, State Board of	1,000
Osteopathic Examiners in Medicine and Surgery, Arizona Board of	1,800
Parks Board, Arizona State	275,700
Personnel Board, State	1,000
Pharmacy, Arizona State Board of	11,200
Physical Therapy, Board of	1,500
Pioneers' Home, Arizona	38,500
Podiatry Examiners, State Board of	1,000
Postsecondary Education, Commission for	3,800
Power Authority, Arizona	22,000
Private Postsecondary Education, State Board for	2,000
Psychologist Examiners, State Board of	1,500
Public Safety, Department of	3,259,500
Public Safety Personnel Retirement System	9,600
Radiation Regulatory Agency	12,200
Real Estate Department, State	10,400
Residential Utility Consumer Office	2,200
Respiratory Care Examiners, Board of	1,300
Retirement System, Arizona State	180,000
Revenue, Department of	188,400
School Facilities Board	9,800
Secretary of State, Department of State	146,000
Tax Appeals, State Board of	1,000
Technical Registration, State Board of	5,400
Tourism, Office of	7,300
Transportation, Department of ^{3/}	16,773,800
Treasurer, State	6,000
Tribal Relations, Governor's Office on	1,000
Universities - Regents, Arizona Board of	5,900
University - Arizona State University - Tempe/DPC	8,419,000
University - Arizona State University - East Campus	485,400
University - Arizona State University - West Campus	677,500
University - Northern Arizona University	2,710,800
University - University of Arizona - Main Campus	9,405,000
University - University of Arizona - Health Sciences Center	2,453,500
Veterans' Services, Department of	317,600
Veterinary Medical Examining Board, Arizona State	1,700
Water Infrastructure Financing Agency	5,600
Water Resources, Department of	31,900
<i>Other Agencies</i>	
Boyce Thompson Arboretum	10,000
Central Arizona Water Conservation District	5,700
Uniform State Laws, Commission on	1,000
GRAND TOTAL	\$67,799,700

^{1/} Total charges reflect Arizona Department of Administration billed amounts with the exception of the Arizona Department of Transportation (ADOT). Charges are unchanged from FY 2016 except to reflect agency consolidations.

^{2/} To be determined.

^{3/} A General Appropriation Act footnote requires ADOT to pay risk management charges of \$16,773,800.

**BUDGET RECONCILIATION BILLS
AND MAJOR FOOTNOTE CHANGES**

FY 2017 BUDGET RECONCILIATION BILLS (BRBs) AND MAJOR FOOTNOTE CHANGES*

	<u>Page</u>
Bonus Depreciation BRB - Chapter 118 (HB 2697)	517
Budget Procedures BRB - Chapter 127 (SB 1529)	517
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Credit Enhancement BRB - Chapter 129 (SB 1531)	518
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Higher Education BRB - Chapter 130 (SB 1537)	523
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Major Footnote Changes	530

*Chapter numbers refer to 2nd Regular Session.

FY 2017 BUDGET RECONCILIATION BILL PROVISIONS

BONUS DEPRECIATION - CHAPTER 118 (HB 2697)

	<u>Section</u>
1. * As permanent law, increase the first-year bonus depreciation allowance that individual income taxpayers may deduct for purchases of qualified new property, from 10% of the federal allowance in tax year (TY) 2015 to 55% in TY 2016 and 100% in TY 2017 and later years. Federal law permits taxpayers a first-year bonus depreciation deduction on their federal income taxes equal to 50% of an investment.	1

BUDGET PROCEDURES - CHAPTER 127 (SB 1529)

	<u>Section</u>
Statewide	
2. As session law, notwithstanding A.R.S. § 35-111 to permit the Governor to submit an annual budget for FY 2018.	8
3. As session law, notwithstanding A.R.S. § 35-113 to permit the head of each department to submit an annual budget for FY 2018.	8
4. As session law, notwithstanding A.R.S. § 35-121 to permit annual appropriations for all agencies for FY 2019. (Laws 2015, Chapter 11 permitted annual appropriations for all agencies through FY 2018.)	8
5. As session law, continue to set the FY 2017 Capital Outlay Stabilization Fund (COSF) rental rate charged by the Arizona Department of Administration (ADOA) at \$13.08/square foot for rentable office space and \$4.74/square foot for rentable storage space.	6
6. As session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.	5
7. * As permanent law, require agencies with information technology projects above \$5,000,000 to submit quarterly third-party reports to JLBC.	3
Arizona Department of Administration	
8. * As permanent law, require the department to report to the JLBC Staff by November 1 annually any exemptions granted under A.R.S. § 35-191A for orders for goods and/or services made in one fiscal year and received beyond August 30 of the following year.	1
9. * As session law, require ADOA to report to JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price.	7
Legislative Council	
10. *As permanent law, the Council may pay legal fees jointly incurred by the House and Senate on the authorization of the Speaker and President.	2
Arizona State Lottery Commission	
11. * As session law, require that \$27,227,600 in Lottery ticket sales commissions earned during the second half of FY 2015 be paid from the State Lottery Fund's FY 2015 ending balance.	4
Revenues	
12. As session law, continue to notwithstanding the requirements for any deposit to or any withdrawals from the Budget Stabilization Fund through FY 2019.	9

AGENCY CONSOLIDATION - CHAPTER 128 (SB 1530)

Arizona Department of Administration

Section

13. * As permanent law, merge the State Boards' Office with the Department of Administration by combining the Central Services Bureau and the State Boards' Office funding in the appropriated portion of the Special Services Revolving Fund.

52

Department of Fire, Building and Life Safety

14. * As permanent law, eliminate the department and transfer its functions as follows: Office of the State Fire Marshal to the State Forester; the Office of Manufactured Housing to the Department of Housing; and the Homeowners Association dispute process to the Department of Real Estate.

1-2,4,
18-21,24-27,
30-51,53-80,
86-128,
131,138

Arizona Geological Survey

15. * As permanent law, transfer the statutory responsibilities of the Geological Survey to the University of Arizona, except transfer the Oil and Gas Commission (as described in A.R.S. § 27-515) to the Department of Environmental Quality.

5-14,16-17,
28,29,130,137,
138

Arizona Historical Society

16. * As permanent law, transfer the Mines and Minerals Museum to the University of Arizona.

8,9,10,11,15,
22-23,81-85,
132-136,138,
139

Industrial Commission of Arizona

17. * As permanent law, transfer the OSHA Review Board, along with its statutory authority and appropriation, to the Industrial Commission.

3,129,138

CREDIT ENHANCEMENT PROGRAM - CHAPTER 129 (SB 1531)

School Facilities Board

Section

18. * As permanent law, create the Arizona Public School Credit Enhancement Program. The program is established to assist achievement district schools in obtaining financing by guaranteeing the payment of principal and interest. Establishes definitions of achievement district school, including traditional and charter schools with an "A" letter grade and verifiable enrollment demand.
19. * As permanent law, create the Credit Enhancement Eligibility Board to determine the allocation of monies. Board consists of the Governor, the Treasurer and the ADOA Director.
20. * As permanent law, creates the Arizona Public School Credit Enhancement Fund and allows it to be used to make payments of principal and interest on guaranteed financing of achievement district schools.
21. * As session law, transfer \$23,900,000 from the Access Our Best Public Schools Fund to the Arizona Public School Credit Enhancement Fund in FY 2017 and repeal the Access Our Best Public Schools Fund effective September 1, 2017.
22. * As permanent law, allows the Credit Enhancement Board to use \$80,000,000 of program funding obligations from the Treasurer's operating fund balance.

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2,6,7

2

1,9

2,3,4

CRIMINAL JUSTICE - CHAPTER 119 (HB 2701)

Attorney General - Department of Law

Section

23. * As permanent law, eliminate JLBC review of funding sources that agencies have selected to pay their Attorney General Legal Services charges.

6

State Department of Corrections

24. As session law, continue to require the department to report actual FY 2016, estimated FY 2017, and requested FY 2018 expenditures as delineated in the prior year when the department submits its FY 2018 budget request pursuant to A.R.S. § 35-113. 14
25. * As session law, permit the department to transfer and use monies from the Special Services Fund for the replacement of the Adult Inmate Management System. 13
26. * As permanent law, establish the Arizona Department of Corrections (ADC) as the administrator of the Corrections Fund. 8
27. * As permanent law, expand eligibility of the transition program to include DUI convictions. Also specifies the behavior standards inmates need to meet to be considered a candidate for the program. 3,4
28. * As session law, if the male inmate state daily population exceeds the April 2016 level by 1,000 prisoners by the end of November 2016, ADC is authorized to add 1,000 male medium beds, subject to Joint Committee on Capital Review approval. With the awarding of any contract from this RFP, counties would have the first right of refusal for no more than 250 beds if they are able to meet the needs of the RFP and they offer a per diem at the same rate or less than other non-county bidders. Counties may be awarded more than the 250 beds. Authority to issue the 1,000 bed RFP expires at the end of December 2016. As session law, amend Laws 2015, Chapter 17 to eliminate the option for the State Legislature to authorize the remaining 1,000 beds of the RFP issued in May 2015. 11,12,26
29. * As session law, allow the ADOA with the participation of the ADC to enter into a financing agreement in FY 2017 for an existing prison capital lease. The financing agreement should generate a combined total of savings of at least \$25,000,000. Before entering the agreement, ADC and ADOA will submit the proposed terms to the JCCR for review and shall report the total cost savings and the allocation of such savings to the JCCR. 24
30. * As permanent law, would allow the ADC to order certain prisoners as a condition of supervision to apply to the Arizona Health Care Cost Containment System (AHCCCS) for health insurance coverage and requires AHCCCS and ADC to have an agreement to reinstate coverage for those prisoners that previously had AHCCCS coverage and are serving a sentence of less than 12 months upon release. Would permit ADC to coordinate with Regional Behavioral Health Authorities and AHCCCS, especially for those in need of mental health assistance. 7

Arizona Criminal Justice Commission

31. * As permanent law, convert the Drug Enforcement Account within the Criminal Justice Enhancement Fund into its own separate fund. 2,9,10
32. * As permanent law, clarify references to the Resource Center Fund to match existing language in A.R.S. § 41-2402. 1,5,9

Department of Health Services

33. * As session law, establish a study committee to examine long-term treatment and supervision for dangerous and non-restorable defendants. The committee would include 2 members of the Legislature, as well as other officials from state and local government, and would be staffed by the Legislature. On or before December 15, 2016, the committee would submit a report of its findings and recommendations to the Governor, Speaker of the House, and the President of the Senate. 25

Judiciary

34. As session law, continue to suspend county non-supplanting requirements associated with funding for probation services, criminal case processing, and alternative dispute resolution programs and require the Supreme Court to report on reductions in county funding as a result of the elimination of the non-supplanting provisions. 18

Department of Juvenile Corrections

35. As session law, continue to state that it is the intent of the Legislature that each county pay an assessed amount determined by the county's proportional share by population of \$11,260,000 (down from \$12,000,000 in FY 2016). 21

Department of Public Safety

- | | | |
|-----|---|----|
| 36. | As session law, continue to require the Department of Public Safety (DPS) to receive JLBC review of the expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount FY 2017 appropriation prior to its expenditure. | 16 |
| 37. | As session law, continue to notwithstanding the statutory spending cap of \$10,000,000 for HURF. | 15 |
| 38. | As session law, continue to allow use of the State Aid to Indigent Defense Fund for DPS operating expenses. | 19 |
| 39. | * As session law, permit use of Automobile Theft Authority Fund for the Border Strike Force. | 20 |
| 40. | * As session law, allow DPS to utilize monies in the Concealed Weapons Permit Fund for virtual training of law enforcement officers. | 22 |
| 41. | * As session law, allow DPS to utilize monies in the Drug and Gang Prevention Resource Center Fund for Border Strike Task Force expenses. | 23 |
| 42. | * As session law, allow DPS to utilize \$137,700 from the FY 2017 GIITEM Subaccount appropriation for costs related to an increase in the PSPRS employer contribution rate | 17 |

ENVIRONMENT - CHAPTER 120 (HB 2702)**Corporation Commission**

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|-----|--|---------------------|
| 43. | * As permanent law, amend Laws 2016, Chapter 56 to allow persons with a distributed generation system, such as a solar panel, to connect to their utility's power grid using their utility effective interconnection requirements. Laws 2016, Chapter 56 previously required users of distributed generation systems to connect to their utility's power grid using standards established by the Corporation Commission. | <u>Section</u>
1 |
|-----|--|---------------------|

Department of Environmental Quality

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|-----|---|----|
| 44. | As session law, continue to allow the department to utilize up to \$6,531,000 from the Underground Storage Tank (UST) Fund in FY 2017 for department administrative expenses. | 6 |
| 45. | * As session law, continue to suspend the requirement to appropriate \$15,000,000 from the state General Fund to the Water Quality Assurance Revolving Fund. In prior years, the General Fund appropriation was reduced to \$7,000,000. In FY 2017, reduce the General Fund appropriation to \$2,823,600 and appropriate \$4,250,000 from the Vehicle Emissions Inspection Fund and \$2,875,000 from the Air Quality Fund for a total of \$9,948,600. | 8 |
| 46. | As session law, continue to allow \$1,800,000 of the department's Emission Inspection Fund monies to be spent on the Safe Drinking Water Program. | 9 |
| 47. | * As permanent law, revise 2015 Underground Storage Tank statutory changes to allow the UST Fund to retain its interest earnings rather than deposit them in the General Fund. | 2 |
| 48. | * As session law, reduce vehicle emissions inspection fees by \$3 in Area A, which includes Maricopa County and portions of Pinal and Yavapai Counties. | 10 |

State Land Department

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|-----|---|---|
| 49. | * Repeal provisions in the FY 2016 Environment Budget Reconciliation Bill to establish a new Trust Land Administration Fund associated with the November 2016 ballot measure. | 3 |
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Arizona Navigable Stream Adjudication Commission

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| 50. | As session law, continue to allow use of Water Banking Fund for the commission's unpaid legal obligations. | 7 |
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Arizona State Parks Board

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|-----|---|---|
| 51. | As session law, continue to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs. | 5 |
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Department of Water Resources

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|-----|--|---|
| 52. | As session law, continue to allow the department's Water Protection Fund Commission to spend up to \$336,000 on administrative functions out of their unobligated balances in FY 2017. | 4 |
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53. As session law, continue to allow the department non-municipality special fee authority, including an intent clause that limits additional revenue up to \$100,200, and exempt department from rulemaking for this purpose. 11

GOVERNMENT - CHAPTER 121 (HB 2703)

Department of Emergency and Military Affairs Section

54. * As permanent law, create a revolving contingency fund to enable the Department of Emergency and Military Affairs to incur expenses and receive reimbursement for assistance provided to Emergency Management Assistance Compact members. The creation of the fund would be retroactive to May 1, 2016. Also deposits \$300,000 of the Governor’s Emergency Fund authorization to the Emergency Management Assistance Compact Revolving Fund in FY 2016. 1,8,10

Arizona Medical Board

55. * As session law, authorize the agency to continue spending credentials verification monies in FY 2016, but prohibit the board from spending such monies after FY 2016. 7,10

Department of Public Safety

56. * As permanent law, create a Department of Public Safety Subaccount and an Arizona Department of Transportation Subaccount within the Safety Enforcement and Transportation Infrastructure Fund and allocate 45% of revenues to the Department of Public Safety Subaccount and 55% of revenues to the Arizona Department of Transportation Subaccount. 2

Retirement Systems

57. * As permanent law, require Arizona State Retirement System and Public Safety Personnel Retirement System annual reports to include information on aggregate private equity fees. 5,6

Department of Transportation

58. * As permanent law, allow ADOT to review, approve, oversee and enforce federal light rail requirements. 3
59. * As permanent law, create a Department of Public Safety Subaccount and an Arizona Department of Transportation Subaccount within the Safety Enforcement and Transportation Infrastructure Fund and allocate 45% of revenues to the Department of Public Safety Subaccount and 55% of revenues to the Arizona Department of Transportation Subaccount. 2

State Treasurer

60. * As permanent law, require the State Treasurer and State Board of Investment to make necessary distributions from the Permanent Fund associated with Proposition 123. 4,9

HEALTH - CHAPTER 122 (HB 2704)

AHCCCS Section

Rates and Services

61. As session law, continue the FY 2010 risk contingency rate reduction for all managed care organizations. Continue to impose a reduction on funding for all managed care organizations administrative funding levels. 24
62. * As permanent law, provide dental coverage capped at \$1,000 per member per year for elderly and physically disabled adults enrolled in the Arizona Long Term Care System (ALTCS). 12
63. * As permanent law, provide coverage for podiatry services performed by a licensed podiatrist for adults enrolled in AHCCCS. 9,10
64. * As permanent law, require AHCCCS and AHCCCS contractors to reimburse providers participating in the federal 340B drug discount program at the lesser of the 340B discount price or the actual acquisition cost for drug claims submitted on behalf of AHCCCS enrollees. Hospitals and certain outpatient facilities would be exempt. AHCCCS is required to report by November 2016 on the feasibility of expanding this requirement to additional entities. 11,33

65.	As session law, repeal the FY 2016 Health BRB session law provision limiting AHCCCS capitation rate increases to no more than 1.5% in FY 2017 and FY 2018.	14
<i>Counties</i>		
66.	As session law, set FY 2017 county Arizona Long Term Care System (ALTCS) contributions at \$249,980,000.	15
67.	As session law, set the County Acute Care contribution at \$47,041,500. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328.	20
68.	As session law, continue to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations.	21
69.	As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.	23
70.	As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2017 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.	19
71.	* As permanent law, transfer the Intergovernmental Agreement (IGA) for County Behavioral Health Services Fund to AHCCCS following the behavioral health services transfer.	11
<i>Hospitals</i>		
72.	As session law, establish FY 2017 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District (MIHS), the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center. Require AHCCCS to give priority to rural hospitals in Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. As session law, permit local jurisdictions to provide additional local match for Pool 5 distributions.	18
73.	As session law, continue to require AHCCCS to report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) on any supplemental hospital payments paid to Critical Access Hospitals in FY 2017.	25
<i>Erroneous Payments</i>		
74.	As session law, continue to permit AHCCCS to recover erroneous Medicare payments made due to errors by the federal Social Security Administration. Subject to legislative appropriation, any credits received may be used to pay for the AHCCCS program in the year they are received.	26
<i>Available Funding</i>		
75.	As session law, continue to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.	34
76.	* As permanent law, allow use of Tobacco Tax Medically Needy Account for the Traditional population and for behavioral health services.	3
77.	* As permanent law, establish a Delivery System Reform Incentive Payment (DSRIP) Fund within AHCCCS. DSRIP is a federal program to make incentive payments to providers to improve the delivery of health care. Would require that AHCCCS submit a DSRIP expenditure plan for review by the JLBC before any monies are deposited in the DSRIP Fund.	11
<i>Transfer of Substance Abuse Services Fund from DHS to AHCCCS</i>		
78.	* As permanent law, require AHCCCS to establish services for alcohol and drug abuse pursuant to A.R.S. § 36-2001.	4
79.	* As permanent law, grant AHCCCS all powers and duties associated with administering substance abuse services, including the authority to accept grants, matching funds, or direct payments from public or private agencies for substance abuse programs pursuant to A.R.S. § 36-2003.	6
80.	* As permanent law, designate AHCCCS as the single state agency responsible for developing and implementing the state plan to address alcohol and drug abuse pursuant to A.R.S. § 36-2004.	7
81.	* As permanent law, provide AHCCCS with the authority to administer the Substance Abuse Services Fund pursuant to A.R.S. § 36-2005.	8
82.	* As permanent law, repeal the Interagency Coordinating Council established in A.R.S. § 36-2002. The Council assisted in implementation of drug abuse control policies in this state, but expired in July 1973.	5

Reports

- 83. As session law, continue to require AHCCCS to submit a report to the JLBC and OSPB by December 1, 2016 on utilization of emergency departments for non-emergency use by AHCCCS enrollees. 30
- 84. As session law, continue to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 1, 2017 on hospital costs and charges. 31
- 85. As session law, continue to require AHCCCS to report to JLBC and OSPB by December 31, 2016 on efforts to increase third-party liability payments for behavioral health services. This report was previously required to be prepared by DHS. 13
- 86. * As session law, require AHCCCS to report to JLBC on or before January 2, 2017 on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health Authorities. 32
- 87. * As session law, require AHCCCS to submit a report for review by JLBC on or before December 1, 2016 that includes an analysis of the state fiscal implications of recent federal policy guidance that expanded the scope of Medicaid services furnished to Native Americans that may qualify for a 100% federal matching assistance percentage. 29

Department of Economic Security

- 88. * As permanent law, provide dental coverage capped at \$1,000 per member per year for adults with a developmental disability enrolled in the Arizona Long Term Care System (ALTCS). 12

Department of Health Services

- 89. As session law, continue to require all counties to pay 31% of their total Sexually Violent Person (SVP) costs throughout the entire commitment process, including pre-adjudication proceedings, in FY 2017. 16
- 90. As session law, continue to require all cities and counties to pay 100% of cost of Restoration to Competency treatment in FY 2017. Allow counties to use any source of county revenue to make the transfers. 17
- 91. As session law, continue to notwithstanding A.R.S. § 36-773 to permit DHS to use Tobacco Tax and Health Care Fund - Health Research Account for Alzheimer's disease research. 28
- 92. * As session law, retain the Interagency Service Agreement (ISA) for Behavioral Health Services Fund in DHS until the fund is repealed on September 1, 2020. Prohibit DHS from spending the monies for any purpose except to pay for behavioral health services claims incurred June 30, 2016 or earlier. Allow any unexpended or unencumbered monies in the fund to revert to the General Fund on July 1 of FY 2018, FY 2019, and FY 2020 after any adjustments are approved by AHCCCS and reviewed by JLBC. 1,2,22,35
- 93. * As session law, notwithstanding A.R.S. § 36-108.01C and A.R.S. § 5-572C to appropriate monies from the Health Services Lottery Monies Fund for purposes specified in the FY 2017 General Appropriation Act, including the reduction of a projected shortfall in the ASH Fund, and additional funding for Area Agencies on Aging in the Department of Economic Security (DES). 27

HIGHER EDUCATION - CHAPTER 130 (SB 1537)

Arizona Community Colleges

- 94. As session law, continue to suspend Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs funding formula for FY 2017 and specify the funding in the General Appropriation Act. **Section** 5

Universities

- 95. As session law, continue to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees deposited into Arizona Financial Aid Trust (AFAT). 4
- 96. * As permanent law, separate existing appropriated and non-appropriated tuition funds into 2 subaccounts, effective in FY 2019. Appropriated tuition no longer deposited with Treasurer. 1,3
- 97. * As permanent law, modify statute to reflect long-term debt service savings from refinance of research infrastructure projects and specify appropriations through the end of debt service in FY 2031. 2

HUMAN SERVICES - CHAPTER 123 (HB2705)

	<u>Section</u>
Department of Child Safety	
98. As session law, continue to require the department to report with the Early Childhood Development and Health Board on collaborative efforts on child welfare issues.	8
99. As session law, require the Auditor General to evaluate the department's performance in central administration (2/17), staff retention and utilization (9/17), including the use of supportive practices and Arizona Families First program (3/18).	7
100. * As session law, allow the Department of Child Safety (DCS) to shift the use of Lottery monies for the Healthy Families program to other programs.	6
101. * As session law, void language in original FY 2016 budget that proportionally reduced General Fund dollars to DES and DCS for every federal Temporary Assistance for Needy Families dollar received in excess of their FY 2016 appropriation	5
102. * As session law, require DCS to review foster home licensing rules and solicit input from foster families. Require the department to report its findings to legislative leadership by December 31, 2016. Makes the provision retroactive to July 1, 2016.	9
Department of Economic Security	
103. As session law, continue to require recipients of Temporary Assistance for Needy Families (TANF) Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.	4
104. As session law, continue to permit DES to reduce income eligibility levels for all child care programs. Require DES to report to the JLBC within 15 days of any change in levels.	3
105. * As session law, void language in original FY 2016 budget that proportionally reduced General Fund dollars to DES and DCS for every federal Temporary Assistance for Needy Families dollar received in excess of their FY 2016 appropriation.	5
106. * As permanent law, require DES to report annually by November 1 a plan and estimated budget to the JLBC for review for the closure of the Arizona Training Program at Coolidge and associated group homes. Require DES to notify and meet all clients and guardians impacted by the transition and provide a list of alternative residential and in-home service options.	1
Legislative Council	
107. * As session law, delays the repeal of an Ombudsman-Citizens Aide Office (OCAO) provision from June 2016 to June 2018. The provision continues to allow OCAO, upon investigation, to refer any complaint concerning the Department of Child Safety directly to a Superior Court judge.	2

K-12 EDUCATION - CHAPTER 124 (HB 2707)

	<u>Section</u>
Arizona Community Colleges	
108. * As permanent law, increase the maximum amount of unclaimed lottery prize monies that may be deposited annually into the Tribal College Dual Enrollment Program Fund to \$250,000 versus \$160,000 under current law.	1
Department of Education	
<i>JTEDs</i>	
109. As session law, continue to fund state aid for Joint Technical Education Districts (JTEDs) with more than 2,000 Average Daily Membership (ADM) students at 95.5% of the formula requirement and reduce budget limits accordingly.	38
110. * As permanent law, delete language allowing students enrolled in JTED programs on January 1, 2016 to continue to participate, as this language is being replaced with corrected session law language (<i>see section 39</i>). Retroactive to July 1, 2015.	9

111.	* As session law, clarify for FY 2016 that any student under age 21, including a high school graduate, who is enrolled in a JTED program in FY 2016 may continue to participate in the program and remain in its ADM count through the end of FY 2016.	39
112.	* As session law, for FY 2017 allow any student under age 21, including a high school graduate, who is enrolled in a JTED program on February 1, 2016 to continue to participate in the program and remain in its ADM count until the student completes the program or through the end of FY 2017, whichever occurs first.	39
113.	* As permanent law, require JTEDs to report information on student retention and program completion.	10
<i>Formula Requirements</i>		
114.	As permanent law, increase the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the charter school "Additional Assistance" amounts (A.R.S. § 15-185B4) by 0.99% for standard inflation.	5,14,19,44
115.	* As permanent law, re-establish the original FY 2016 base level of \$3,426.74 (rather than \$3,600.00) for FY 2016 and \$3,460.66 (rather than \$3,635.64) for FY 2017 if Proposition 123 does not pass.	13
<i>Funding Formula Changes</i>		
116.	As session law, continue to reduce school districts' Additional Assistance state aid by \$352,442,700 and reduce budget limits accordingly. As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2017 by the amount that would be reduced if they did qualify for state aid for FY 2017 and reduce budget limits accordingly.	35
117.	As session law, continue to reduce Charter Additional Assistance by \$18,656,000.	37
118.	* As permanent law, reduce small school weights for multi-site charter schools by 33% in FY 2017 versus 67% under current law. Retains the current law reduction of 100% in FY 2018.	5
119.	As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.	36
<i>District-Sponsored Charter Schools</i>		
120.	As permanent law, repeal statutes authorizing district-sponsored charter schools starting in FY 2017.	2,3,4,5,6,22, 27,28,29,43
121.	* As permanent law, repeal A.R.S. § 15-185A7, which otherwise would require school districts that convert district-sponsored charter schools back to non-charter status for FY 2017 to repay to the state all cumulative charter additional assistance funding that it received for the charter school for all years that the charter school was in operation. The repeal would take effect prior to the start of FY 2017.	5,43
122.	* As session law, amend Laws 2014, Chapter 16, Section 5 in order to clarify that eliminating district-sponsored charter schools does not make affected districts eligible for District Additional Assistance growth funding pursuant to A.R.S. § 15-961B3, which was the original policy intent.	30,43
123.	* As session law, also amend the language in Laws 2014, Chapter 16, Section 5 to make that section of law apply to FY 2017 in order to address school districts that still operate district-sponsored charters in FY 2016.	30
124.	* As session law, repeal, for after FY 2016, language in Laws 2014, Chapter 16, Section 6 that caps ADM in district-sponsored charters schools at 120% of their FY 2013 district-sponsored charter school ADM, since authority for district-sponsored charter schools will be repealed after FY 2016.	31,43
125.	* As session law, indicate that it is the intent of the Legislature that school districts that operated district-sponsored charter schools in FY 2016 receive approximately the same amount of incremental charter school funding in FY 2017 that they received in FY 2016.	41
<i>Current Year Funding</i>		
126.	* As permanent law, make "current year funding" apply only to the calculation of Base Support Level (BSL) funding. Continue to use prior year student counts for small school budget exemptions, budget overrides, the K-12 rollover, Classroom Site Fund, Instructional Improvement Fund, lump sum reductions, high school tuition calculations and District Additional Assistance funding.	13,14,17,18

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|---|---|
| 127. * As permanent law, repeal the BSL “sudden growth” statute, since all districts will receive current Base Support Level funding. | 9,11,12,15,16,
20,21,23,24,
25,26 |
|---|---|

Other

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| 128. * As permanent law, establish a program in the Department of Education that would provide bonus funding starting in FY 2018 to school districts and charter schools for each test passed by one of their students in the prior school year that qualifies the student for college credit. As permanent law, require at least 50% of the funding to be used for salary bonuses for associated teachers with the remainder for teacher professional development, student instructional support or materials. | 8 |
| 129. * As session law, establish a code writers initiative pilot program and appropriate \$500,000 in non-lapsing funding to it from the state Web Portal Fund. | 40 |
| 130. As session law, continue to stipulate that \$100,000 of the \$3,646,400 School Safety Program appropriation for FY 2017 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program. | 34 |
| 131. As session law, continue to require the department to report to the Governor, President of the Senate and Speaker of the House of Representatives results of the pilot program on school emergency readiness by November 1 of the fiscal year. | 34 |
| 132. * As session law, amend Laws 2014, Chapter 17, Section 19 to make monies appropriated for the Technology-Based Language Development and Literacy Intervention Pilot Program for FY 2015 non-lapsing through FY 2017 and FY 2016 monies non-lapsing through FY 2018. | 33 |
| 133. * As permanent law, change the reporting dates for the Technology-Based Language Development and Literacy Intervention Pilot Program in A.R.S. § 15-217G to reflect the extended schedule. | 7 |
| 134. * As session law, change the date for repealing statute pertaining to the Technology-Based Language Development and Literacy Intervention Pilot Program to reflect the extended schedule. | 32 |
| 135. As session law, continue the provision in the FY 2016 budget stating that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General. | 35 |

School Facilities Board

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| 136. * As session law, allow a school district to use SFB new school facilities funding to reimburse itself for SFB-approved new construction that the district funded initially with non-SFB monies. Applies only to monies appropriated to the SFB for new school facilities during FY 2017 and FY 2018. | 27,43 |
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LAND TRUST ADMINISTRATION REFERRAL RETRACTION - HCR 2051

State Land Department

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| 137. * As session law, retract November 2016 ballot measure to fund Land Department administrative expenses from Permanent Trust Fund. | <u>Section</u>
1 |
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REVENUE - CHAPTER 125 (HB 2708)

Arizona Department of Agriculture

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| 138. As session law, continue fee raising authority and an exemption relating to establishing fees for the Arizona Department of Agriculture in FY 2017. The bill continues an intent clause that limits additional revenues to \$357,000. | <u>Section</u>
11 |
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State Department of Corrections

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| 139. * As permanent law, extend the allocation of luxury tax revenues to the Corrections Fund, retroactive to July 1, 2015. | 1,2,29 |
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Counties and Cities & Towns

- 140. As session law, continue to allow counties with a population below 250,000 in the 2010 decennial census to use any source of county revenue to meet a county fiscal obligation for FY 2017, up to \$1,250,000 of county revenue for each county. No longer permit use of this provision by counties with a population greater than 250,000. Requires counties using this authority to report to the Director of JLBC on the intended amount and sources of funds by October 1, 2016. 14
- 141. * As session law, waive any penalties to La Paz County for exceeding county expenditure limitations in FY 2014, FY 2015, and FY 2016. Only penalties associated with expenditures from operating the county's landfill are waived. 16
- 142. * As permanent law, require the board of supervisors to spend any unspent monies that remain in the Elderly Assistance Fund after December 31, 2015 and any subsequent appropriations to the Elderly Assistance Fund solely on the Elderly Assistance Program. 4,29

Department of Financial Institutions

- 143. As session law, continue to allow the Department of Financial Institutions to use the Financial Services Fund for general operating expenditures of the department. 13
- 144. As session law, continue to allow the Department of Financial Institutions to spend up to a total of \$850,000 from the Receivership Revolving Fund to develop and implement a new licensing system through FY 2017. 6

Department of Gaming

- 145. * As session law, transfer the balance of \$23,700 in the Racing Administration Fund to the Racing Regulation Fund on or before October 1, 2016. 15

Department of Insurance

- 146. As session law, continue to suspend the requirement that fees collected by the department be between 95% and 110% of the department's appropriation. 7

Department of Liquor Licenses and Control

- 147. * As session law, extend the permission for the agency to spend \$626,700 of its FY 2015 appropriation and \$400,000 of its FY 2016 appropriation for its licensing and imaging system upgrade through FY 2017. 12

Department of Public Safety

- 148. As session law, continue the previously-approved \$30,000,000 shift of Highway Patrol costs from HURF to the General Fund in FY 2018. 8
- 149. * As session law, deposit \$30,000,000 of General Fund monies to local HURF for a one-time distribution. 9

Radiation Regulatory Agency

- 150. As session law, continue fee raising authority and an exemption relating to establishing fees for the Radiation Regulatory Agency in FY 2017. The bill continues an intent clause that limits additional revenues to \$561,000. 10

Department of Revenue

- 151. * As permanent law, continue to require the department to report to the Directors of JLBC and OSPB on the amount of individual income tax credits claimed for a given fiscal year within 3 months of the end of a fiscal year. Also adds corporate income tax credits to the reporting requirement. 5
- 152. As session law, continue legislative intent statement that local fees to fund the Department of Revenue (DOR) are not to exceed \$20,755,835 and are to be allocated between cities and towns, counties, the Maricopa Association of Governments and the Pima Association of Governments based on the prorated share of all revenues distributed to them (excluding Highway User Revenue Fund money). 18

153.	* As session law, implement a tax amnesty program for unpaid individual income, corporate income, and transaction privilege tax liabilities that are not under audit by DOR. This applies to annual taxpayers' tax years ending before January 1, 2014 and February 1, 2015 for all others. Taxpayers may choose to pay off tax liabilities at once or over 3 years.	17
154.	* As session law, establish the Veterans' Income Tax Settlement Fund and appropriate \$2,000,000 of General Fund money to the fund in FY 2017. Permit Native American veterans to file claims with DOR and Department of Veterans' Services by December 31, 2017 for settlement payments of any state individual income tax withheld from military pay received from September 1, 1993 through December 31, 2005 while they were domiciled on a reservation. Require DOR to report on settlement payments to the Legislature on or before October 1 of 2017 through 2019. Any money remaining in the fund on June 30, 2019 will revert to the General Fund.	19-28
155.	* As permanent law, amends the discount rate on the purchase of tobacco tax stamps from 96.0% of the face value of the stamps to 96.48%, grants an administrative allowance of 3.52 cents on tobacco tax stamps with a \$0 tax rate, grants an administrative allowance of 3.52 cents for tobacco tax stamps sold on tribal lands with a tax rate greater than \$0 if the tax payment is not precollected, and specifies that rebates on precollected payments for tax stamps sold on tribal lands shall be equal to the full face value of the stamps.	3

GENERAL APPROPRIATION ACT PROVISIONS - CHAPTER 117 (HB 2695)

These provisions are in addition to the individual agency appropriations.

Arizona Department of Administration		<u>Section</u>
156.	As session law, continue to provide ADOA the FY 2017 appropriation authority to spend certain Automation Projects Fund remaining balances as of June 30, 2016 for the same respective purposes specified in FY 2016 after a report to JLBC.	129
Department of Child Safety		
157.	* As session law, extend availability of the \$19,500,000 DCS transition appropriation through the end of FY 2017.	2
158.	* As session law, eliminate the \$11,000,000 payment deferral to providers in FY 2016. Appropriate \$11,000,000 in FY 2016 for these deferred payments.	9,113
159.	* As session law, permit the department to use up to \$35,000,000 from the Budget Stabilization Fund for the purpose of providing funding for reimbursement grants. Requires the appropriation to be fully reimbursed by September 1, 2016 and prohibits the use of the appropriation for additional programmatic expenditures. Requires DCS, DES, and ADOA to report to JLBC by November 30, 2016 on how agencies will improve the federal reimbursement claiming process in FY 2017.	114
Arizona Commerce Authority		
160.	As session law, in accordance with statute (A.R.S. § 43-409), allocate \$21,500,000 of General Fund withholding tax revenue to the Authority in FY 2017.	134
Counties and Cities & Towns		
161.	As session law, continue to appropriate \$550,000 to all counties with populations under 200,000 people according to the 2010 Census. As session law, continue to appropriate \$500,000 to Graham County.	128
162.	* As session law, appropriate \$8,000,000 to all counties in an amount proportionate to their relative population in the 2010 census.	128
163.	As session law, in accordance with statute (A.R.S. § 9-601), continue to appropriate \$20,449,000 from the General Fund for the Phoenix Convention Center.	153
164.	As session law, continue to provide an estimate of \$10,000,000 for the amount of sales tax revenues that will be distributed to the Rio Nuevo Multipurpose Facility District-in accordance with statute (A.R.S. § 42-5031).	154

Department of Economic Security

165. * As session law, eliminate the \$21,000,000 payment deferral to providers in FY 2016 by appropriating \$21,000,000 in FY 2016 for these deferred payments. 9,116
166. * As session law, permit the department to use up to \$35,000,000 from the Budget Stabilization Fund for the purpose of providing funding for reimbursement grants. Requires the appropriation to be fully reimbursed by September 1, 2016 and prohibits the use of the appropriation for additional programmatic expenditures. Requires DCS, DES, and ADOA to report to JLBC by November 30, 2016 on how agencies will improve the federal reimbursement claiming process in FY 2017. 114

Department of Education

167. As session law, continue to defer \$930,727,700 in Basic State Aid payments from FY 2017 to FY 2018. Appropriate \$930,727,700 in FY 2018 for these deferred payments. Continue to exempt school districts with less than 600 students from the K-12 rollover. Allow the Department of Education to make the rollover payment no later than July 12, 2017. 162
168. * As session law, appropriate \$31,000,000 in one-time monies from the state General Fund in FY 2017 to backfill school district state aid losses that otherwise would occur in FY 2017 due to the implementation of current year Base Support Level (BSL) funding and increase budget limits accordingly, including budget limits of school districts that do not qualify for state aid. Stipulate that if \$31,000,000 is insufficient, Basic State Aid monies will be used to fund the difference and that surplus monies, if any, will be reverted to the state General Fund. 141
169. As session law, continue to require school districts to include in the FY 2017 revenue estimates that they use for computing their FY 2017 tax rates the rollover monies that they will receive for FY 2017 in July 2017. 162

Judiciary

170. * As session law, states that judicial salaries shall be increased by 1.5% on January 1, 2017 and another 1.5% on January 1, 2018.

Universities

171. * As session law, eliminate the \$200,000,000 universitywide payment deferral in FY 2016. Appropriate \$200,000,000 in FY 2016 for these deferred payments. 3-7,9

Debt Service

172. As session law, appropriate \$84,117,400 from the General Fund to the Arizona Department of Administration in FY 2017 for a debt service payment on the 2010 sale and leaseback of state buildings. 152

Revenues

173. As session law, continue to specify revenue and expenditure estimates for FY 2016, FY 2017, FY 2018, and FY 2019. 169
174. As session law, continue to require the Executive Branch to provide JLBC preliminary estimates of FY 2016 ending balances by September 15, 2016. Require JLBC Staff to report to JLBC by October 15, 2016 as to whether FY 2017 revenues and ending balance are expected to change by more than \$50,000,000 from budgeted projections. 169

Statewide

175. * As session law, ex-appropriate \$(8,047,400) from the General Fund and \$(8,561,500) from Other Appropriated Funds in FY 2017 to annualize an employer health insurance contribution reduction implemented on January 1, 2016. The JLBC Staff shall determine and ADOA shall allocate these adjustments to individual agencies to reflect the reduced contribution amount. Require JLBC Staff to use the overall appropriated operating budget General Fund/tuition split for each University when allocating each university's specific statewide adjustments. 163
176. As session law, continue to specify FY 2017 individual agency charges totaling \$1,809,500 for general agency counsel provided by the Attorney General. 164

177.	As session law, continue to state legislative intent that all budget units receiving appropriations continue to report actual, estimated and requested expenditures in a format similar to prior years.	165
178.	As session law, continue to require ADOA to compile a report on Full-Time Equivalent (FTE) Position usage in FY 2016 in all agencies and provide it to the JLBC Director by October 1, 2016. The Universities are exempt from the report but are required to report separately.	166
179.	As session law, continue to require each agency to submit a report to the JLBC Director by October 1, 2016 on the number of filled appropriated and non-appropriated FTE Positions by fund source as of September 1, 2016.	167
180.	As session law, continue to require ADOA to report monthly to the JLBC Director on agency transfers of spending authority from one expenditure class to another or between programs.	168

General

181.	As session law, continue to define “*” as designating an appropriation exempt from lapsing.	170
182.	As session law, continue to define “expenditure authority” as continuously appropriated monies included in individual line items of appropriations.	171
183.	As session law, continue to define “review by the Joint Legislative Budget Committee” as a review by a vote of a majority of a quorum of the members.	172

MAJOR FOOTNOTE CHANGES

The Plan would include the following major additions, deletions or modifications of footnotes. This list does not include footnotes pertaining to one-time reports or appropriations or footnote changes conforming to enacted policy.

Arizona Department of Administration

184.	Adds footnote requiring the department to report to JLBC on information technology and automation project oversight positions in the department by October 1, 2016.	13
185.	Adds footnote requiring certain agencies with one-time information technology appropriations in FY 2017 to complete a Project Investment Justification (PIJ) approved by ADOA’s Arizona Strategic Enterprise Technology (ASET) Office (Barbers, Funeral Board, Massage Therapy, Naturopathic Physicians, Nursing Care Administrators, Osteopathic Examiners, Pharmacy, Physical Therapy, Technical Registration, and Veterinary Medical Examiners).	21,46,66,69, 72,76,80,81, 97,108
186.	Revises footnote allowing the department to replace vehicles after an average of 80,000 miles instead of 120,000 miles. Adds footnote requiring the department to report to the JLBC by August 1, 2017 on any maintenance savings achieved by replacing vehicles with an average of 80,000 miles.	13

Arizona Department of Administration - Automation Projects Fund

187.	Adds footnote extending permission to spend FY 2015 appropriations for the Department of Child Safety Children’s Information Library and Data Source system project through the end of FY 2017.	129
188.	Adds footnote extending permission to spend FY 2015 appropriations for the Department of Corrections’ Adult Inmate Management System project through the end of FY 2017.	129
189.	Adds footnote extending permission to spend FY 2015 appropriations for the Department of Environmental Quality’s e-licensing project through the end of FY 2017.	129
190.	Adds footnote for the \$800,000 appropriation from the APF regarding the third-party statewide comprehensive information technology audit. Requires any new information technology project over \$15,000,000 to be delayed until the completion of the audit.	129
191.	As session law, appropriates \$12,000,000 from the APF to replace the state’s e-procurement system. Appropriate \$3,000,000 from the General Fund in FY 2017 for deposit into the APF. Appropriate \$9,000,000 from other fund sources in FY 2017 for deposit into the APF. The JLBC Staff shall determine and ADOA shall allocate the other fund adjustments to individual agencies to permit them to pay the transfer.	130
192.	As session law, allows the department to use \$3,103,000 from the FY 2014 APF appropriation through FY 2017 for the replacement of the state’s e-procurement system.	1

AHCCCS

193. Adds footnote requiring the agency to transfer \$1,200,000 to the Department of Health Services in FY 2017 for the costs of prescription medications for seriously mentally ill patients at the Arizona State Hospital. 17
194. Adds footnote requiring the agency to report changes in capitation rates for reimbursement of the Affordable Care Act health insurer fee. The agency was previously required to submit these changes for JLBC review. 17

Attorney General - Department of Law

195. Adds footnote requiring the agency to submit for review by JLBC an expenditure plan for its FY 2017 Internet Crimes Against Children appropriation by June 1, 2016. 19

Department of Child Safety

196. Adds footnote requiring that the amounts appropriated for any line item shall not be transferred to another line item unless such a transfer of monies is reviewed by the JLBC. 24
197. Adds footnote requiring all expenditures for Attorney General legal services to be funded only from the Attorney General Legal Services line item. 24
198. Deletes footnote concerning backlog Request for Proposals.
199. Revise quarterly benchmark report to include: a) caseload standard, b) new backlog benchmarks (under 1,000 cases by June 2017), and c) out-of-home caseload (11.4% reduction between December 2016 and June 2018.) If report is not timely, require 2% operating budget reduction until report is submitted. 24
200. Adds footnote that make all case aide and backlog privatization funding (and 75% of overtime funding) contingent upon JLBC review of DCS' proposed contractor awards to address the backlog. 24
201. Adds footnote restoring FY 2015 monthly hiring report (now quarterly in FY 2016). 24
202. Adds footnote requiring the agency to submit for review by JLBC the number of hired administrative staff by June 1, 2016. 24
203. Adds footnote specifying the type of administrative staff to be hired and requiring the agency to submit for review by JLBC a hiring plan for the new administrative staff by September 30, 2016. 24
204. Adds footnote requiring DCS to submit a summary of an internal financial process audit to the JLBC by July 2016. 24
205. Adds a footnote detailing the components of child safety expenditure authority. 24

Arizona Commerce Authority

206. Adds footnote requiring the agency to submit for JLBC review a report on progress made in implementing recommendations in the 2015 Auditor General report. 135

Corporation Commission

207. Adds footnote requiring the Corporation Commission and WIFA to jointly report on the expenditures from the Small Water Systems Fund in FY 2017 by August 1, 2017. Adds footnote stating that emergency grants from the Small Water System Fund are exempt from procurement requirements. 150

Arizona Department of Corrections

208. Adds footnote that sets aside funding for the annualized cost of a 4% adjustment for the fourth year of inmate health care services contract. 29

Arizona Criminal Justice Commission

209. Adds footnote requiring the commission to report to JLBC by August 31, 2016 on noncompliance with Anti-Racketeering Revolving Fund statutory reporting requirements. 31

Department of Economic Security

- 210. Deletes FY 2016 footnote requiring any federal TANF block grant monies in excess of the original FY 2016 combined DCS and DES TANF appropriation to be reverted to the General Fund. This footnote was already deleted in the FY 2017 Baseline.
- 211. Deletes footnote concerning the proportional reduction of General Fund dollars to DES and DCS for every Federal TANF Block Grant dollar received in excess of their appropriation.
- 212. Adds footnote requiring DES to submit an expenditure plan to JLBC for review of any new Division of Developmental Disabilities salary adjustments not previously reviewed by JLBC. 35
- 213. Adds footnote requiring DES to report on the number of filled positions in the Division of Developmental Disabilities. Requires DES to submit an expenditure plan for a review of its staffing levels. 35
- 214. Adds footnote that the appropriated amount includes \$2,791,800 from the General Fund and \$6,260,600 in total expenditure authority for an across the board 1% full year rate adjustment for providers of services to the developmentally disabled population whose current rates are below 100% of the benchmark rate, in addition to any adjustment as part of the aggregate 2.5% capitation rate increase. The department shall report to the JLBC by August 1, 2016 on its distribution plan. 35

Arizona Department of Education

- 215. Adds footnote indicating that the amount appropriated for Basic State Aid from the Permanent State School Fund for FY 2017 shall be reduced by \$(172,444,700) if Proposition 123 is not approved by voters. 37
- 216. Adds footnote indicating that, if Proposition 123 is not approved by voters, \$74,394,000 of the FY 2017 Basic State appropriation shall be used as an Additional Inflation payment as authorized in the original FY 2016 General Appropriation Act. 37
- 217. Adds footnote indicating that the department’s operating budget includes \$500,000 for technical assistance and state level administration of the K-3 Reading program established by A.R.S. § 15-211. 37
- 218. Deletes footnote concerning the intended use of monies appropriated to the K-3 Reading line item, as the budget incorporates funding for that line item into other programs. 37
- 219. Adds footnote allowing ADE to use its FY 2017 appropriation for any FY 2016 Basic State Aid shortfall, subject to JLBC review. 37
- 220. Adds footnote indicating that the \$1,148,000 appropriated for former District-Sponsored Charter Schools (DSCS) for FY 2017 is one-time funding to provide additional Base Support Level (BSL) funding on a one-time basis for FY 2017 for school districts that operated DSCS in FY 2016. Requires ADE to allocate the monies on a pro rata basis to school districts that qualify for state aid in FY 2017 based on the number of Average Daily Membership pupils they had in DSCS in FY 2016 and increase their budget limits accordingly. Requires ADE to make corresponding BSL and budget limit increases for school districts that operated DSCS in FY 2016, but do not qualify for state aid in FY 2017. 37
- 221. Adds footnote indicating that the amount appropriated for Geographic Literacy is one-time, non-lapsing funding to be used to issue a grant to a statewide geographic alliance. 37

Arizona Game and Fish Department

- 222. Adds footnote that the appropriated amount includes \$795,000 for a full-year \$8,700 pay adjustment for certain Game and Fish position classifications. 47

Arizona Judiciary

- 223. Adds footnote requiring monies in the Dependency Surge Funding line item to be passed through to county superior courts for dependency case processing, makes the appropriation non-lapsing for 2 years, and requires the Administrative Office of the Courts to report to JLBC on funding allocations. 60
- 224. Adds footnote for Supreme, Court of Appeals, and Superior Court outlining the amounts allocated to the first year of a 2-year phase-in for a 3% pay raise. 60
- 225. Adds footnote clarifying the inclusion of \$500,000 General Fund in the Supreme Court operating lump sum appropriation for the establishment of 2 new Supreme Court Justice positions. 60

226.	Adds footnote requiring the Administrative Office of the Courts to report to the JLBC on overall probation officer salary adjustments in FY 2017.	60
227.	As session law, establishes a salary increase of 1.5% on January 1, 2017 and an additional 1.5% on January 1, 2018 for all supreme court justices, court of appeals judges, and superior court judges.	143
Arizona Parents Commission on Drug Education and Prevention		
228.	Adds footnote delineating the provisions of the school prevention education program. The program would be required to promote positive life choices by middle school and high school students, and would incorporate an educational prevention component focusing on substance abuse, mental health, violence, and other risky behaviors.	147
Arizona State Parks Board		
229.	Adds footnote requiring the State Parks Board to receive JLBC review of the agency expenditure plan for the \$1,500,000 State Parks Revenue Fund FY 2017 appropriation prior to expenditure. States that the agency expenditure plan must demonstrate that the estimated amount of Federal Funds the board will receive during FY 2017 is less than the actual amount of Federal Funds received in FY 2016 and the amount spent by the board in FY 2017 may not exceed the decrease in Federal Funds between FY 2016 and FY 2017.	145
Department of Public Safety		
230.	Adds footnote requiring JLBC review of Border Strike Force expenditure plans.	87
231.	Adds footnotes specifying funding available for local governments from Border Strike Force appropriation.	87
232.	Adds footnote requiring DPS to submit an expenditure plan for monies in the Sexual Assault Kit Testing line item.	87
233.	Adds footnote requiring DPS to procure virtual law enforcement training equipment through a competitive bid process.	87
234.	Adds footnote indicating amounts allocated to a salary increase and requires DPS to report to JLBC by August 1, 2016 on its pay adjustment plan.	87
Arizona State Retirement System		
235.	Adds footnote extending permission to spend FY 2016 appropriations for information technology security through the end of FY 2017.	122
Department of Revenue		
236.	Adds footnote requiring JLBC review of any transfers to or from the Income Tax Fraud Prevention line item.	93
237.	Adds footnote requiring the department to report the results of private fraud prevention investigation services during FY 2016 to JLBC by November 1, 2016.	93
School Facilities Board		
238.	Deletes footnote requiring the agency to transfer \$1,000,000 from the Building Renewal Grants line item to the Emergency Deficiencies Correction Fund in FY 2015.	
239.	Adds footnote requiring SFB to report transfers of funds out of the Debt Service line item 30 days prior to implementation.	94
240.	Adds footnote reverting \$16,705,000 to the General Fund in FY 2017 and in FY 2018 if SFB determines that the Agua Fria School District project no longer qualifies for new school construction funding based on revised enrollment projections.	94,155
Secretary of State		
241.	Adds footnote requiring that the monies in the Election Services line item be used only to pay for the statewide election publicity pamphlet and as pass-through to county elections divisions to reimburse for the costs of elections.	95

242. As session law, appropriates supplemental funding to the Secretary of State for reimbursements to counties for the administration of the 2016 presidential preference election. Requires the Secretary of State to reimburse counties with an active voter registration of over 450,000 at a rate of \$2.50 per voter; 35,000 to 450,000 at a rate of \$3.00 per voter; and less than 35,000 at a rate of \$3.50 per voter; or the amount included in a cost estimate submitted to the Secretary of State before October 30, 2015, whichever is less. States that this appropriation does not set a precedent for any future Presidential Preference Election reimbursement levels. Requires Secretary of State to report to JLBC and OSPB on reimbursements made pursuant to this section. 125

Arizona Department of Transportation

243. Adds footnote requiring an annual third-party review of the Motor Vehicle Division (MVD) legacy automation system replacement project. Requires JLBC review of the February 1, 2017 report. 99

244. Adds footnote requiring the department to report by July 31, 2017 on the cost to link local governments, state agencies, and other users to the new MVD automation system. 99

245. Adds footnote requiring ADOT to report by August 1, 2016 on the use of state’s share of fees retained by the Service Arizona vendor. 99

246. Adds footnote requiring all expenditures for Attorney General legal services to be funded only from the Attorney General Legal Services line item. 99

Universities

247. Adds footnote requiring JLBC Staff to use the overall appropriated operating budget General Fund/tuition split for each University when allocating each university’s specific statewide adjustments. 101

248. Adds footnotes for the new ASU School of Civic and Economic Thought and Leadership line and the existing UA Freedom Center line item. General Fund support is to not supplant private resources and the line items are not to be charged for indirect costs. 102,106

**FY 2016
GENERAL FUND ADJUSTMENTS**

FY 2016 GENERAL FUND ADJUSTMENTS

	FY 2015 Actual	FY 2016 Original <u>1/</u>	Baseline Adjustments	FY 2016 JLBC Baseline	Session Changes	FY 2016 Enacted
REVENUES						
Ongoing Revenues	\$9,535,344,600	9,516,769,400	252,879,100 <u>2/</u>	\$9,769,648,500	0	\$9,769,648,500
Previously Enacted Changes		(59,366,800)	59,366,800 <u>2/</u>		0	
Urban Revenue Sharing	(608,935,700)	(605,634,300)	0	(605,634,300)	0	(605,634,300)
Net On-going Revenues	\$8,926,408,900	\$8,851,768,300	\$312,245,900	\$9,164,014,200	\$0	\$9,164,014,200
One-time Financing Sources						
Balance Forward	\$577,399,200	\$12,000,000	\$300,276,000	\$312,276,000	\$0	312,276,000
Tax Amnesty		15,000,000	32,048,500	47,048,500	0	47,048,500
Fund Transfers	78,123,500	220,194,500	(3,176,800)	217,017,700	0	217,017,700
Subtotal One-time Revenues	\$655,522,700	\$247,194,500	\$329,147,700	\$576,342,200	\$0	\$576,342,200
Total Revenues	\$9,581,931,600	\$9,098,962,800	\$641,393,600	\$9,740,356,400	\$0	\$9,740,356,400
EXPENDITURES						
Operating Budget Appropriations	\$9,321,780,500	\$9,169,439,300	\$60,982,300 <u>3/</u>	\$9,230,421,600	\$0	\$9,230,421,600
Supplementals	(27,947,400)	0	29,409,300	29,409,300	21,212,000	50,621,300
Administrative Adjustments	80,000,000	70,000,000	15,000,000	85,000,000	0	85,000,000
Revertments	(145,808,600)	(111,380,700)	1,380,700	(110,000,000)	0	(110,000,000)
Subtotal Ongoing Expenditures	\$9,228,024,500	\$9,128,058,600	\$106,772,300	\$9,234,830,900	\$21,212,000	\$9,256,042,900
One-time Expenditures						
Capital Outlay	\$41,631,100	\$6,200,000	\$0	\$6,200,000	\$0	\$6,200,000
Eliminate DCS/DES/Univ. Rollover		0	0		232,000,000	232,000,000
Other One-Time Spending		0	0		21,130,000	21,130,000
Subtotal One-time Expenditures	\$41,631,100	\$6,200,000	\$0	\$6,200,000	\$253,130,000	\$259,330,000
Total Expenditures	\$9,269,655,600	\$9,134,258,600	\$106,772,300	\$9,241,030,900	\$274,342,000	\$9,515,372,900
Ending Balance <u>4/</u>	\$312,276,000	(\$35,295,800)	\$534,621,300	\$499,325,500	(\$274,342,000)	\$224,983,500
Structural Balance <u>5/</u>	(\$301,615,600)	(\$276,290,300)	\$205,473,600	(\$70,816,700)	(\$21,212,000)	(\$92,028,700)

1/ Reflects the FY 2016 budget as published in the *FY 2016 Appropriations Report*.

2/ Reflects forecast adjustments to revenue and other technical adjustments in January 2016 as part of the FY 2017 JLBC Baseline. Baseline adjustments move previously enacted changes to ongoing revenue.

3/ Includes the following adjustments: 1) \$52,354,400 for additional expenditures from Proposition 123. These expenditures were later approved by voters at the May 2016 Special Election; 2) \$9,300,000 of funding to conduct the May 2016 Special Election; and 3) A \$(672,100) technical adjustment to Community Colleges formula funding.

4/ This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

5/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

FY 2016 GENERAL FUND ADJUSTMENTS

FY 2016 Budget Revision — The preceding chart illustrates the changes to the FY 2016 budget from the publication of the *FY 2016 Appropriations Report* in May 2015 (incorporating changes through the 52nd Legislature, 1st Regular Session) to the current estimate in this *FY 2017 Appropriations Report*. The chart includes the changes from the passage of bills in the 1st Special Session and 2nd Regular Session of the 52nd Legislature addressing the FY 2016 budget.

Original Budget Estimate — At the time of the publication of the *FY 2016 Appropriations Report* in May 2015, the FY 2016 budget was anticipated to have a \$(35) million shortfall.

Mid-Year Surplus — As estimated in January 2016, higher-than-expected revenues together with other changes led to the state’s projected FY 2016 ending balance of \$(35) million becoming a \$499 million surplus. The components of this \$535 million shift were as follows:

	<u>(\$ in M)</u>
• Increased FY 2015 Carry-Forward	300
• Increase in FY 2016 Ongoing Revenues	312
• Increase in FY 2016 One-Time Revenues	29
• Proposition 123 Expenditures	(52)
• Supplemental FY 2016 Expenditures	<u>(54)</u>
Total	\$535

As enacted in March 2015, the original FY 2016 budget included \$12 million in revenues from a FY 2015 carry-forward balance. The FY 2015 revenue growth at the end of the year, however, was greater than originally budgeted, which meant that an originally-budgeted Budget Stabilization Fund transfer to the General Fund of \$144 million was not required. Those 2 changes, plus higher-than-budgeted revertments of FY 2015 spending and technical changes in fund transfer revenues, produced a FY 2015 ending balance of \$312 million, or \$300 million more than budgeted.

This higher revenue growth was estimated to continue into FY 2016. The enacted FY 2016 budget’s 3.8% base revenue increase was revised down to 3.5% in the January 2016 estimates, but combined with the higher FY 2015 revenue base, that produced \$312 million of increased FY 2016 ongoing collections.

In addition to increased ongoing revenues, the budget was estimated to have an additional \$29 million in one-time financing sources, primarily due to scoring higher-than-projected collections from the September to October 2015 Tax Amnesty program.

The 1st Special Session of the Arizona Legislature referred Proposition 123 on school funding to the ballot at the May 2016 Special Election. The January 2016 estimates included \$52 million for General Fund spending required assuming the passage of Proposition 123 at the May 2016 Special Election.

Finally, the budget was estimated to require an additional \$54 million in spending: \$29 million for supplementals including \$21 million for higher-than-projected Medicaid behavioral health spending and \$5 million for increased health care contract rates at the Department of Corrections, plus \$15 million for higher-than-expected administrative adjustments. In addition, the Secretary of State received a supplemental of \$9 million for the costs of the May 2016 Special Election.

2016 Legislative Session — Laws 2016, Chapter 117, the General Appropriation Act, as well as other bills in the 2nd Regular Session, made a series of changes in the FY 2016 budget. These adjustments reduced the projected ending surplus of \$499 million to a \$225 million surplus.

The change is the result of \$274 million in post-Baseline changes: one-time spending of \$232 million to eliminate payment deferrals, \$21 million in additional supplementals, and \$21 million in other one-time spending.

The budget includes one-time spending of \$232 million to eliminate payment deferrals from FY 2016 into FY 2017 in the following 3 agencies:

- \$200 million for the Universities
- \$21 million for the Department of Economic Security (DES)
- \$11 million for the Department of Child Safety (DCS)

The budget includes \$21 million in net additional FY 2016 supplemental spending above the Baseline. This amount includes:

- \$35 million for additional DCS services and staffing
- \$7 million for DES developmental disabilities Medicaid formula costs
- \$(21) million for shifting the Medicaid behavioral health spending supplemental to a non-General Fund source

The budget includes an additional \$21 million in FY 2016 one-time spending, which includes:

- \$15 million for School Facilities Board Building Renewal grants

- \$6 million to the Secretary of State of additional costs of the FY 2016 Presidential Preference Election.

(Please see those agency narratives and FY 2016 General Fund Crosswalk for further details.)

With an estimated January FY 2016 ending balance of \$499 million and \$274 million in subsequent net spending, the FY 2016 budget is estimated to have an ending balance of \$225 million.

Other Fund Adjustments — The FY 2016 revisions included \$71 million in Other Fund supplementals. The largest supplementals were \$44 million in Prescription Drug Rebate and Tobacco Tax monies for AHCCCS and the Department of Health Services to offset supplemental Medicaid costs and \$17 million from the Federal Temporary Assistance for Needy Families Block Grant for DCS services.

FY 2016 GENERAL FUND CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	GF FY 2016 Approp Rpt July 2015	GF Adjustments	GF FY 2016 Supplementals	<u>2/</u>	GF Enacted FY 2016
<u>BUDGET UNITS</u>					
Administration, Arizona Department of	\$10,377,300				\$10,377,300
Administration, Arizona Department of Automation Projects Fund	7,783,000				7,783,000
Administrative Hearings, Office of	861,700				861,700
African-American Affairs, Arizona Commission of	125,000				125,000
Agriculture, Arizona Department of	8,287,400				8,287,400
AHCCCS	1,205,162,300				1,205,162,300
Attorney General - Department of Law	23,623,700				23,623,700
Charter Schools, State Board for	1,200,900				1,200,900
Child Safety, Department of	356,448,200		45,964,600	<u>3/</u>	402,412,800
Commerce Authority, Arizona	26,800,000				26,800,000
Community Colleges, Arizona	55,045,300	(672,100)	<u>4/</u>		54,373,200
Corporation Commission	614,200				614,200
Corrections, State Department of	1,029,900,600		5,206,900	<u>5/6/</u>	1,035,107,500
County Funding	6,000,500				6,000,500
Deaf and the Blind, Schools for the	21,596,400				21,596,400
Economic Security, Department of	496,181,900		27,752,300	<u>7/</u>	523,934,200
Education, State Board of	1,325,200				1,325,200
Education, Department of	3,889,519,500	52,354,400	<u>8/</u>		3,941,873,900
Emergency and Military Affairs, Department of	11,102,700		746,700	<u>9/</u>	11,849,400
Environmental Quality, Department of	7,000,000				7,000,000
Equal Opportunity, Governor's Office of	189,000				189,000
Equalization, State Board of	642,800				642,800
Executive Clemency, Board of	956,000				956,000
Financial Institutions, State Department of	3,008,000				3,008,000
Fire, Building and Life Safety, Department of	2,202,000				2,202,000
Forestry and Fire Management, Arizona Department of	9,012,300		146,700	<u>10/</u>	9,159,000
Gaming, Department of	1,779,500				1,779,500
Geological Survey, Arizona	941,000				941,000
Governor, Office of the	6,889,000				6,889,000
Governor's Office of Strategic Planning and Budgeting	1,994,000				1,994,000
Health Services, Department of	602,738,300		200	<u>5/</u>	602,738,500
Historical Society, Arizona	3,157,200				3,157,200
Historical Society, Prescott	825,800				825,800
Independent Redistricting Commission	1,115,300				1,115,300
Insurance, Department of	5,867,400				5,867,400
Judiciary					
Supreme Court	17,951,100				17,951,100
Court of Appeals	14,315,500				14,315,500
Superior Court	73,911,400				73,911,400
SUBTOTAL - Judiciary	<u>106,178,000</u>	<u>0</u>	<u>0</u>		<u>106,178,000</u>
Juvenile Corrections, Department of	26,984,600				26,984,600
Land Department, State	12,520,500				12,520,500

	GF FY 2016 Approp Rpt July 2015	GF Adjustments	GF FY 2016 Supplementals	2/	GF Enacted FY 2016
Legislature					
Auditor General	17,933,300				17,933,300
House of Representatives	13,289,500				13,289,500
Joint Legislative Budget Committee	2,490,900				2,490,900
Legislative Council	8,233,300				8,233,300
Senate	8,223,900				8,223,900
SUBTOTAL - Legislature	50,170,900	0	0		50,170,900
Mine Inspector, State	1,215,200				1,215,200
Navigable Stream Adjudication Commission	126,600				126,600
Postsecondary Education, Commission for	1,396,800				1,396,800
Public Safety, Department of	93,374,800				93,374,800
Public Safety Personnel Retirement System	6,000,000				6,000,000
Radiation Regulatory Agency	1,595,000				1,595,000
Real Estate Department, State	2,985,200				2,985,200
Revenue, Department of	30,338,600		5,300	5/	30,343,900
School Facilities Board	216,878,100		13,721,300	11/	230,599,400
Secretary of State	15,006,500	9,300,000	6,130,000	13/	30,436,500
Tax Appeals, State Board of	266,400				266,400
Tourism, Office of	7,110,400				7,110,400
Transportation, Department of	50,400				50,400
Treasurer, State	1,205,100				1,205,100
Tribal Relations, Governor's Office on	57,400				57,400
Universities					
Board of Regents	21,928,400				21,928,400
Arizona State University - Tempe/DPC	239,189,400		76,655,400	14/15/	315,844,800
Arizona State University - East Campus	22,162,700		5,932,900	14/15/	28,095,600
Arizona State University - West Campus	28,754,100		10,270,300	14/15/	39,024,400
Northern Arizona University	100,917,600		30,535,000	14/15/	131,452,600
University of Arizona - Main Campus	179,499,400		63,483,800	14/15/	242,983,200
University of Arizona - Health Sciences Center	68,393,500		17,198,600	14/15/	85,592,100
SUBTOTAL - Universities	660,845,100	0	204,076,000		864,921,100
Veterans' Services, Department of	6,077,800				6,077,800
Water Resources, Department of	12,803,100				12,803,100
Weights and Measures, Department of	1,399,000		1,300	5/	1,400,300
OPERATING BUDGET TOTAL	\$9,054,858,900	\$60,982,300	\$303,751,300		\$9,419,592,500
Capital Outlay Projects	6,200,000				6,200,000
Debt Service Payments	84,114,600				84,114,600
Civic Center Debt Service	20,449,000				20,449,000
Rio Nuevo Distribution	10,000,000				10,000,000
Unallocated HITF Employer Rate Reduction	(600)				(600)
Unallocated AFIS Cost Charges	17,400				17,400
Administrative Adjustments	70,000,000	15,000,000			85,000,000
Revertments	(111,380,700)	1,380,700			(110,000,000)
GRAND TOTAL	\$9,134,258,600	\$77,363,000	\$303,751,300		\$9,515,372,900

GF
FY 2016
Approp Rpt
July 2015

GF
Adjustments

GF
FY 2016
Supplementals

GF
Enacted
FY 2016

2/

- 1/ This chart provides a crosswalk between an agency's original appropriation in the *FY 2016 Appropriations Report* and its final FY 2016 appropriation, excluding capital appropriations.
- 2/ Reflects changes enacted in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) and additional appropriations in the 2nd Regular Session. Any supplementals enacted prior to the 2nd Regular Session are reflected in the Adjustments column.
- 3/ Section 113 of the FY 2017 General Appropriation Act.
- 4/ Includes Rural County Reimbursement, which represents an estimated cost.
- 5/ Appropriated by Laws 2017, Chapter 45, the Named Claimants Bill.
- 6/ Section 115 of the FY 2017 General Appropriation Act.
- 7/ Section 116 of the FY 2017 General Appropriation Act.
- 8/ Laws 2015, 1st Special Session, Chapter 1 appropriated additional monies for education finance. This appropriation was conditional upon the passage of Proposition 123 at the May 17, 2016 Special Election. Proposition 123 was approved.
- 9/ Section 118 of the FY 2017 General Appropriation Act.
- 10/ Section 119 of the FY 2017 General Appropriation Act.
- 11/ Section 123 and 124 of the FY 2017 General Appropriation Act.
- 12/ Laws 2015, 1st Special Session, Chapter 2 appropriated \$9,300,000 from the General Fund to pay for a statewide special election in FY 2016. Chapter 2 requires that a special election be held on May 17, 2016 to consider a constitutional amendment to provide for increased State Land Trust distributions and other changes relating to education finance as proposed in HCR 2001.
- 13/ Section 125 of the FY 2017 General Appropriation Act.
- 14/ Section 126 of the FY 2017 General Appropriation Act.
- 15/ Section 9 of the FY 2017 General Appropriation Act eliminates the \$200,000,000 universitywide payment deferral in FY 2016. Section 3 of the General Appropriation Act appropriates \$200,000,000 in FY 2016 for these deferred payments.

FY 2016 OTHER FUNDS CROSSWALK - ORIGINAL TO FINAL ESTIMATES 1/

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
<u>BUDGET UNITS</u>				
Accountancy, State Board of				
Board of Accountancy Fund	\$1,939,100			\$1,939,100
Acupuncture Board of Examiners				
Acupuncture Board of Examiners Fund	159,100			159,100
Administration, Arizona Department of				
Air Quality Fund	927,300			927,300
Arizona Financial Information System Collections Fund	7,567,800			7,567,800
Automation Operations Fund	23,964,100			23,964,100
Capital Outlay Stabilization Fund	18,082,800		400 <u>3/</u>	18,083,200
Corrections Fund	571,200			571,200
Federal Surplus Materials Revolving Fund	464,600			464,600
Information Technology Fund	2,942,100			2,942,100
Motor Vehicle Pool Revolving Fund	10,148,800			10,148,800
Personnel Division Fund	12,885,100			12,885,100
Risk Management Revolving Fund	92,022,900		3,623,200 <u>3/4/</u>	95,646,100
Special Employee Health Insurance				
Trust Fund	5,262,300		6,167,600 <u>4/</u>	11,429,900
State Surplus Materials Revolving Fund	2,397,900			2,397,900
State Web Portal Fund	4,543,000			4,543,000
Telecommunications Fund	1,848,400			1,848,400
Total - Arizona Department of Administration	183,628,300	0	9,791,200	193,419,500
Administration, Arizona Department of -				
Automation Projects Fund	24,794,400			24,794,400
Administrative Hearings, Office of				
Healthcare Group Fund	12,300		(12,300) <u>5/</u>	0
AHCCCS				
Budget Neutrality Compliance Fund	3,482,900			3,482,900
Children's Health Insurance Program Fund	7,674,400			7,674,400
Prescription Drug Rebate Fund - State	83,778,800		22,100,000 <u>6/</u>	105,878,800
Tobacco Products Tax Fund				
Emergency Health Services Account	17,331,400		830,800 <u>6/</u>	18,162,200
Tobacco Tax and Health Care Fund				
Medically Needy Account	31,180,000		3,318,500 <u>6/</u>	34,498,500
Total - AHCCCS	143,447,500	0	26,249,300	169,696,800
Athletic Training, Board of				
Athletic Training Fund	118,900			118,900
Attorney General - Department of Law				
Antitrust Enforcement Revolving Fund	244,800			244,800
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,086,800			2,086,800
Collection Enforcement Revolving Fund	6,869,700			6,869,700
Consumer Protection-Consumer Fraud Rev. Fund	5,094,000			5,094,000

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
Interagency Service Agreements Fund	14,773,000	800,000 <u>7/</u>		15,573,000
Internet Crimes Against Children Enforcement Fund	0		1,800,000 <u>8/</u>	1,800,000
Risk Management Revolving Fund	9,426,900			9,426,900
State Aid to Indigent Defense Fund	799,400			799,400
Victims' Rights Fund	3,759,400			3,759,400
Total - Attorney General - Department of Law	43,054,000	800,000	1,800,000	45,654,000
Automobile Theft Authority				
Automobile Theft Authority Fund	5,297,500			5,297,500
Barbers, Board of				
Board of Barbers Fund	335,400			335,400
Behavioral Health Examiners, Board of				
Board of Behavioral Health Examiners Fund	1,760,500			1,760,500
Child Safety, Department of				
Child Abuse Prevention Fund	1,459,300			1,459,300
Children and Family Services Training Program Fund	207,900			207,900
Federal Child Care and Development Fund Block Grant	27,000,000			27,000,000
Federal Temporary Assistance for Needy Families Block Grant	132,000,400		17,323,600 <u>9/</u>	149,324,000
Risk Management Revolving Fund	0		2,867,600 <u>9/</u>	2,867,600
Total - Department of Child Safety	160,667,600	0	20,191,200	180,858,800
Chiropractic Examiners, State Board of				
Board of Chiropractic Examiners Fund	451,400			451,400
Contractors, Registrar of				
Registrar of Contractors Fund	12,187,500			12,187,500
Corporation Commission				
Arizona Arts Trust Fund	50,100			50,100
Investment Management Regulatory and Enforcement Fund	712,600			712,600
Public Access Fund	6,541,400			6,541,400
Securities Regulatory and Enforcement Fund	4,898,700			4,898,700
Utility Regulation Revolving Fund	14,161,300			14,161,300
Total - Corporation Commission	26,364,100	0	0	26,364,100
Corrections, State Department of				
Alcohol Abuse Treatment Fund	555,300			555,300
Corrections Fund	27,517,800			27,517,800
Penitentiary Land Fund	979,200			979,200
Prison Construction and Operations Fund	13,686,000			13,686,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,200			1,861,200
State Education Fund for Correctional Education	673,400			673,400
Transition Program Fund	1,603,300			1,603,300
Total - State Department of Corrections	46,876,200	0	0	46,876,200
Cosmetology, Board of				

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
Board of Cosmetology Fund	1,807,700			1,807,700
Criminal Justice Commission, Arizona				
Criminal Justice Enhancement Fund	648,800			648,800
Drug and Gang Prevention Resource Center Fund	239,100			239,100
State Aid to County Attorneys Fund	973,600			973,600
Victim Compensation and Assistance Fund	4,094,700			4,094,700
Total - Arizona Criminal Justice Commission	<u>5,956,200</u>	<u>0</u>	<u>0</u>	<u>5,956,200</u>
Deaf and the Blind, Arizona Schools for the				
Schools for the Deaf and the Blind Fund	11,561,400			11,561,400
Deaf and the Hard of Hearing, Comm. for the				
Telecommunication Fund for the Deaf	4,312,800			4,312,800
Dental Examiners, State Board of				
Dental Board Fund	1,215,500			1,215,500
Economic Security, Department of				
Child Support Enforcement Administration				
Fund	16,719,600			16,719,600
Domestic Violence Services Fund	2,220,000			2,220,000
Federal Child Care and Development Fund				
Block Grant	107,773,600			107,773,600
Federal Temporary Assistance for Needy				
Families Block Grant	86,727,700		(9,905,000) <u>10/</u>	76,822,700
Long Term Care System Fund	31,251,300			31,251,300
Public Assistance Collections Fund	424,600			424,600
Special Administration Fund	2,939,700			2,939,700
Spinal and Head Injuries Trust Fund	1,874,800			1,874,800
Statewide Cost Allocation Plan Fund	1,000,000			1,000,000
Workforce Investment Act Grant	56,050,500			56,050,500
Total - Department of Economic Security	<u>306,981,800</u>	<u>0</u>	<u>(9,905,000)</u>	<u>297,076,800</u>
Education, State Board of				
Teacher Certification Fund	379,800			379,800
Education, Department of				
Department of Education Empowerment				
Scholarship Account Fund	399,000			399,000
Department of Education Professional				
Development Revolving Fund	0		2,700,000 <u>11/</u>	2,700,000
Permanent State School Fund	47,359,500	172,081,000 <u>12/</u>		219,440,500
Proposition 301 Fund	7,000,000			7,000,000
Technology-Based Language Development				
and Literacy Intervention Fund	246,800			246,800
Teacher Certification Fund	1,971,800			1,971,800
Tribal College Dual Enrollment Program Fund	0		160,000 <u>11/</u>	160,000
Total - Department of Education	<u>56,977,100</u>	<u>172,081,000</u>	<u>2,860,000</u>	<u>231,918,100</u>
Environmental Quality, Department of				
Air Quality Fund	5,369,300			5,369,300
Emergency Response Fund	132,800			132,800
Emissions Inspection Fund	28,381,700			28,381,700

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
Hazardous Waste Management Fund	1,738,800			1,738,800
Indirect Cost Recovery Fund	13,373,700			13,373,700
Permit Administration Fund	7,129,700			7,129,700
Recycling Fund	1,356,300			1,356,300
Solid Waste Fee Fund	1,241,000			1,241,000
Underground Storage Tank Fund Revolving Fund	22,000			22,000
Water Quality Fee Fund	10,528,000			10,528,000
Total - Department of Environmental Quality Exposition and State Fair Board, Arizona	<u>69,273,300</u>	<u>0</u>	<u>0</u>	<u>69,273,300</u>
Arizona Exposition and State Fair Fund	11,616,100			11,616,100
Financial Institutions, Department of				
Board of Appraisal Fund	821,400			821,400
Financial Services Fund	1,457,700			1,457,700
Total - Department of Financial Institutions	<u>2,279,100</u>	<u>0</u>	<u>0</u>	<u>2,279,100</u>
Funeral Directors and Embalmers, Board of				
Board of Funeral Directors' and Embalmers' Fund	352,200			352,200
Game and Fish Department, Arizona				
Capital Improvement Fund	1,000,900			1,000,900
Game and Fish Fund	35,347,700		1,752,000 <u>13/</u>	37,099,700
Game, Nongame, Fish and Endangered Species Fund	346,500			346,500
Watercraft Licensing Fund	5,134,100			5,134,100
Wildlife Endowment Fund	16,200			16,200
Total - Arizona Game and Fish Department	<u>41,845,400</u>	<u>0</u>	<u>1,752,000</u>	<u>43,597,400</u>
Gaming, Department of				
Tribal-State Compact Fund	2,089,900			2,089,900
Racing Regulation Fund	2,894,200			2,894,200
State Lottery Fund	300,000			300,000
Arizona Benefits Fund	11,082,900			11,082,900
Total - Department of Gaming	<u>16,367,000</u>	<u>0</u>	<u>0</u>	<u>16,367,000</u>
Health Services, Department of				
Arizona State Hospital Fund	9,575,300			9,575,300
ASH Land Earnings Fund	650,000			650,000
Capital Outlay Stabilization Fund	1,559,900			1,559,900
Child Fatality Review Fund	95,000			95,000
Emergency Medical Services Operating Fund	5,368,800		900 <u>3/</u>	5,369,700
Environmental Laboratory Licensure Revolving Fund	926,400			926,400
Federal Child Care and Development Fund				
Block Grant	876,100			876,100
Health Services Licensing Fund	9,264,200			9,264,200
Indirect Cost Fund	8,559,800			8,559,800
Newborn Screening Program Fund	6,738,300		200 <u>3/</u>	6,738,500
Nursing Care Institution Resident Protection Revolving Fund	138,200			138,200
Prescription Drug Rebate Fund	0		8,824,500 <u>14/</u>	8,824,500

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
Substance Abuse Services Fund	2,250,200			2,250,200
Tobacco Tax and Health Care Fund				
Health Research Account	3,000,000			3,000,000
Tobacco Tax and Health Care Fund				
Medically Needy Account	35,467,000		9,235,300 <u>14/</u>	44,702,300
Vital Records Electronic Systems Fund	3,629,000			3,629,000
Total - Department of Health Services	<u>88,098,200</u>	<u>0</u>	<u>18,060,900</u>	<u>106,159,100</u>
Homeopathic and Integrated Medicine				
Examiners, Board of				
Board of Homeopathic and Integrated Medicine				
Examiners' Fund	102,800			102,800
Housing, Department of				
Housing Trust Fund	318,500			318,500
Industrial Commission of Arizona				
Administrative Fund	19,940,300			19,940,300
Judiciary - Supreme Court				
Confidential Intermediary and Fiduciary Fund	488,400			488,400
Court Appointed Special Advocate Fund	2,942,800			2,942,800
Criminal Justice Enhancement Fund	4,363,800			4,363,800
Defensive Driving School Fund	4,197,300			4,197,300
Judicial Collection Enhancement Fund	14,014,900			14,014,900
State Aid to the Courts Fund	2,945,000			2,945,000
Total - Judiciary - Supreme Court	<u>28,952,200</u>	<u>0</u>	<u>0</u>	<u>28,952,200</u>
Judiciary - Superior Court				
Criminal Justice Enhancement Fund	5,542,000			5,542,000
Judicial Collection Enhancement Fund	6,022,200			6,022,200
Drug Treatment and Education Fund	502,400			502,400
Total - Judiciary - Superior Court	<u>12,066,600</u>	<u>0</u>	<u>0</u>	<u>12,066,600</u>
SUBTOTAL - Judiciary	<u>41,018,800</u>	<u>0</u>	<u>0</u>	<u>41,018,800</u>
Juvenile Corrections, Department of				
Criminal Justice Enhancement Fund	531,300			531,300
Department of Juvenile Corrections				
Local Cost Sharing Fund	12,000,000			12,000,000
State Charitable, Penal and Reformatory				
Institutions Land Fund	2,000,100			2,000,100
State Education Fund for Committed Youth	1,600,700			1,600,700
Total - Department of Juvenile Corrections	<u>16,132,100</u>	<u>0</u>	<u>0</u>	<u>16,132,100</u>
Land Department, State				
Due Diligence Fund	500,000			500,000
Environmental Special Plate Fund	260,500			260,500
Trust Land Management Fund	3,764,900			3,764,900
Total - State Land Department	<u>4,525,400</u>	<u>0</u>	<u>0</u>	<u>4,525,400</u>
Liquor Licenses and Control, Department of				
Liquor Licenses Fund	3,355,300			3,355,300
Lottery Commission, Arizona State				
State Lottery Fund	108,854,600	(481,600) <u>15/</u>		108,373,000

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
Massage Therapy, Board of Board of Massage Therapy Fund	455,800			455,800
Medical Board, Arizona Arizona Medical Board Fund	6,426,000			6,426,000
Mine Inspector, State Aggregate Mining Reclamation Fund	112,800			112,800
Naturopathic Physicians Medical Board Naturopathic Physicians Medical Board Fund	179,700			179,700
Navigable Stream Adjudication Commission Arizona Water Banking Fund	200,000			200,000
Nursing, State Board of Board of Nursing Fund	4,802,600			4,802,600
Nursing Care Institution Administrators Board Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	422,100			422,100
Occupational Therapy Examiners, Board of Occupational Therapy Fund	172,000			172,000
Opticians, State Board of Dispensing Board of Dispensing Opticians Fund	136,800			136,800
Optometry, State Board of Board of Optometry Fund	230,200			230,200
Osteopathic Examiners, Arizona Board of Board of Osteopathic Examiners Fund	803,700			803,700
Parks Board, Arizona State State Parks Revenue Fund	12,854,800			12,854,800
Personnel Board, State Personnel Board Subaccount of the Personnel Division Fund	375,700			375,700
Pest Management, Office of Pest Management Fund	1,699,500			1,699,500
Pharmacy, Arizona State Board of Arizona State Board of Pharmacy Fund	2,020,500			2,020,500
Physical Therapy, Board of Board of Physical Therapy Fund	480,400			480,400
Pioneers' Home, Arizona Miners' Hospital Fund	2,040,000			2,040,000
State Charitable Fund	4,164,900			4,164,900
Total - Arizona Pioneers' Home	6,204,900	0	0	6,204,900
Podiatry Examiners, State Board of Podiatry Fund	148,200			148,200
Postsecondary Education, Commission for Postsecondary Education Fund	1,534,800			1,534,800
Private Postsecondary Education, Board for Board for Private Postsecondary Education Fund	996,300			996,300

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals 2/	OF Enacted FY 2016
Psychologist Examiners, State Board of				
Board of Psychologist Examiners Fund	448,500			448,500
Public Safety, Department of				
Arizona Deoxyribonucleic Acid Identification				
System Fund	6,297,300			6,297,300
Arizona Highway Patrol Fund	20,397,100			20,397,100
Arizona Automated Fingerprint Identification System Fund	2,910,500			2,910,500
Concealed Weapons Permit Fund	1,391,400			1,391,400
Crime Laboratory Assessment Fund	870,300			870,300
Crime Laboratory Operations Fund	14,660,600			14,660,600
Criminal Justice Enhancement Fund	2,864,400			2,864,400
GIITEM Border Security and Law				
Enforcement Subaccount	2,390,000			2,390,000
Highway User Revenue Fund	96,409,200			96,409,200
Motorcycle Safety Fund	205,000			205,000
Parity Compensation Fund	2,115,500			2,115,500
Public Safety Equipment Fund	2,893,000			2,893,000
Risk Management Revolving Fund	1,228,100			1,228,100
Safety Enforcement and Transportation				
Infrastructure Fund - Department of				
Public Safety Subaccount	1,559,100			1,559,100
State Aid to Indigent Defense Fund	700,000			700,000
State Highway Fund	7,273,200			7,273,200
Total - Department of Public Safety	<u>164,164,700</u>	<u>0</u>	<u>0</u>	<u>164,164,700</u>
Radiation Regulatory Agency				
State Radiologic Technologist Certification				
Fund	272,500			272,500
Radiation Regulatory Fee Fund	<u>578,700</u>			<u>578,700</u>
Total - Radiation Regulatory Agency	<u>851,200</u>	<u>0</u>	<u>0</u>	<u>851,200</u>
Residential Utility Consumer Office				
Residential Utility Consumer Office				
Revolving Fund	1,335,000			1,335,000
Respiratory Care Examiners, Board of				
Board of Respiratory Care Examiners Fund	300,100			300,100
Retirement System, Arizona State				
Long-Term Disability Trust Fund Administration				
Account	2,800,000			2,800,000
Arizona State Retirement System Administration				
Account	<u>25,181,600</u>			<u>25,181,600</u>
Total - Arizona State Retirement System	<u>27,981,600</u>	<u>0</u>	<u>0</u>	<u>27,981,600</u>
Revenue, Department of				
Department of Revenue Administrative Fund	46,407,500			46,407,500
Liability Setoff Program Revolving Fund	398,000			398,000
Tobacco Tax and Health Care Fund	<u>678,900</u>			<u>678,900</u>
Total - Department of Revenue	<u>47,484,400</u>	<u>0</u>	<u>0</u>	<u>47,484,400</u>
School Facilities Board				

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
Access Our Best Public Schools Fund	23,900,000			23,900,000
Secretary of State				
Election Systems Improvement Fund	2,941,500			2,941,500
Records Services Fund	742,000			742,000
Total - Secretary of State	<u>3,683,500</u>	<u>0</u>	<u>0</u>	<u>3,683,500</u>
State Boards' Office				
Special Services Revolving Fund	215,800			215,800
Technical Registration, State Board of				
Technical Registration Fund	2,122,600			2,122,600
Transportation, Department of				
Air Quality Fund	74,200			74,200
Driving Under the Influence Abatement Fund	153,200			153,200
Highway User Revenue Fund	652,700			652,700
Motor Vehicle Liability Insurance				
Enforcement Fund	1,082,600			1,082,600
Safety Enforcement and Transportation				
Infrastructure Fund - Department of				
Transportation Subaccount	1,875,500			1,875,500
State Aviation Fund	1,622,900			1,622,900
State Highway Fund	341,899,700		3,500 <u>3/</u>	341,903,200
Transportation Department Equipment Fund	18,545,500			18,545,500
Vehicle Inspection and Certificate of Title				
Enforcement Fund	1,458,100			1,458,100
Total - Department of Transportation	<u>367,364,400</u>	<u>0</u>	<u>3,500</u>	<u>367,367,900</u>
Treasurer, State				
Border Security Trust Fund	12,100			12,100
Law Enforcement and Boating Safety Fund	2,183,800			2,183,800
State Treasurer Empowerment Scholarship				
Account Fund	79,700			79,700
State Treasurer's Operating Fund	2,571,800			2,571,800
State Treasurer's Management Fund	196,600			196,600
Total - State Treasurer	<u>5,044,000</u>	<u>0</u>	<u>0</u>	<u>5,044,000</u>
Universities				
Arizona State University - Tempe/DPC				
University Collections Fund	516,159,000	35,061,900 <u>16/</u>		551,220,900
Arizona State University - East Campus				
University Collections Fund	29,466,500	6,256,400 <u>16/</u>		35,722,900
Technology and Research Initiative Fund	2,000,000			2,000,000
Total - Arizona State University - East Campus	<u>31,466,500</u>	<u>6,256,400</u>	<u>0</u>	<u>37,722,900</u>
Arizona State University - West Campus				
University Collections Fund	40,917,600	3,323,800 <u>16/</u>		44,241,400
Technology and Research Initiative Fund	1,600,000			1,600,000
Total - Arizona State University - West Campus	<u>42,517,600</u>	<u>3,323,800</u>	<u>0</u>	<u>45,841,400</u>
Northern Arizona University				
University Collections Fund	132,857,500	12,429,100 <u>16/</u>		145,286,600
University of Arizona - Main Campus				

	OF FY 2016 Approp Rpt July 2015	OF Adjustments	OF FY 2016 Supplementals <u>2/</u>	OF Enacted FY 2016
University Collections Fund	300,783,000	60,366,600 <u>16/</u>		361,149,600
University of Arizona - Health Sciences Center				
University Collections Fund	43,315,600	738,200 <u>16/</u>		44,053,800
SUBTOTAL - Universities	1,067,099,200	118,176,000	0	1,185,275,200
Veterans' Services, Department of				
State Veterans' Conservatorship Fund	902,900			902,900
State Home for Veterans Trust Fund	30,986,600		278,000 <u>17/</u>	31,264,600
Total - Department of Veterans' Services	31,889,500	0	278,000	32,167,500
Veterinary Medical Examining Board				
Veterinary Medical Examining Board Fund	545,200			545,200
Water Resources, Department of				
Assured and Adequate Water Supply Admin Fund	266,600			266,600
Water Resources Fund	641,200			641,200
Water Banking Fund	1,448,500			1,448,500
Total - Department of Water Resources	2,356,300	0	0	2,356,300
Weights and Measures, Department of				
Air Quality Fund	1,439,800			1,439,800
Motor Vehicle Liability Insurance Enf. Fund	329,400			329,400
Total - Department of Weights and Measures	1,769,200	0	0	1,769,200
OPERATING BUDGET TOTAL	3,253,177,200	290,575,400	\$71,068,800	\$3,614,821,400
Unallocated AFIS Cost Charges	4,484,100			4,484,100
Unallocated HITF Employer Rate Reduction	(2,952,200)			(2,952,200)
Capital Outlay Projects	282,447,500			282,447,500
GRAND TOTAL	3,537,156,600	290,575,400	\$71,068,800	\$3,898,800,800

FY 2016 EXPENDITURE AUTHORITY CROSSWALK - ORIGINAL TO FINAL ESTIMATES

AHCCCS	\$7,142,159,200	\$29,227,100 <u>18/</u>	\$539,311,600 <u>19/</u>	\$7,710,697,900
Child Safety, Department of	330,400,000		21,418,500 <u>20/</u>	351,818,500
Economic Security, Department of	858,067,100		14,893,200 <u>21/</u>	872,960,300
Health Services, Department of	1,239,957,100		112,373,300 <u>22/</u>	1,352,330,400
GRAND TOTAL	\$9,570,583,400	\$29,227,100	\$687,996,600	\$10,287,807,100

1/ This chart provides a crosswalk between an agency's original appropriation in the *FY 2016 Appropriations Report* and its final FY 2016 appropriation, excluding capital appropriations.

2/ Reflects changes enacted in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) and additional appropriations in the 2nd Regular Session. Any supplementals enacted prior to the 2nd Regular Session are reflected in the Adjustments column.

OF
FY 2016
Approp Rpt
July 2015

OF
Adjustments

OF
FY 2016
Supplementals 2/

OF
Enacted
FY 2016

- 3/ Appropriated by Laws 2016, Chapter 45, the Named Claimants Bill.
- 4/ Section 110 of the FY 2017 General Appropriation Act.
- 5/ Section 111 of the FY 2017 General Appropriation Act.
- 6/ Section 112 of the FY 2017 General Appropriation Act.
- 7/ In October 2015, the Attorney General notified the JLBC that it expected to use its full FY 2016 ISA Fund appropriation of \$14,733,000 and would also need to use 8.75 FTE Positions of the total 11 FTE Positions and the entire \$800,000 reserve appropriation provided in a FY 2016 General Appropriation Act footnote.
- 8/ Appropriated by Laws 2016, Chapter 1.
- 9/ Section 113 of the FY 2017 General Appropriation Act.
- 10/ Section 116 of the FY 2017 General Appropriation Act.
- 11/ Section 117 of the FY 2017 General Appropriation Act.
- 12/ Laws 2015, 1st Special Session, Chapter 1 appropriated additional monies for education finance. This appropriation was conditional upon the passage of Proposition 123 at the May 17, 2016 Special Election. Proposition 123 was approved.
- 13/ Section 120 of the FY 2017 General Appropriation Act.
- 14/ Section 121 of the FY 2017 General Appropriation Act.
- 15/ Revised Lottery forecast.
- 16/ Reflects tuition collections receipts above the amount appropriated by the Legislature in FY 2016. A footnote in the FY 2016 General Appropriation Act appropriated any tuition collections receipts above the appropriated amount to the university.
- 17/ Section 127 of the FY 2017 General Appropriation Act.
- 18/ Pursuant to footnotes in the FY 2016 General Appropriation Act, appropriations of FY 2016 expenditure authority were increased to reflect excess payments made to the Graduate Medical Education line item.
- 19/ Section 112 of the FY 2017 General Appropriation Act.
- 20/ Section 113 of the FY 2017 General Appropriation Act.
- 21/ Section 116 of the FY 2017 General Appropriation Act.
- 22/ Section 121 of the FY 2017 General Appropriation Act.

**JLBC STAFF AND
AGENCY DIRECTORY LISTINGS**

JOINT LEGISLATIVE BUDGET COMMITTEE

The Joint Legislative Budget Committee was established in 1966, pursuant to Laws 1966, Chapter 96. The primary powers and duties of the JLBC relate to ascertaining facts and making recommendations to the Legislature regarding all facets of the state budget, state revenues and expenditures, future fiscal needs, and the organization and functions of state government. The following members serve on the Committee during the 52nd Legislature:

Representative Justin Olson Chairman 2015	Senator Don Shooter Chairman 2016
Representative Lela Alston	Senator Olivia Cajero Bedford
Representative Russell "Rusty" Bowers	Senator Steve Farley
Representative Vince Leach	Senator Gail Griffin
Representative Stefanie Mach	Senator Katie Hobbs
Representative Darin Mitchell	Senator John Kavanagh
Representative Steve Montenegro	Senator Debbie Lesko
Representative Michelle Ugenti-Rita	Senator Steven B. Yarbrough

The objectives and major products of the staff of the JLBC are:

- Analysis and recommendations for the state budget, which is presented in January of each year.
- Technical, analytical, and preparatory support in the development of appropriations bills considered by the Legislature.
- Periodic economic and state revenue forecasts.
- Preparation of fiscal notes on legislation and ballot propositions that have a fiscal impact on the state or any of its political subdivisions.
- An annual *Appropriations Report*, which is published shortly after the budget is completed and provides detail on the budget along with an explanation of legislative intent.
- Support to the JLBC with respect to recommendations on business items placed on the committee's agenda such as transfers of appropriations pursuant to A.R.S. § 35-173.
- Support to the Joint Committee on Capital Review (JCCR) with respect to all capital outlay issues including land acquisition, new construction, and building renewal projects.
- Analyze the state tax structure, tax burdens on individuals and businesses and tax incentives for businesses pursuant to A.R.S. § 41-1272A4.

Joint Legislative Budget Committee
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JLBC Website: <http://www.azleg.gov/jlbc.htm>

JOINT COMMITTEE ON CAPITAL REVIEW

The Joint Committee on Capital Review (JCCR) was first established on April 11, 1986, pursuant to Laws 1986, Chapter 85. The primary powers and duties of the Joint Committee on Capital Review relate to ascertaining facts and making recommendations to the Legislature regarding state expenditures for land, buildings and improvements. This portion of the state budget is known as “capital outlay.” The following members serve on the Committee during the 52nd Legislature:

Senator Don Shooter Chairman 2015	Representative Justin Olson Chairman 2016
Senator Olivia Cajero Bedford	Representative Lela Alston
Senator Steve Farley	Representative Rick Gray
Senator Gail Griffin	Representative Vince Leach
Senator Katie Hobbs	Representative Eric Meyer, M.D.
Senator John Kavanagh	Representative Steve Montenegro
Senator Steven B. Yarbrough	Vacant

The JCCR is staffed by the JLBC Staff. The objectives and major products of the JCCR are:

- Recommend capital appropriations to the Legislature.
- Approve capital transfers within a budget unit.
- Review the scope, purpose and cost of projects before releasing appropriations.
- Develop “Building Renewal Formula.”
- Approve the use of Building Renewal funds for infrastructure repair.
- Approve lease-purchase agreements, and the acquisition of certain real property and buildings.
- Approve corrections facilities expenditures from the Corrections Fund.
- Review the issuance of revenue bonds by the Board of Regents.
- Approve Arizona Department of Administration land and building purchases and condemnations.
- Review “Capital Improvement Plans.”
- Determine rental rates for buildings owned by or leased to the state.
- Review Community College District revenue bond projects.
- Review School Facilities Board assumptions for new school construction.
- Review School Facilities Board lease-to-own agreements.

APPROPRIATIONS COMMITTEE MEMBERS
Fifty-second Legislature
Second Regular Session

SENATE

Don Shooter, Chairman
 John Kavanagh, Vice-Chairman
 Sylvia Allen
 Olivia Cajero Bedford
 Steve Farley
 Katie Hobbs
 Debbie Lesko
 Steve Smith

HOUSE

Justin Olson, Chairman
 Vince Leach, Vice-Chairman
 John Allen
 Lela Alston
 Russell Bowers
 Mark Cardenas
 Charlene Fernandez
 Rick Gray
 Stefanie Mach
 Eric Meyer
 Warren Petersen
 Anthony Rivero
 David Stevens
 Michelle Ugenti-Rita

STAFF OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE

- Director..... Richard Stavneak
- Office Manager Linda Monsanto
- Deputy Directors Steve Schimpp
 Stefan Shepherd
- Assistant Director Jack Brown
- Chief Economist..... Hans Olofsson
- Principal Fiscal Analysts..... Eric Billings
 Bob Hull
- Senior Fiscal Analysts..... Ben Beutler
 Steve Grunig
 Micaela Larkin
 Krista MacGahan
 Tom Ritland
 Jon Stall
- Fiscal Analysts..... Matt Beienburg
 Henry Furtick
 Jeremy Gunderson
 Josh Hope
 Patrick Moran
 Rebecca Perrera
- Administrative Assistant/JLBC & JCCR Clerk..... Kristy Paddack

**DIRECTORY OF JLBC ANALYSTS
AND AGENCY/DEPARTMENT HEADS
(As of June 30, 2016)**

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Accountancy, Arizona State Board of	Steve Grunig	Monica Petersen [Executive Director]	602-364-0870
Acupuncture Board of Examiners	Steve Grunig	Pete Gonzalez [Director]	602-542-3095
Administration, Arizona Department of	Rebecca Perrera	Craig Brown [Director]	602-542-1500
Administrative Hearings, Office of	Bob Hull	Greg Hanchett [Interim Director]	602-542-9853
African-American Affairs, Arizona Commission of	Rebecca Perrera	Cloves Campbell [Executive Director]	602-542-5484
Agriculture, Arizona Department of	Henry Furtick	Mark Killian [Director]	602-542-5729
Arizona Health Care Cost Containment System	Jon Stall/Patrick Moran	Thomas J. Betlach [Director]	602-417-4111
Arizona State University	Matt Beienburg	Michael Crow, Ph.D. [President]	480-965-8972
Arts, Arizona Commission on the	Krista MacGahan	Robert Booker [Executive Director]	602-771-6501
Athletic Training, Board of	Henry Furtick	Karen Whiteford [Executive Director]	602-589-8353
Attorney General - Department of Law	Eric Billings	Honorable Mark Brnovich [Attorney General]	602-542-5025
Auditor General	Steve Grunig	Debra K. Davenport [Auditor General]	602-553-0333
Automobile Theft Authority	Eric Billings	Frederick Zumbo [Executive Director]	602-364-2888
Barbers, Board of	Steve Grunig	Sam LaBarbera [Executive Director]	602-542-4498
Behavioral Health Examiners, Board of	Steve Grunig	Tobi Zavala [Executive Director]	602-542-1884
Charter Schools, State Board for	Matt Beienburg	Whitney Chapa [Executive Director]	602-364-3080
Child Safety, Department of	Ben Beutler	Greg McKay [Director]	602-542-5844
Chiropractic Examiners, State Board of	Steve Grunig	Pamela Paschal [Executive Director]	602-864-5088
Citizens Clean Elections Commission	Krista MacGahan	Thomas M. Collins [Executive Director]	602-364-3477
Commerce Authority, Arizona	Eric Billings	Sandra Watson [President and CEO]	602-845-1252
Community Colleges, Arizona	Tom Ritland	--	--
Constable Ethics Standards and Training Board	Steve Grunig	Ron Myers [Chairman]	602-252-6563
Contractors, Registrar of	Bob Hull	Jeffrey Fleetham [Director]	602-771-6700
Corporation Commission	Jeremy Gunderson	Honorable Doug Little [Chairman]	602-542-3625
Corrections, State Department of	Micaela Larkin	Charles L. Ryan [Director]	602-542-5225
Cosmetology, Board of	Steve Grunig	Donna Aune [Director]	480-784-4539
Court of Appeals, Division I	Eric Billings	Honorable Michael Brown [Chief Judge]	602-542-1432
Court of Appeals, Division II	Eric Billings	Honorable Peter Eckerstrom [Chief Judge]	520-628-6950
Criminal Justice Commission, Arizona	Krista MacGahan	Andrew LeFevre [Executive Director] ^{1/}	602-364-1146
Deaf and the Blind, Arizona State Schools for the	Henry Furtick	Marv Lamer [Interim Superintendent]	520-770-3704
Deaf and the Hard of Hearing, Commission for the	Henry Furtick	Sherri L. Collins [Executive Director]	602-542-3383
Dental Examiners, State Board of	Bob Hull	Elaine Hugunin [Executive Director]	602-542-4451
Early Childhood Development and Health Board, Arizona	Ben Beutler	Sam Leyvas [Executive Director]	602-771-5100
Economic Opportunity, Office of	Eric Billings	To Be Determined	
Economic Security, Department of	Tom Ritland	Tim Jeffries [Director]	602-542-5678
Education, State Board of	Matt Beienburg	Karol Schmidt [Executive Director]	602-542-5057
Education, Department of	Steve Schimpp/ Matt Beienburg	Honorable Diane Douglas [Superintendent of Public Instruction]	602-542-5460
Emergency and Military Affairs, Department of	Eric Billings	Michael McGuire [Adjutant General]	602-267-2710
Environmental Quality, Department of	Josh Hope	Misael Cabrera [Director]	602-771-2204
Equal Opportunity, Governor's Office of	Bob Hull	Barry Wong [Executive Director]	602-542-5723
Equalization, State Board of	Jeremy Gunderson	George R. Shook [Interim Chairman]	602-364-1611
Executive Clemency, Board of	Krista MacGahan	Ellen Kirschbaum [Chairman]	602-542-5656
Exposition and State Fair Board, Arizona	Steve Grunig	Wanell Costello [Executive Director]	602-252-6771
Financial Institutions, Department of	Jeremy Gunderson	Bob Charlton [Superintendent]	602-771-2800
Forestry and Fire Management, Arizona Department of	Krista MacGahan	Jeff Whitney [State Forester]	602-771-1400
Funeral Directors and Embalmers, State Board of	Steve Grunig	Rodolfo R. Thomas [Executive Director]	602-542-8152
Game and Fish Department, Arizona	Krista MacGahan	Larry Voyles [Director]	602-942-3000
Gaming, Department of	Henry Furtick	Daniel Bergin [Director]	602-771-4263
Governor, Office of the	Bob Hull	Honorable Doug Ducey [Governor]	602-542-4331
Governor's Office of Strategic Planning and Budgeting	Bob Hull	Lorenzo Romero [Director]	602-542-5381

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Health Services, Department of	Patrick Moran	Dr. Cara Christ [Director]	602-542-1025
Historical Society, Arizona	Josh Hope	Anne I. Woosley [Executive Director]	520-628-5774
Historical Society of Arizona, Prescott	Josh Hope	Fred Veil [Executive Director]	928-445-3122
Homeland Security, Arizona Department of	Krista MacGahan	Gilbert M. Orrantia [Director]	602-542-7013
Homeopathic and Integrated Medicine Examiners, Board of	Steve Grunig	Christine Springer [Executive Director]	602-542-3095
House of Representatives	Bob Hull	Honorable David Gowan [Speaker of the House]	602-926-3312
Housing, Arizona Department of	Henry Furtick	Michael Traylor [Director]	602-771-1000
Independent Redistricting Commission	Krista MacGahan	Ray Bladine [Executive Director]	602-542-5221
Industrial Commission of Arizona	Bob Hull	James Ashley [Director]	602-542-4411
Insurance, Department of	Jeremy Gunderson	Leslie Hess [Interim Director]	602-364-3471
Joint Legislative Budget Committee	Bob Hull	Richard Stavneak [Director]	602-926-5491
Juvenile Corrections, Department of	Eric Billings	Dona Marie Markley [Acting Director]	602-364-4051
Land Department, State	Matt Beienburg	Lisa Atkins [Land Commissioner]	602-542-4631
Legislative Council	Bob Hull	Mike E. Braun [Executive Director]	602-926-4236
Liquor Licenses and Control, Department of	Jeremy Gunderson	John Cocca [Director]	602-542-9020
Lottery Commission, Arizona State	Jeremy Gunderson	Gregory Edgar [Executive Director]	480-921-4505
Massage Therapy, Board of	Steve Grunig	Kathleen Phillips [Executive Director]	602-542-8804
Medical Board, Arizona	Patrick Moran	Patricia McSorley [Executive Director]	480-551-2791
Mine Inspector, State	Krista MacGahan	Honorable Joe Hart [State Mine Inspector]	602-542-5971
Naturopathic Physicians Medical Board	Steve Grunig	Gail Anthony [Director]	602-542-8242
Navigable Stream Adjudication Commission, Arizona	Henry Furtick	George Mehnert [Executive Director]	602-542-9214
Northern Arizona University	Matt Beienburg	Rita Cheng, Ph.D. [President]	928-523-3232
Nursing, State Board of	Bob Hull	Jo Elizabeth Ridenour [Executive Director]	602-771-7800
Nursing Care Institution Administrators and Assisted Living Facility Managers, Board of Examiners of	Steve Grunig	Allen Imig [Executive Director]	602-542-8156
Occupational Therapy Examiners, Board of	Steve Grunig	Karen Whiteford [Executive Director]	602-589-8352
Opticians, State Board of Dispensing	Steve Grunig	Lori D. Scott [Executive Director]	602-542-8158
Optometry, State Board of	Steve Grunig	Margaret Whelan [Executive Director]	602-542-8155
Osteopathic Examiners, Arizona Board of	Jeremy Gunderson	Jenna Jones [Executive Director]	480-657-7703
Parents Commission on Drug Education and Prevention, AZ	Bob Hull	Debra Moak [Program Administrator]	602-364-0417
Parks Board, Arizona State	Krista MacGahan	Sue Black [Executive Director]	602-542-4174
Personnel Board, State	Bob Hull	Laurie Barcelona [Executive Director]	602-542-3888
Pharmacy, Arizona State Board of	Henry Furtick	Kamlesh Gandhi [Executive Director]	602-771-2740
Physical Therapy, Board of	Steve Grunig	Charles Brown [Executive Director]	602-542-8157
Pioneers' Home, Arizona	Rebecca Perrera	Ted Ihrman [Superintendent]	928-445-2181
Podiatry Examiners, State Board of	Steve Grunig	Ryan Edmonson [Executive Director]	602-542-8151
Postsecondary Education, Commission for	Rebecca Perrera	April L. Osborn [Executive Director]	602-258-2435
Power Authority, Arizona	Krista MacGahan	Robert W. Johnson [Acting Executive Director]	602-368-4265
Private Postsecondary Education, State Board for	Steve Grunig	Teri R. Stanfill [Executive Director]	602-542-2399
Psychologist Examiners, State Board of	Steve Grunig	Cindy Olvey [Director]	602-542-8162
Public Safety, Department of	Eric Billings	Frank Milstead [Director]	602-223-2359
Public Safety Personnel Retirement System	Josh Hope	Jared Smout [Administrator]	602-255-5575
Radiation Regulatory Agency	Henry Furtick	Aubrey V. Godwin [Director]	602-255-4845
Real Estate Department, State	Steve Grunig	Judy Lowe [Commissioner]	602-771-7799
Regents, Arizona Board of	Matt Beienburg	Eileen Klein [President]	602-229-2500
Residential Utility Consumer Office	Jeremy Gunderson	David Tenney [Director]	602-364-4835
Respiratory Care Examiners, Board of	Steve Grunig	Jack Confer [Director]	602-542-5995
Retirement System, Arizona State	Josh Hope	Paul Matson [Director]	602-240-2000
Revenue, Department of	Jeremy Gunderson	David Briant [Director]	602-716-6090
School Facilities Board	Josh Hope	Kerry Campbell [Interim Director]	602-542-6504
Secretary of State, Department of State	Krista MacGahan	Honorable Michele Reagan [Secretary of State]	602-542-4285
Senate	Bob Hull	Honorable Andy Biggs [President of the Senate]	602-926-4371
State Boards' Office	Steve Grunig	Susie Myers [Administrator]	602-542-3095
Superior Court	Eric Billings	David K. Byers [Director]	602-452-3301
Supreme Court	Eric Billings	Scott Bales [Chief Justice]	602-452-3534
Tax Appeals, State Board of	Jeremy Gunderson	Karen Rice-Brogdon [Chairperson]	602-364-1102

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Technical Registration, State Board of Tourism, Office of Transportation, Department of Treasurer, State Tribal Relations, Governor's Office on	Henry Furtick Henry Furtick Ben Beutler Eric Billings Bob Hull	Melissa Cornelius [Executive Director] Debbie Johnson [Director] John Halikowski [Director] Honorable Jeff DeWit [State Treasurer] Kristine FireThunder [Executive Director]	602-364-4930 602-364-3717 602-712-7227 602-604-7800 602-542-4421
University of Arizona Veterans' Services, Department of Veterinary Medical Examining Board, Arizona State Water Resources, Department of	Micaela Larkin Rebecca Perrera Steve Grunig Micaela Larkin	Ann Weaver Hart, Ph.D. [President] Colonel Wanda Wright [Director] Victoria Whitmore [Executive Director] Thomas Buschatzke [Director]	520-621-5511 602-255-3373 602-542-8150 602-771-1301
<u>OTHER ASSIGNMENTS</u>			
Capital Review Economic and Revenue Forecast	Jack Brown Hans Olofsson Jack Brown Jon Stall		
Federal/Non-Appropriated Funds Fiscal Note Manager	Stefan Shepherd Stefan Shepherd		

[] Denotes Title for Information Purposes

1/ Andrew LeFevre will become the Director of the Arizona Criminal Justice Commission effective July 5, 2016.