

FY 2017
Baseline Book

January 2016

JLBC

FY 2017 BASELINE BOOK

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FY 2017 BASELINE SUMMARY

Overview

The FY 2017 Baseline provides an estimate of the state's General Fund balances. The revenue projections reflect a consensus economic forecast while the spending estimates represent active funding formula requirements and other obligations. The Baseline does not represent a budget proposal, but an estimate of available resources after statutory requirements.

A.R.S. § 35-125 requires that the General Appropriation Act annually delineate the revenue and expenditure projections for 3 years. The budget, however, would only provide actual appropriations for FY 2017.

In terms of the budget outlook:

- Total FY 2017 General Fund revenue is projected to be \$10.0 billion. Revenues would be \$256 million more than in FY 2016. Prior to tax law changes and other adjustments, the 4-sector consensus base revenues are forecast to grow by \$389 million, or 4.0%. Including all tax law changes and other adjustments, revenues would grow from \$9.74 billion to \$10.0 billion, or 2.6%.
- In comparison, FY 2017 spending is projected to be \$9.37 billion. This amount reflects \$130 million, or 1.4%, growth in expenditures, which is limited to current funding formulas and previously-enacted adjustments. K-12 growth of \$84 million and Medicaid growth of \$79 million are offset by declines in one-time information technology, capital, Department of Child Safety (DCS) spending, and technical adjustments for administrative adjustments and revertsments.
- The projected FY 2017 ending balance is \$625 million. Assuming that the \$625 million balance is allocated in the FY 2017 process, the balance would be \$148 million in FY 2018 and \$325 million in FY 2019.
- The Baseline assumes passage of Proposition 123 at the May 2016 Special Election, which would have a total fiscal impact of \$299 million in FY 2016. The funding would be generated from increasing the State Land Trust distribution rate from 2.5% to 6.9% per year (\$172 million), adding \$52 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 would be \$3.5 billion.
- These cash balance estimates do not include \$460 million in the state's Rainy Day reserve (Budget Stabilization Fund).

FY 2016

The FY 2016 ending balance is currently projected to be \$499 million, an increase of \$535 million from the original budget estimate of a \$(35) million shortfall. Total revenues, including the beginning balance, are forecast to be \$9.74 billion compared to spending of \$9.24 billion. The \$535 million adjustment has 4 components:

- An increase of \$312 million in ongoing revenues under the updated January consensus forecast, the result of higher-than-budgeted FY 2015 revenues offset by a slightly lower base revenue growth rate of 3.5% (down from 3.8%).
- An increase of \$29 million in estimated one-time financing sources, primarily due to higher-than-projected collections from the September to October 2015 Tax Amnesty program.
- Increased balance forward from FY 2015. The original budget assumed an ending balance of \$12 million for FY 2015. The actual balance carried forward into FY 2016 was \$312 million, an increase of \$300 million.
- An increase of \$107 million in FY 2016 expenditures, including \$52 million for General Fund spending required assuming the passage of Proposition 123 at the May Special Election, \$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, \$15 million for higher-than-expected administrative adjustments (expenditures for FY 2015 bills received in FY 2016), and \$9 million for the cost of the May Special Election.

FY 2017 Baseline Revenues

Base revenues are forecast to grow in FY 2017; in addition, one-time revenues are projected to grow slightly from FY 2016 to FY 2017. Overall FY 2017 collections would increase to \$10.0 billion, or \$256 million above the revised FY 2016 estimate for the following reasons:

- Based on JLBC's 4-sector consensus, FY 2017 base revenues are projected to grow by \$389 million, or 4.0%. Base revenues reflect the underlying growth in the economy and exclude one-time adjustments, urban revenue sharing and new tax law changes.
- The growth in base revenues would be accompanied by an increase in the balance forward as the FY 2016 carry forward into FY 2017 of \$499 million is \$187 million higher than the FY 2015 carry forward of \$312 million.
- 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 legislative changes would reduce state revenue by \$(98) million, primarily from the continued phase-in of a corporate income tax rate reduction from 6.968% to 4.9%, the phase-in of a change in how multi-state corporations are permitted to treat sales in calculating tax liability ("corporate sales factor"), and an increase in the cap for the corporate school tuition organization tax credit.
- The FY 2017 Baseline excludes \$47 million from the fall 2015 Tax Amnesty program that would not be continued.
- Discontinuing FY 2016 fund transfers would reduce revenue by \$(217) million, offset by a previously-enacted FY 2017 fund transfer of \$100 million from the state's Health Insurance Trust Fund.
- Including all tax law changes and other adjustments, revenues would grow from \$9.74 billion to \$10.0 billion, or 2.6%.

The 4-sector estimate was developed using a consensus forecasting process. This consensus equally weights the results of 4 forecasts:

- The Finance Advisory Committee (FAC), an independent 14-member group of public and private sector economists;
- The University of Arizona Economic and Business Research (EBR) Center's econometric forecasting baseline model;
- The EBR's conservative forecast model; and
- The JLBC Staff forecast.

The FY 2017 base revenue growth rate of 4.0% reflects modest growth, reflecting the continuation of recent trends:

- Core General Fund revenues -- sales tax and individual income tax withholding -- remain below historical norms.
- Sales tax and withholding growth in FY 2015 was 4.7% and 3.4%, respectively; in the first half of FY 2016, those figures are 2.5% and 2.8%, adjusted for amnesty.
- Lower growth rates potentially reflect the ongoing impact of the Great Recession, as well as the state's larger size.
- Corporate tax is difficult to forecast -- in 22 of the past 28 fiscal years, annual change has been greater than +/- 10%.

(See the General Fund Revenue section for more information.)

FY 2017 Baseline Spending

Based on statutory funding formulas and other obligations, FY 2017 Baseline spending is projected to be \$9.37 billion, a \$130 million, or a 1.4%, increase above FY 2016. The major adjustments are:

- Department of Education spending would increase by \$84 million due to 1.4% growth in student enrollment, a 1.15% inflation factor, and a higher state share of homeowner K-12 property taxes. The Baseline includes savings associated with eliminating the "hold harmless" provision for district student growth declines and Joint Technical Education District (JTED) formula reductions as enacted in the FY 2016 budget.
- The Baseline assumes passage of Proposition 123 at the May 2016 Special Election, which would have a total fiscal impact of \$299 million in FY 2016. The funding would be generated from increasing the State Land Trust distribution rate from 2.5% to 6.9% per year (\$172 million), adding \$52 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 would be \$3.5 billion.

- AHCCCS Medicaid spending would grow by a net of \$79 million, reflecting 2.5% caseload growth and a 1.5% capitation rate increase offset by a higher federal matching rate. The Baseline shifts \$517 million of behavioral health spending from DHS to AHCCCS in accordance with 2015 legislation requiring the transfer.
- The Department of Economic Security (DES) budget would also increase by \$24 million primarily for Developmental Disabilities Medicaid growth.
- Department of Corrections spending would increase \$23 million, including \$18 million for opening 1,000 medium-security private beds in September 2016 and \$5 million for previously-approved contract increases for inmate health care.
- One-time spending for capital, information technology and DCS backlog funding would not be repeated in FY 2017, reducing spending by \$(18) million.

The \$9.37 billion spending level would support a Full-Time Equivalent (FTE) Position ceiling of 51,898 state employees.

Forecast Risks

As an estimate of state revenues and spending obligations, there are both positive and negative risks to the JLBC Baseline estimates. Because small percent changes in growth assumptions can have a substantial impact – over 3 years, a 1% change in base revenue growth could change available revenues by \$625 million through FY 2019 – these risks could significantly change the final results of these budgets.

The potential gains to the forecast include:

- Improving national economic recovery: The national economy has been improving since the second quarter of 2014. Stronger economic growth, better job prospects, and an increase in consumer confidence could translate into increased net migration to the state, which would also result in more demand for housing and an overall boost to the Arizona economy and related revenue growth.

The potential losses to the forecast include:

- Possibility of recession: The current expansion is 79 months in length, and is already significantly longer than the 58-month average for economic expansions since World War II. If the expansion were to continue through the end of FY 2019, it would equal the post-1991 economic expansion for longest expansion since World War II.
- Litigation expenses: Beyond the K-12 inflation litigation, which Proposition 123 addresses and whose impact has been incorporated into the Baseline presuming that it is approved at the May Special Election, the state faces other unresolved and potential litigation impacts that have not been incorporated into the Baseline. These impacts include the following:
 - Higher state employer contribution rates related to retirement litigation (a potential ongoing minimum of \$18 million): Only reflects potential impact for elected officials’ retirement systems; potential annual impact on public safety and correctional retirement systems not yet calculated.
 - Hospital assessment litigation (a potential ongoing minimum impact of \$94 million): If the hospital assessment was eliminated, the state would at least have the cost of backfilling the assessment used to fund the mandatory Proposition 204 parents program. The cost would be substantially higher if childless adults were retained on the program.
 - Rental Car surcharge litigation (potential one-time impact of \$150 million): A Superior Court ruling that the rental car surcharge used to help fund the Arizona Sports and Tourism Authority is unconstitutional also stated that the state, and not the Authority, had the initial legal responsibility to pay the collected surcharges.
 - Foster care litigation (unknown potential impact): A 2015 suit filed in U.S. District Court alleges failures regarding access to care, timeliness of investigations, retaining foster homes, and maintaining family relationships.

JLBC Staff Suggested Budget Reforms and Process Improvements

Based on its review of agency requests in preparing this Baseline, the JLBC Staff has developed several suggestions to improve legislative oversight and transparency of government spending, including:

Do Not Overcommit One-Time Cash Balance: The FY 2017 Baseline has an estimated ending cash balance of \$625 million, but a structural balance of just \$26 million. While this structural Baseline balance is estimated to grow to \$325 million by FY 2019, that estimate assumes no discretionary initiatives will be approved during the next 3 years. Expending the one-time cash for ongoing programs in FY 2017 would recreate the structural shortfall in FY 2018 and FY 2019.

Dedicate One-Time Revenues for One-Time Spending: The Legislature has several options for using the cash balance for one-time purposes that would not generate a structural shortfall. These options include:

- Paying off some of \$1.2 billion of “rollovers” (deferrals of current-year obligations to the following fiscal year).
- Funding Information Technology initiatives: the Department of Revenue (DOR) and DCS are two departments considering multi-million dollar replacements of current systems.
- Infrastructure and other capital improvements, including supplementing Highway User Revenue Fund (HURF) spending for state and local transportation projects with General Fund monies
- Paying off some of the \$1.1 billion of operating budget-related debt incurred during the Great Recession.

Establish Formal Process for Future Unanticipated Revenues: The Legislature may consider whether to deposit one-time revenues into a new special initiatives fund for one-time purposes. One-time revenues would include higher-than-expected General Fund balances and unusually large income tax collections from capital gains. The latter would require developing a reporting mechanism for “excess” capital gain tax growth so as to permit the deposit of these monies into the one-time special initiatives fund.

While the tax base for most General Fund revenue categories is fairly stable over time, other revenue sources are inherently volatile. For example, it is not unusual for capital gains and corporate income tax to grow at double-digit rates in one year only to be followed by double-digit rate declines in the next year. Such large swings in revenue collections make the budgeting process more difficult.

Voters in California approved a ballot measure (“Proposition 2”) in 2014 that requires the state to deposit any “excess” revenue from capital gains taxes into its Rainy Day Fund. In addition, the state deposits 1.5% of its General Fund revenue into the fund. Half of the fund remains in reserve while the other half is used to buy down state debts, including unfunded retirement and operating loans.

Increase Oversight of DCS Transfers: Due to the scale and number of the transfers DCS made between its line items, the JLBC Staff has concerns that DCS may not be allocating resources in a manner consistent with legislative intent and suggests the Legislature consider requiring JLBC review before any transfer of resources among DCS line items. In particular, DCS has moved substantial resources from in-home to out-of-home services.

Revise Legislatively-Referred Measure on Land Department Administration: In 2015, the Legislature approved SCR 2018, which will allow 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. The Baseline would modify the referral and other permanent law to clarify the uses of the trust land proceeds, increase legislative oversight and reduce the potential beneficiary impact.

Clarify “1% Cap” Process: The FY 2016 Baseline noted that while the Arizona Constitution prohibits homeowners from paying more than 1% of their assessed value in primary property taxes from all sources, the Constitution does not specify the solution if a local jurisdiction exceeds 1%. The state has effectively picked up all the difference. The FY 2016 budget included a provision to share that obligation among the relevant jurisdictions, but the JLBC Staff suggests that the Legislature consider additional legislation to clarify the process.

Treat All University Tuition Collections Similarly: Tuition collections are split between appropriated and non-appropriated amounts. To increase transparency, the JLBC Staff recommends that tuition collections either be fully appropriated or fully non-appropriated and that tuition and fees be reported separately from other University revenues.

Improve Reporting on Corporate Tax Credits: The FY 2016 Baseline included provisions requiring more timely fiscal year individual income tax credit reporting by DOR and insurance premium tax reporting by the Department of Insurance. The FY 2016 budget included both provisions. The Baseline extends these requirements to include DOR reporting on corporate income tax credits.

In addition, the Legislature may consider these further suggestions:

- **Inpatient Psychiatric Treatment for Youth (AHCCCS):** The Baseline includes a provision requiring AHCCCS to report on the availability of inpatient psychiatric treatment for child and adolescents enrolled in Arizona's Regional Behavioral Health Authorities.
- **Square Footage of School Facilities (School Facilities Board):** The JLBC Staff suggests the Legislature consider further limiting the amount of locally-funded space that is excluded when determining a district's eligibility for state-funded space. Districts are allowed to exclude up to 25% of their space if locally funded. This adjustment can lead to significant new school construction awards when a district is not over capacity when all space is considered.
- **University Performance Funding:** The Arizona Board of Regents (ABOR) requested FY 2017 state funding based on the number of resident students enrolled at each campus instead of using a performance funding model as required by the FY 2016 General Appropriation Act. In evaluating this proposal, the JLBC Staff suggests the Legislature also consider the alternatives of reforming the existing performance funding model, or eliminating the funding model altogether.
- **Private Equity Fee Report (Retirement systems):** The JLBC Staff suggests the Legislature consider requiring the Arizona State Retirement System and the Public Safety Personnel Retirement System to adopt a specific template for private equity fees and report annually on the total cost and overall performance of private equity investments. The reporting would be designed so as to not impair investment performance.

Further details on the issues raised here can be found in the relevant agency narrative.

Update on FY 2016 Suggestions

The JLBC Staff made the following suggestions for improvement in the FY 2016 Baseline:

Develop Multi-Year Targets and Formalize in General Appropriation Act: The JLBC Staff recommended that the General Appropriation Act include a multi-year plan for resolving budget shortfalls with specific out-year targets. The FY 2016 General Appropriation Act listed the targets, which included a \$27 million FY 2018 balance prior to subsequent legislation.

Annual Retirement Report: The JLBC Staff recommended a new statutory report separately delineating the state's retirement expenses and incorporated a new section, the Consolidated Retirement Report, in the *FY 2016 Baseline Book* which provides this information. The FY 2016 budget included this provision.

Review of Acute and Behavioral Health Services Integration: The JLBC Staff suggested that the Legislature evaluate accountability measures as it considers further consolidation of the acute and behavioral health services systems. The FY 2016 budget transferred behavioral health services from the Department of Health Services to AHCCCS but did not incorporate accountability measures into the bill.

In addition to these items affecting overall budget or multiple agencies, the FY 2016 Baseline also included these agency-specific suggestions:

- **Contracted Health Care Rates (Arizona Department of Corrections):** The Baseline included a provision requiring increases in ADC contracted health per diem rates to be reviewed by JLBC, similar to the current process used in the Medicaid program. The FY 2016 General Appropriation Act included this provision, which was used in June 2015.
- **Divisional of Developmental Disabilities (DDD) Budget Transparency (Department of Economic Security):** The Baseline separately delineated DDD administrative expenditures to help provide a total budget picture of DDD services. This distinction was included in the FY 2016 Department of Economic Security budget.
- **Proposition 301 0.6% Sales Tax Planning (Arizona Department of Education):** The Proposition 301 sales tax was set to expire after FY 2021; the JLBC Staff recommended that the Legislature begin a planning process to accommodate this expiration. This was not addressed during the regular session.
- **Intergovernmental Agreement Funding Transparency (Department of Health Services):** The Baseline included a provision to divide DHS' Intergovernmental Agreements/Interagency Service Agreements Fund into 4 separate funds to ensure that monies are not inappropriately comingled. The FY 2016 budget included this provision.
- **Probation and Automation Transparency (Judiciary):** The Baseline shifted funding within the Judiciary's budget in order to better align expenditures with appropriations and bring transparency to how much money the Judiciary transfers to counties for probation activities and how much money the Judiciary spends on other activities. The Judiciary's FY 2016 budget incorporated these shifts.

- Local K-12 Bonding Report (School Facilities Board): The Baseline included a provision requiring SFB to report annually on capital bond approvals by school districts to provide a better understanding of bond issuances and school construction occurring outside of state funding. The FY 2016 budget included this provision.
- Displaying Rio Nuevo Expenditures (Revenues): The Baseline shifted the display of Rio Nuevo expenditures from being an offset to General Fund revenue to being an operating budget expenditure, increasing transparency and conforming its display with that of the Phoenix Civic Center payment. Subsequent budget documents continue this display.

Debt

In FY 2017, the state’s projected level of lease-purchase and bonding obligations is \$7.4 billion. This amount includes:

- \$3.4 billion, state and university office buildings
- \$1.7 billion, state highway construction projects
- \$1.1 billion, state operating debt from FY 2011
- \$946 million, school district projects
- \$260 million, Phoenix Convention Center

The associated annual debt service payment is \$891 million.

Of the \$7.4 billion in total obligations, the General Fund share is \$2.7 billion. The General Fund annual debt service is projected to be \$367 million in FY 2017.

As a remnant of the Great Recession, the state pays \$1.2 billion of current year obligations in the next year (the “rollover”). The \$7.4 billion estimate of total obligations also does not include any unfunded retirement liability.

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. Using Moody’s credit ratings as of May 2015, in comparison to other states, 25 states have a higher rating, 9 states have a similar rating, and 15 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.

Other Funds

Besides the General Fund, the state has dedicated special revenue funds. Only a portion of these monies is subject to legislative appropriation. The Baseline includes a FY 2017 Other Fund appropriated spending level of \$3.9 billion, or 0.1% above FY 2016.

The level of FY 2017 non-appropriated state funds is expected to be \$8.5 billion, while non-appropriated Federal Funds are forecast to be \$14.6 billion. When all appropriated and non-appropriated fund sources are combined, total FY 2017 state spending would be \$36.3 billion.

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

	FY 2016 Adjusted	FY 2017 Baseline	FY 2018 Baseline	FY 2019 Baseline
REVENUES				
Ongoing Revenues	\$9,769,648,500	\$10,158,379,200	\$10,521,214,000	\$10,905,740,800
Previously Enacted Changes		(97,800,000)	(90,400,000)	(73,300,000)
Urban Revenue Sharing	(605,634,300)	(663,652,100)	(676,193,800)	(682,236,800)
Net On-going Revenues	\$9,164,014,200	\$9,396,927,100	\$9,754,620,200	\$10,150,204,000
One-time Financing Sources				
Balance Forward	\$312,276,000	\$499,325,500		
Tax Amnesty	47,048,500			
Fund Transfers	217,017,700	100,000,000		
Subtotal One-time Revenues	\$576,342,200	\$599,325,500	\$0	\$0
Total Revenues	\$9,740,356,400	\$9,996,252,600	\$9,754,620,200	\$10,150,204,000
EXPENDITURES				
Operating Budget Appropriations	\$9,230,421,600	\$9,410,928,500	\$9,646,908,000	\$9,865,437,300
Supplementals	29,409,300			
Administrative Adjustments	85,000,000	70,000,000	70,000,000	70,000,000
Reversions	(110,000,000)	(110,000,000)	(110,000,000)	(110,000,000)
Subtotal Ongoing Expenditures	\$9,234,830,900	\$9,370,928,500	\$9,606,908,000	\$9,825,437,300
One-time Expenditures				
Capital Outlay	\$6,200,000			
Subtotal One-time Expenditures	\$6,200,000	\$0	\$0	\$0
Total Expenditures	\$9,241,030,900	\$9,370,928,500	\$9,606,908,000	\$9,825,437,300
Ending Balance ^{2/}	\$499,325,500	\$625,324,100 ^{3/}	\$147,712,200	\$324,766,700
Structural Balance ^{4/}	(\$70,816,700)	\$25,998,600	\$147,712,200	\$324,766,700

- ^{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/} The projected FY 2017 ending balance is presumed to be allocated as part of the FY 2017 budget process.
- ^{4/} This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

SUMMARY OF FY 2017 BASELINE REVENUE AND SPENDING ASSUMPTIONS

The JLBC Baseline revenue estimates include the 4-sector consensus forecast and previously enacted tax law and other revenue changes, while the expenditures represent a projection of active funding formula requirements and other obligations.

General Fund Balances

- Given forecasted FY 2016 General Fund revenues of \$9.74 billion and spending of \$9.24 billion, the Baseline has a projected FY 2016 balance of \$499 million. Given forecasted FY 2017 General Fund revenues of \$10.0 billion and spending of \$9.37 billion, the Baseline has a projected FY 2017 balance of \$625 million.
- Under the 3-year budget projections, there would be a balance of \$148 million in FY 2018 and \$325 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 \$10.0 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 increase by \$187 million, from \$312 million at the beginning of FY 2016 to \$499 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 would reduce state revenue by \$(98) million, primarily from a reduction in corporate income taxes.
 - ⇒ The expiration of a FY 2016 tax amnesty program would decrease state revenue by \$(47) million.
 - ⇒ Fund transfers would decrease by \$(117) million. The Baseline would transfer \$100 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 grow in FY 2017 by \$256 million, or 2.6%, from \$9.74 billion in FY 2016 to \$10.0 billion in FY 2017.

General Fund Spending

- FY 2017 General Fund spending is projected to be \$9.37 billion, an increase of \$130 million, or 1.4%, above FY 2016.
- The entire FY 2017 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$36.3 billion.

Education

Department of Education

- ADE General Fund spending would increase by \$84.2 million, or 2.1%, including:
 - ⇒ \$83.6 million for 1.4% student growth, for a total student count of 1,106,457.
 - ⇒ \$19.5 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$64.7 million for a 1.15% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(38.3) 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.
 - ⇒ \$(1.9) million to eliminate remaining district-sponsored charter school conversions.
 - ⇒ \$(8.9) million for second year of multisite charter small school weight phase out.
 - ⇒ \$(31.0) million for elimination of 1-year hold harmless for school district student count declines.
 - ⇒ \$(30.0) million for previously-enacted Joint Technical Education District (JTED) Base Support Level reductions.
 - ⇒ \$700,000 for Empowerment Scholarship Accounts (ESAs).
 - ⇒ \$(363,700) to offset higher available endowment earnings under Proposition 123.
- The Baseline assumes passage of Proposition 123 at the May 2016 Special Election, which would have a total fiscal impact of \$299 million in FY 2016. The funding would be generated from increasing the State Land Trust distribution rate from 2.5% to 6.9% per year (\$172 million), adding \$52 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 would be \$3.5 billion.

School Facilities Board

- SFB General Fund spending would decrease by \$(5.9) million, or (2.7)%, including:
 - ⇒ \$(2.4) million for the Access Our Best Public Schools Fund Deposit.
 - ⇒ \$(2.4) million for decreased debt service associated with past lease-purchase agreements.
 - ⇒ \$(1.1) million for lower costs of new school construction.

Universities

- The Universities' General Fund spending would increase by \$12.1 million, or 1.8%, including:
 - ⇒ \$8.2 million for additional system-wide ongoing operating resources for the university system included in the enacted FY 2016 budget's 3-year spending plan.
 - ⇒ \$3.9 million to restore one-time savings associated with refinancing lease-purchase payments for research infrastructure.
- In addition to the \$12.1 million listed above, the Baseline also includes a FY 2016 supplemental of \$4.1 million to restore General Fund monies to the university system for lower-than-estimated savings of health insurance contribution rates.
- Total university enrollment is expected to be 166,143 full-time equivalent students in FY 2017, or 5.3% above FY 2016.

Community Colleges

- Community College General Fund spending would decrease 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

Medicaid Agencies

- Medicaid programs in AHCCCS, Department of Child Safety and Department of Economic Security are adjusted for the following funding formula factors: enrollment changes, an increase in the federal match rate, and a capitation rate increase.

AHCCCS

- AHCCCS' General Fund spending would increase by \$596.0 million, or 49.5%, including:
 - ⇒ \$516.7 million for the transfer of behavioral health services from DHS to AHCCCS.
 - ⇒ \$98.2 million for formula adjustments, including 2.5% enrollment growth and a 1.5% capitation rate increase.
 - ⇒ \$(18.9) million in other adjustments, including offsets for higher prescription drug rebate funding.
 - ⇒ 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 1.90 million by June 2017. This level represents a caseload increase of 46,700, or 2.5%, above June 2016.

Department of Child Safety

- DCS General Fund spending would decrease by \$(8.8) million, or (2.5)%, including:
 - ⇒ \$4.0 million for preventive services.
 - ⇒ \$(12.4) million to remove one-time FY 2015 funding related to the backlog of 60-day non-active cases.
 - ⇒ \$(350,000) to consolidate Internet Crimes Against Children funding in the Attorney General budget.
- Baseline changes were based on the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. The Baseline also adds \$5.0 million to the Arizona Department of Administration (ADOA) for costs associated with the replacement of DCS' automated case management system.

Department of Health Services

- DHS General Fund spending would decrease by \$(517.3) million, or (85.8)%, including:
 - ⇒ \$(517.3) million to transfer behavioral health services from DHS to AHCCCS. The Arizona State Hospital (ASH) will remain in DHS.
 - ⇒ No General Fund spending changes for ASH or DHS public health/family health programs.

Department of Economic Security

- DES General Fund spending would increase by \$23.9 million, or 4.8%, including:
 - ⇒ \$27.8 million for formula adjustments, including a 4.5% enrollment and 2.5% capitation rate increase in FY 2017.
 - ⇒ \$(3.9) million for savings associated with the previously-enacted 1-year cap on TANF Cash Benefits, which begins in FY 2017.
- Developmental disability 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.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending would increase by \$22.5 million, or 2.2%, including:
 - ⇒ \$17.6 million for the costs of 1,000 private medium-security beds to open in September 2016.
 - ⇒ \$5.1 million for an inflation increase to the inmate health care per diem.
 - ⇒ \$723,500 for an employer retirement rate increase.
 - ⇒ \$(929,100) for the elimination of one-time leap year funding for FY 2016.
- The system-wide prison population is projected to be 44,411, or a growth of 900 inmates above FY 2016. In June 2017, ADC would have a permanent bed shortfall of (5,326). Taking into account 5,754 temporary beds, the shortfall becomes a surplus of 428 beds.

Judiciary

- Judiciary General Fund spending would be unchanged.
- The Baseline includes \$6.0 million in FY 2017 Judiciary Fund transfers to the General Fund, consistent with the FY 2016 budget's 3-year spending plan.

Department of Public Safety

- DPS General Fund spending would increase by \$136,200 for the transfer of the Moving Truck Violation Enforcement program from the Department of Weights and Measures to DPS.

Local Issues

- The Baseline continues a \$5.5 million cash payment from the General Fund for county governments. Each county receives \$550,100 except Maricopa, Mohave, Pima, Pinal, and Yavapai. The Baseline continues an extra allocation of \$500,000 to Graham County.
- The Baseline includes an increase of \$58.0 million, or 9.6%, for higher urban revenue sharing payments to city governments. Total funding would be \$663.7 million.

General Government

Automation

- The Baseline includes \$16.1 million for large-scale automation projects. Of this amount, \$5.0 million is financed from the General Fund and \$11.1 million is financed from Other Funds. The \$16.1 million FY 2017 amount includes the following:
 - ⇒ \$1.5 million for technology projects and project management at ADOA.
 - ⇒ \$8.0 million for the final year of a 3-year project to replace ADC's Adult Inmate Management System (AIMS).
 - ⇒ \$1.6 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$5.0 million as the second installment to replace the DCS Children's Informational Library and Data Source (CHILDS).

Arizona Commerce Authority

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

Payment Deferral

- The Baseline continues to defer \$1.2 billion in General Fund spending from FY 2017 to FY 2018, including:
 - ⇒ \$931 million of school district payments.
 - ⇒ \$200 million of payments to the University system.
 - ⇒ \$21 million of DES payments and \$11 million of DCS payments.

Revertments

- The Baseline assumes projected revertments at \$(110) million, which is unchanged from FY 2016. (Revertments are unspent appropriations.)
- FY 2017 Administrative Adjustments are forecast to be \$70 million, compared to \$85 million in FY 2016.

FY 2016 General Fund Supplementals

- The Baseline includes a net increase of \$29.4 million for FY 2016 adjustments, including:
 - ⇒ \$21.4 million for additional funding associated with a Medicaid shortfall in DHS.
 - ⇒ \$(1.3) million as a one-time ex-appropriation associated with a School Facilities Board refinancing agreement.
 - ⇒ \$4.1 million to restore General Fund monies to the university system for lower-than-estimated savings of health insurance contribution rates.
 - ⇒ \$5.2 million for additional ADC health care vendor payments.

Hiring Freeze/Consolidations

- The Baseline includes \$(1.0) million of consolidation savings associated with a) the transfer of DHS behavioral health programs to AHCCCS, b) the elimination of the Department of Weights and Measures, and c) the transfer of the Board of Appraisal to the Department of Financial Institutions.
- The Baseline removes the remaining \$(19.7) million of the \$(20.7) million in hiring freeze and consolidation savings originally assumed for FY 2017 as part of the FY 2016 budget's 3-year spending plan, pending release of further information from the Executive.

State Employee Issues

FTE Positions

- The Baseline decreases the Full-Time Equivalent (FTE) ceiling by (11.9) FTE Positions in FY 2017, including:
 - ⇒ 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 decrease of (28) 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 6 FTE Positions for other adjustments.
- These adjustments would bring the total appropriated FTE Position ceiling to 51,898 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 would be 1.24%.
 - ⇒ In CORP, the FY 2017 increase in the aggregate employer contribution rate would 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 20 years.
- If the Legislature chooses to fund the FY 2017 employer contribution rate changes, the General Fund cost would be \$1.4 million (\$3.1 million Total State Funds) in FY 2017. As part of FY 2016 budget's 3-year spending plan, only the rate increase for the Arizona Department of Corrections (ADC) is funded. The Baseline does not include funding for the employer share of these rate adjustments in any other agency budget.
- 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. This additional liability would result in increased employer contribution rates in the fiscal year following the court decision. A significant portion of the liability would be funded by local governments. The annual General Fund impact has yet to be determined.

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 Baseline would annualize these revised savings to \$(24.2) million in FY 2017.

Capital

- The Baseline removes \$(5.0) million from the General Fund for ADOA building renewal and \$(1.2) million for Navajo Nation transportation projects.
- The Baseline includes 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.
- The Baseline includes \$9.0 million from Other Appropriated Funds for ADOA building renewal and \$5.5 million for ADC building renewal.

FY 2017 GENERAL FUND SUMMARY BY AGENCY

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
BUDGET UNITS			
Administration, Arizona Department of	\$10,377,300	\$10,377,300	\$0
Administration, Arizona Department of Automation Projects Fund	7,783,000	5,000,000	(2,783,000)
Administrative Hearings, Office of	861,700	861,700	0
African-American Affairs, Arizona Commission of	125,000	125,000	0
Agriculture, Arizona Department of	8,287,400	9,219,600	932,200
AHCCCS	1,205,162,300	1,801,131,600	595,969,300
Attorney General - Department of Law	23,623,700	23,973,700	350,000
Charter Schools, State Board for	1,200,900	1,194,100	(6,800)
Child Safety, Department of	356,448,200	347,690,000	(8,758,200)
Commerce Authority, Arizona	26,800,000	21,800,000	(5,000,000)
Community Colleges, Arizona	54,373,200 ^{1/}	54,105,500	(267,700)
Corporation Commission	614,200	614,200	0
Corrections, State Department of	1,029,900,600	1,052,454,700	22,554,100
County Funding	6,000,500	6,000,500	0
Deaf and the Blind, Schools for the	21,596,400	21,596,400	0
Economic Security, Department of	496,181,900	520,040,100	23,858,200
Education, State Board of	1,325,200	1,325,200	0
Education, Department of	3,941,873,900 ^{2/}	4,026,031,700	84,157,800
Emergency and Military Affairs, Department of	11,102,700	11,141,200	38,500
Environmental Quality, Department of	7,000,000	7,000,000	0
Equal Opportunity, Governor's Office of	189,000	189,000	0
Equalization, State Board of	642,800	642,800	0
Executive Clemency, Board of	956,000	956,000	0
Financial Institutions, State Department of	3,008,000	2,995,400	(12,600)
Fire, Building and Life Safety, Department of	2,202,000	2,202,000	0
Forester, State	9,012,300	9,012,300	0
Gaming, Department of	1,779,500	1,779,500	0
Geological Survey, Arizona	941,000	941,000	0
Governor, Office of the	6,889,000	6,889,000	0
Gov's Office of Strategic Planning and Budgeting	1,994,000	1,994,000	0
Health Services, Department of	602,738,300	85,433,600	(517,304,700)
Historical Society, Arizona	3,157,200	3,157,200	0
Historical Society, Prescott	825,800	825,800	0
Independent Redistricting Commission	1,115,300	1,115,300	0
Indian Affairs, Arizona Commission of	57,400	57,400	0
Insurance, Department of	5,867,400	5,856,000	(11,400)
Judiciary			
Supreme Court	17,951,100	17,951,100	0
Court of Appeals	14,315,500	14,315,500	0
Superior Court	73,911,400	73,911,400	0
SUBTOTAL - Judiciary	106,178,000	106,178,000	0
Juvenile Corrections, Department of	26,984,600	25,984,600	(1,000,000)
Land Department, State	12,520,500	12,520,500	0
Legislature			
Auditor General	17,933,300	17,933,300	0
House of Representatives	13,289,500	13,289,500	0
Joint Legislative Budget Committee	2,490,900	2,490,900	0
Legislative Council	8,233,300	8,233,300	0
Senate	8,223,900	8,223,900	0
SUBTOTAL - Legislature	50,170,900	50,170,900	0
Mine Inspector, State	1,215,200	1,215,200	0
Navigable Stream Adjudication Commission	126,600	126,600	0
Postsecondary Education, Commission for	1,396,800	1,396,800	0
Public Safety, Department of	93,374,800	93,511,000	136,200
Public Safety Personnel Retirement System	6,000,000	6,000,000	0
Radiation Regulatory Agency	1,595,000	1,565,000	(30,000)
Real Estate Department, State	2,985,200	2,985,200	0
Revenue, Department of	30,338,600	30,338,600	0
School Facilities Board	216,878,100	211,021,600	(5,856,500)
Secretary of State	24,306,500 ^{3/}	15,006,500	(9,300,000)

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
Tax Appeals, State Board of	266,400	266,400	0
Tourism, Office of	7,110,400	7,110,400	0
Transportation, Department of	50,400	50,400	0
Treasurer, State	1,205,100	1,205,100	0
Universities			
Board of Regents	21,928,400	21,928,400	0
Arizona State University - Tempe/DPC	239,189,400	243,651,000	4,461,600
Arizona State University - East Campus	22,162,700	22,460,700	298,000
Arizona State University - West Campus	28,754,100	29,121,600	367,500
Northern Arizona University	100,917,600	101,104,400	186,800
University of Arizona - Main Campus	179,499,400	186,198,500	6,699,100
University of Arizona - Health Sciences Center	68,393,500	68,435,000	41,500
SUBTOTAL - Universities	660,845,100	672,899,600	12,054,500
Veterans' Services, Department of	6,077,800	6,077,800	0
Water Resources, Department of	12,803,100	12,803,100	0
Weights and Measures, Department of	1,399,000	0	(1,399,000)
OPERATING BUDGET TOTAL	\$9,115,841,200	9,304,162,100	188,320,900
FY 2016 Supplemental/Ex-Appropriation <u>4/</u>	29,409,300	0	(29,409,300)
Capital Outlay Projects	6,200,000	0	(6,200,000)
Debt Service Payments	84,114,600	84,117,400	2,800
Civic Center Debt Service	20,449,000	20,449,000	0
Rio Nuevo Distribution	10,000,000 <u>5/</u>	10,000,000	0
HITF Employer Rate Reduction	0	(7,800,000)	(7,800,000)
Unallocated HITF Employer Rate Reduction	(600)	0	600
Unallocated AFIS Cost Charges	17,400	0	(17,400)
Administrative Adjustments	85,000,000	70,000,000	(15,000,000)
Revertments	(110,000,000)	(110,000,000)	0
GRAND TOTAL	\$9,241,030,900	\$9,370,928,500	\$129,897,600

1/ Includes Rural County Reimbursement, which represents an estimated cost.

2/ Laws 2015, 1st Special Session, Chapter 1, appropriated additional monies for Education finance. This appropriation is conditional by vote of the people at the Special Election to be conducted on May 17, 2016.

3/ 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.

4/ Please see page S-30 for individual agency detail.

5/ In prior years, distributions of monies to the Rio Nuevo Multipurpose Facility District were accounted for as a reduction of state Transaction Privilege Tax revenue. Beginning with the FY 2016 Baseline, these payments will instead be displayed as a state expenditure.

FY 2017 OTHER APPROPRIATED FUNDS SUMMARY BY AGENCY

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
<u>BUDGET UNITS</u>			
Accountancy, State Board of			
Board of Accountancy Fund	\$1,939,100	\$1,939,100	\$0
Acupuncture Board of Examiners			
Acupuncture Board of Examiners Fund	159,100	156,100	(3,000)
Administration, Arizona Department of			
Air Quality Fund	927,300	927,300	0
Arizona Financial Information System Collections Fund	7,567,800	7,567,800	0
Automation Operations Fund	23,964,100	23,964,100	0
Capital Outlay Stabilization Fund	18,082,800	18,082,800	0
Corrections Fund	571,200	571,200	0
Federal Surplus Materials Revolving Fund	464,600	464,600	0
Information Technology Fund	2,942,100	2,942,100	0
Motor Vehicle Pool Revolving Fund	10,148,800	10,148,800	0
Personnel Division Fund	12,885,100	12,885,100	0
Risk Management Revolving Fund	92,022,900	92,022,900	0
Special Employee Health Insurance Trust Fund	5,262,300	5,262,300	0
State Surplus Materials Revolving Fund	2,397,900	2,947,900	550,000
State Web Portal Fund	4,543,000	4,543,000	0
Telecommunications Fund	1,848,400	1,848,400	0
Total - Arizona Department of Administration	183,628,300	184,178,300	550,000
Administration, Arizona Department of -			
Automation Projects Fund	24,794,400	16,100,000	(8,694,400)
Administrative Hearings, Office of			
Healthcare Group Fund	12,300	0	(12,300)
Agriculture, Arizona Department of			
Air Quality Fund	0	1,439,800	1,439,800
AHCCCS			
Budget Neutrality Compliance Fund	3,482,900	3,563,300	80,400
Children's Health Insurance Program Fund	7,674,400	3,672,200	(4,002,200)
Prescription Drug Rebate Fund - State	83,778,800	113,778,800	30,000,000
Substance Abuse Services Fund	0	2,250,200	2,250,200
Tobacco Products Tax Fund			
Emergency Health Services Account	17,331,400	17,867,200	535,800
Tobacco Tax and Health Care Fund			
Medically Needy Account	31,180,000	68,128,800	36,948,800
Total - AHCCCS	143,447,500	209,260,500	65,813,000
Athletic Training, Board of			
Athletic Training Fund	118,900	118,900	0
Attorney General - Department of Law			
Antitrust Enforcement Revolving Fund	244,800	244,800	0
Attorney Gen'l Legal Svcs Cost Allocation Fund	2,086,800	2,086,800	0
Collection Enforcement Revolving Fund	6,869,700	6,869,700	0
Consumer Protection-Consumer Fraud Rev. Fund	5,094,000	5,094,000	0
Interagency Service Agreements Fund	15,573,000	15,573,000	0
Internet Crimes Against Children Enforcement Fund	0	900,000	900,000
Risk Management Revolving Fund	9,426,900	9,426,900	0
State Aid to Indigent Defense Fund	799,400	799,400	0
Victims' Rights Fund	3,759,400	3,759,400	0
Total - Attorney General - Department of Law	43,854,000	44,754,000	900,000
Automobile Theft Authority			
Automobile Theft Authority Fund	5,297,500	5,297,500	0
Barbers, Board of			
Board of Barbers Fund	335,400	335,400	0
Behavioral Health Examiners, Board of			
Board of Behavioral Health Examiners Fund	1,760,500	1,760,500	0
Child Safety, Department of			
Child Abuse Prevention Fund	1,459,300	1,459,300	0
Children and Family Services Training Program Fund	207,900	207,900	0

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
Federal Child Care and Development Fund Block Grant	27,000,000	27,000,000	0
Federal Temporary Assistance for Needy Families Block Grant	132,000,400	132,000,400	0
Total - Department of Child Safety	160,667,600	160,667,600	0
Chiropractic Examiners, State Board of Board of Chiropractic Examiners Fund	451,400	451,400	0
Contractors, Registrar of Registrar of Contractors Fund	12,187,500	12,187,500	0
Corporation Commission Arizona Arts Trust Fund	50,100	50,100	0
Investment Management Regulatory and Enforcement Fund	712,600	712,600	0
Public Access Fund	6,541,400	6,541,400	0
Securities Regulatory and Enforcement Fund	4,898,700	4,898,700	0
Utility Regulation Revolving Fund	14,161,300	14,161,300	0
Total - Corporation Commission	26,364,100	26,364,100	0
Corrections, State Department of Alcohol Abuse Treatment Fund	555,300	555,300	0
Corrections Fund	27,517,800	27,517,800	0
Penitentiary Land Fund	979,200	979,200	0
Prison Construction and Operations Fund	13,686,000	13,686,000	0
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,200	1,861,200	0
State Education Fund for Correctional Education	673,400	673,400	0
Transition Program Fund	1,603,300	1,603,300	0
Total - State Department of Corrections	46,876,200	46,876,200	0
Cosmetology, Board of Board of Cosmetology Fund	1,807,700	1,807,700	0
Criminal Justice Commission, Arizona Criminal Justice Enhancement Fund	648,800	648,800	0
Drug and Gang Prevention Resource Center Fund	239,100	239,100	0
State Aid to County Attorneys Fund	973,600	973,600	0
Victim Compensation and Assistance Fund	4,094,700	4,094,700	0
Total - Arizona Criminal Justice Commission	5,956,200	5,956,200	0
Deaf and the Blind, Arizona Schools for the Schools for the Deaf and the Blind Fund	11,561,400	11,707,300	145,900
Deaf and the Hard of Hearing, Comm. for the Telecommunication Fund for the Deaf	4,312,800	4,312,800	0
Dental Examiners, State Board of Dental Board Fund	1,215,500	1,215,500	0
Economic Security, Department of Child Support Enforcement Administration Fund	16,719,600	16,719,600	0
Domestic Violence Shelter Fund	2,220,000	2,220,000	0
Federal Child Care and Development Fund Block Grant	107,773,600	107,773,600	0
Federal Temporary Assistance for Needy Families Block Grant	86,727,700	86,727,700	0
Long Term Care System Fund	31,251,300	26,554,000	(4,697,300)
Public Assistance Collections Fund	424,600	424,600	0
Special Administration Fund	2,939,700	2,939,700	0
Spinal and Head Injuries Trust Fund	1,874,800	1,874,800	0
Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	0
Workforce Investment Act Grant	56,050,500	56,050,500	0
Total - Department of Economic Security	306,981,800	302,284,500	(4,697,300)
Education, State Board of Teacher Certification Fund	379,800	379,800	0
Education, Department of Department of Education Empowerment Scholarship Account Fund	399,000	399,000	0
Department of Education Professional Development Revolving Fund	0	2,700,000	2,700,000
Permanent State School Fund	219,440,500	219,804,200	363,700

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
Proposition 301 Fund	7,000,000	7,000,000	0
Technology-Based Language Development and Literacy Intervention Fund	246,800	0	(246,800)
Teacher Certification Fund	1,971,800	1,971,800	0
Tribal College Dual Enrollment Program Fund	0	160,000	160,000
Total - Department of Education	229,058,100	232,035,000	2,976,900
Environmental Quality, Department of			
Air Quality Fund	5,369,300	5,369,300	0
Emergency Response Fund	132,800	132,800	0
Emissions Inspection Fund	28,381,700	28,381,700	0
Hazardous Waste Management Fund	1,738,800	1,738,800	0
Indirect Cost Recovery Fund	13,373,700	13,373,700	0
Permit Administration Fund	7,129,700	7,129,700	0
Recycling Fund	1,356,300	1,356,300	0
Solid Waste Fee Fund	1,241,000	1,241,000	0
Underground Storage Tank Fund Revolving Fund	22,000	22,000	0
Water Quality Fee Fund	10,528,000	10,528,000	0
Total - Department of Environmental Quality	69,273,300	69,273,300	0
Exposition and State Fair Board, Arizona			
Arizona Exposition and State Fair Fund	11,616,100	11,616,100	0
Financial Institutions, Department of			
Board of Appraisal Fund	821,400	821,400	0
Financial Services Fund	1,457,700	1,457,700	0
Total - Department of Financial Institutions	2,279,100	2,279,100	0
Funeral Directors and Embalmers, Board of			
Board of Funeral Directors' and Embalmers' Fund	352,200	352,200	0
Game and Fish Department, Arizona			
Capital Improvement Fund	1,000,900	1,000,900	0
Game and Fish Fund	35,347,700	34,974,000	(373,700)
Game, Nongame, Fish and Endangered Species Fund	346,500	346,500	0
Watercraft Licensing Fund	5,134,100	4,571,600	(562,500)
Wildlife Endowment Fund	16,200	16,200	0
Total - Arizona Game and Fish Department	41,845,400	40,909,200	(936,200)
Gaming, Department of			
Tribal-State Compact Fund	2,089,900	2,089,900	0
Racing Regulation Fund	2,894,200	2,894,200	0
State Lottery Fund	300,000	300,000	0
Arizona Benefits Fund	11,082,900	11,082,900	0
Total - Department of Gaming	16,367,000	16,367,000	0
Health Services, Department of			
Arizona State Hospital Fund	9,575,300	9,575,300	0
ASH Land Earnings Fund	650,000	650,000	0
Capital Outlay Stabilization Fund	1,559,900	1,559,900	0
Child Fatality Review Fund	95,000	95,000	0
Emergency Medical Services Operating Fund	5,368,800	5,368,800	0
Environmental Laboratory Licensure Revolving Fund	926,400	926,400	0
Federal Child Care and Development Fund Block Grant	876,100	876,100	0
Health Services Licensing Fund	9,264,200	9,264,200	0
Indirect Cost Fund	8,559,800	8,559,800	0
Newborn Screening Program Fund	6,738,300	6,738,300	0
Nursing Care Institution Resident Protection Revolving Fund	138,200	138,200	0
Substance Abuse Services Fund	2,250,200	0	(2,250,200)
Tobacco Tax and Health Care Fund Health Research Account	3,000,000	3,000,000	0
Tobacco Tax and Health Care Fund Medically Needy Account	35,467,000	700,000	(34,767,000)
Vital Records Electronic Systems Fund	3,629,000	3,629,000	0
Total - Department of Health Services	88,098,200	51,081,000	(37,017,200)
Homeopathic and Integrated Medicine Examiners, Board of Board of Homeopathic and Integrated Medicine			

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
Examiners' Fund	102,800	102,800	0
Housing, Department of Housing Trust Fund	318,500	318,500	0
Industrial Commission of Arizona Administrative Fund	19,940,300	19,940,300	0
Judiciary - Supreme Court			
Confidential Intermediary and Fiduciary Fund	488,400	488,400	0
Court Appointed Special Advocate Fund	2,942,800	2,942,800	0
Criminal Justice Enhancement Fund	4,363,800	4,363,800	0
Defensive Driving School Fund	4,197,300	4,197,300	0
Judicial Collection Enhancement Fund	14,014,900	14,014,900	0
State Aid to the Courts Fund	2,945,000	2,945,000	0
Total - Judiciary - Supreme Court	28,952,200	28,952,200	0
Judiciary - Superior Court			
Criminal Justice Enhancement Fund	5,542,000	5,542,000	0
Judicial Collection Enhancement Fund	6,022,200	6,022,200	0
Drug Treatment and Education Fund	502,400	502,400	0
Total - Judiciary - Superior Court	12,066,600	12,066,600	0
SUBTOTAL - Judiciary	41,018,800	41,018,800	0
Juvenile Corrections, Department of			
Criminal Justice Enhancement Fund	531,300	531,300	0
Department of Juvenile Corrections Local Cost Sharing Fund	12,000,000	12,000,000	0
State Charitable, Penal and Reformatory Institutions Land Fund	2,000,100	2,000,100	0
State Education Fund for Committed Youth	1,600,700	1,600,700	0
Total - Department of Juvenile Corrections	16,132,100	16,132,100	0
Land Department, State			
Due Diligence Fund	500,000	500,000	0
Environmental Special Plate Fund	260,500	260,500	0
Trust Land Management Fund	3,764,900	3,764,900	0
Total - State Land Department	4,525,400	4,525,400	0
Liquor Licenses and Control, Department of Liquor Licenses Fund	3,355,300	2,955,300	(400,000)
Lottery Commission, Arizona State State Lottery Fund	108,373,000 ^{3/}	113,473,500	5,100,500
Massage Therapy, Board of Board of Massage Therapy Fund	455,800	440,800	(15,000)
Medical Board, Arizona Arizona Medical Board Fund	6,426,000	6,426,000	0
Mine Inspector, State Aggregate Mining Reclamation Fund	112,800	112,800	0
Naturopathic Physicians Medical Board Naturopathic Physicians Medical Board Fund	179,700	179,700	0
Navigable Stream Adjudication Commission Arizona Water Banking Fund	200,000	200,000	0
Nursing, State Board of Board of Nursing Fund	4,802,600	4,802,600	0
Nursing Care Institution Administrators Board Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	422,100	422,100	0
Occupational Therapy Examiners, Board of Occupational Therapy Fund	172,000	172,000	0
Opticians, State Board of Dispensing Board of Dispensing Opticians Fund	136,800	136,800	0
Optometry, State Board of Board of Optometry Fund	230,200	206,400	(23,800)
Osteopathic Examiners, Arizona Board of Board of Osteopathic Examiners Fund	803,700	803,700	0
Parks Board, Arizona State State Parks Revenue Fund	12,854,800	12,854,800	0
Personnel Board, State Personnel Board Subaccount of the Personnel Division Fund	375,700	375,700	0

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
Pest Management, Office of			
Pest Management Fund	1,699,500	1,699,500	0
Pharmacy, Arizona State Board of			
Arizona State Board of Pharmacy Fund	2,020,500	2,020,500	0
Physical Therapy, Board of			
Board of Physical Therapy Fund	480,400	409,000	(71,400)
Pioneers' Home, Arizona			
Miners' Hospital Fund	2,040,000	2,040,000	0
State Charitable Fund	4,164,900	4,164,900	0
Total - Arizona Pioneers' Home	6,204,900	6,204,900	0
Podiatry Examiners, State Board of			
Podiatry Fund	148,200	148,200	0
Postsecondary Education, Commission for			
Postsecondary Education Fund	1,534,800	1,534,800	0
Private Postsecondary Education, Board for			
Board for Private Postsecondary Education Fund	996,300	396,300	(600,000)
Psychologist Examiners, State Board of			
Board of Psychologist Examiners Fund	448,500	436,500	(12,000)
Public Safety, Department of			
Arizona Deoxyribonucleic Acid Identification System Fund	6,297,300	6,297,300	0
Arizona Highway Patrol Fund	20,397,100	20,397,100	0
Arizona Automated Fingerprint Identification System Fund	2,910,500	2,910,500	0
Concealed Weapons Permit Fund	1,391,400	1,391,400	0
Crime Laboratory Assessment Fund	870,300	870,300	0
Crime Laboratory Operations Fund	14,660,600	14,660,600	0
Criminal Justice Enhancement Fund	2,864,400	2,864,400	0
GILTEM Border Security and Law Enforcement Subaccount	2,390,000	2,390,000	0
Highway User Revenue Fund	96,409,200	96,409,200	0
Motorcycle Safety Fund	205,000	205,000	0
Parity Compensation Fund	2,115,500	2,115,500	0
Public Safety Equipment Fund	2,893,000	2,893,000	0
Risk Management Revolving Fund	1,228,100	1,228,100	0
Safety Enforcement and Transportation Infrastructure Fund	1,559,100	1,559,100	0
State Aid to Indigent Defense Fund	700,000	700,000	0
State Highway Fund	7,273,200	7,273,200	0
Total - Department of Public Safety	164,164,700	164,164,700	0
Radiation Regulatory Agency			
State Radiologic Technologist Certification Fund	272,500	272,500	0
Radiation Regulatory Fee Fund	578,700	578,700	0
Total - Radiation Regulatory Agency	851,200	851,200	0
Residential Utility Consumer Office			
Residential Utility Consumer Office Revolving Fund	1,335,000	1,335,000	0
Respiratory Care Examiners, Board of			
Board of Respiratory Care Examiners Fund	300,100	300,100	0
Retirement System, Arizona State			
Long-Term Disability Trust Fund Administration Account	2,800,000	2,800,000	0
Arizona State Retirement System Administration Account	25,181,600	24,765,000	(416,600)
Total - Arizona State Retirement System	27,981,600	27,565,000	(416,600)
Revenue, Department of			
Department of Revenue Administrative Fund	46,407,500	45,176,800	(1,230,700)
Liability Setoff Program Revolving Fund	398,000	398,000	0
Tobacco Tax and Health Care Fund	678,900	678,900	0
Total - Department of Revenue	47,484,400	46,253,700	(1,230,700)
School Facilities Board			
Access Our Best Public Schools Fund	23,900,000	21,500,000	(2,400,000)
Secretary of State			
Election Systems Improvement Fund	2,941,500	2,941,500	0

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
Records Services Fund	742,000	742,000	0
Total - Secretary of State	3,683,500	3,683,500	0
State Boards' Office			
Special Services Revolving Fund	215,800	215,800	0
Technical Registration, State Board of			
Technical Registration Fund	2,122,600	2,122,600	0
Transportation, Department of			
Air Quality Fund	74,200	74,200	0
Driving Under the Influence Abatement Fund	153,200	153,200	0
Highway User Revenue Fund	652,700	652,700	0
Motor Vehicle Liability Insurance			
Enforcement Fund	1,082,600	1,316,100	233,500
Safety Enforcement and Transportation			
Infrastructure Fund	1,875,500	1,875,500	0
State Aviation Fund	1,622,900	1,622,900	0
State Highway Fund	341,899,700	341,899,700	0
Transportation Department Equipment Fund	18,545,500	18,545,500	0
Vehicle Inspection and Title Enforcement Fund	1,458,100	1,458,100	0
Total - Department of Transportation	367,364,400	367,597,900	233,500
Treasurer, State			
Border Security Trust Fund	12,100	0	(12,100)
Law Enforcement and Boating Safety Fund	2,183,800	2,183,800	0
State Treasurer Empowerment Scholarship			
Account Fund	79,700	79,700	0
State Treasurer's Operating Fund	2,571,800	2,571,800	0
State Treasurer's Management Fund	196,600	196,600	0
Total - State Treasurer	5,044,000	5,031,900	(12,100)
Universities			
Arizona State University - Tempe/DPC			
University Collections Fund	551,220,900 4/	551,220,900	0
Arizona State University - East Campus			
University Collections Fund	35,722,900 4/	35,722,900	0
Technology and Research Initiative Fund	2,000,000	2,000,000	0
Total - Arizona State University - East Campus	37,722,900	37,722,900	0
Arizona State University - West Campus			
University Collections Fund	44,241,400 4/	44,241,400	0
Technology and Research Initiative Fund	1,600,000	1,600,000	0
Total - Arizona State University - West Campus	45,841,400	45,841,400	0
Northern Arizona University			
University Collections Fund	145,286,600 4/	145,286,600	0
University of Arizona - Main Campus			
University Collections Fund	361,149,600 4/	361,149,600	0
University of Arizona - Health Sciences Center			
University Collections Fund	44,053,800 4/	44,053,800	0
SUBTOTAL - Universities	1,185,275,200	1,185,275,200	0
Veterans' Services, Department of			
State Veterans' Conservatorship Fund	902,900	902,900	0
State Home for Veterans' Trust Fund	30,986,600	30,986,600	0
Total - Department of Veterans' Services	31,889,500	31,889,500	0
Veterinary Medical Examining Board			
Veterinary Medical Examining Board Fund	545,200	545,200	0
Water Resources, Department of			
Assured and Adequate Water Supply Admin Fund	266,600	266,600	0
Water Resources Fund	641,200	641,200	0
Water Banking Fund	1,448,500	1,211,100	(237,400)
Total - Department of Water Resources	2,356,300	2,118,900	(237,400)
Weights and Measures, Department of			
Air Quality Fund	1,439,800	0	(1,439,800)
Motor Vehicle Liability Insurance Enf. Fund	329,400	0	(329,400)
Total - Department of Weights and Measures	1,769,200	0	(1,769,200)
OPERATING BUDGET TOTAL	\$3,543,752,600	\$3,562,363,600	\$18,611,000
FY 2016 Supplemental/Ex-Appropriation	30,909,300	0	(30,909,300)
HITF Employer Rate Reduction	0	(8,561,500)	(8,561,500)
Unallocated AFIS Cost Charges	4,484,100	0	(4,484,100)

	FY 2016 Estimate	FY 2017 Baseline	FY 2017 Baseline - FY 2016
Unallocated Health Insurance Contribution	(2,952,200)	0	2,952,200
Capital Outlay Projects	282,447,500	308,204,100	25,756,600
GRAND TOTAL	\$3,858,641,300	\$3,862,006,200	\$3,364,900

- 1/ 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.
- 2/ Laws 2015, 1st Special Session, Chapter 1, appropriated additional monies for education finance. This appropriation is conditional upon vote of the people at the Special Election to be conducted on May 17, 2016.
- 3/ Revised Lottery forecast.
- 4/ 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.

DETAILED LIST OF GENERAL FUND CHANGES BY AGENCY

	FY 2016 GF 1/ Current	FY 17 Baseline 2/ Above FY 16	FY 2017 GF JLBC Baseline
OPERATING SPENDING CHANGES			
DOA - Arizona Department of Administration	10,377,300		10,377,300
APF - Automation Projects Fund/ADOA	7,783,000		5,000,000
APF - Remove ADOA Accounting Automation		(2,383,000)	
APF - Remove One-Time ADE Automation		(5,400,000)	
APF - DCS Automation		5,000,000	
OAH - Office of Administrative Hearings	861,700		861,700
AAM - Commission of African-American Affairs	125,000		125,000
AGR - Department of Agriculture	8,287,400		9,219,600
AGR - Weights and Measures Transfer		1,262,800	
AGR - Weights and Measures Consolidation Savings		(330,600)	
AXS - AHCCCS	1,205,162,300		1,801,131,600
AXS - Acute Care Caseload/Inflation		50,511,800	
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)	
AXS - Other Adjustments		(80,400)	
ATT - Attorney General	23,623,700		23,973,700
ATT - Internet Crimes Against Children Shift		350,000	
CHA - State Board for Charter Schools	1,200,900		1,194,100
CHA - Remove One-time Equipment Funding		(6,800)	
DCS - Department of Child Safety	356,448,200		347,690,000
DCS - Remove One-time Backlog Funding		(12,408,200)	
DCS - Additional Preventative Services		4,000,000	
DCS - Internet Crimes Against Children Shift		(350,000)	
ACA - Arizona Commerce Authority	26,800,000		21,800,000
ACA - Reduce Competes Fund Deposit		(5,000,000)	
CCO - Arizona Community Colleges	54,373,200		54,105,500
CCO - Enrollment Decrease (Operating Aid)		(972,100)	
CCO - Enrollment Decrease (STEM Aid)		(230,300)	
CCO - Changes in NAV (Equalization Aid)		934,700	
COR - Corporation Commission	614,200		614,200
ADC - Department of Corrections	1,029,900,600		1,052,454,700
ADC - 1,000 New Medium Security Beds		17,098,500	
ADC - Health Care Inflation Adjustment		5,133,200	
ADC - Retirement Adjustment		723,500	
ADC - Remove Leap Year Funding		(929,100)	
ADC - Private Prison Monitoring		528,000	
CF - County Funding	6,000,500		6,000,500
SDB - Arizona State Schools for the Deaf and the Blind	21,596,400		21,596,400
DES - Department of Economic Security	496,181,900		520,040,100
DES - DD Caseload/Inflation Funding		27,829,900	
DES - TANF Savings		(3,971,700)	
BOE - State Board of Education	1,325,200		1,325,200
ADE - Arizona Department of Education	3,941,873,900		4,026,031,700

	FY 2016 GF <u>1/</u> Current	FY 17 Baseline <u>2/</u> Above FY 16	FY 2017 GF JLBC Baseline
ADE - Base Adjustment		(2,400,000)	
ADE - Enrollment Growth		83,575,700	
ADE - Higher Average Cost Per Pupil		19,500,000	
ADE - Inflation		64,745,200	
ADE - New Construction		(43,194,700)	
ADE - Homeowner's Rebate		30,988,300	
ADE - Land Trust Distribution		(363,700)	
ADE - Multi-Site Charters Small School Weight		(6,500,000)	
ADE - District Sponsored Charter Phase-Out		(1,893,000)	
ADE - JTED Reduction		(30,000,000)	
ADE - Current Year Funding		(31,000,000)	
ADE - Empowerment Scholarship Accounts		700,000	
EMA - Department of Emergency & Military Affairs	11,102,700		11,141,200
EMA - NEMF Increase		38,500	
DEQ - Department of Environmental Quality	7,000,000		7,000,000
OEO - Governor's Office of Equal Opportunity	189,000		189,000
EQU - State Board of Equalization	642,800		642,800
EXE - Board of Executive Clemency	956,000		956,000
DFI - Dept of Financial Institutions	3,008,000		2,995,400
DFI - Appraisal Consolidation Savings		(12,600)	
BFS - Department of Fire, Building & Life Safety	2,202,000		2,202,000
FOR - State Forester	9,012,300		9,012,300
GAM - Department of Gaming	1,779,500		1,779,500
GEO - Arizona Geological Survey	941,000		941,000
GOV - Office of the Governor	6,889,000		6,889,000
OSP - Gov's Office of Strategic Planning & Budgeting	1,994,000		1,994,000
DHS - Department of Health Services	602,738,300		85,433,600
DHS - Behavioral Health Services Transfer		(517,304,700)	
AZH - Arizona Historical Society	3,157,200		3,157,200
PAZ - Prescott Historical Society	825,800		825,800
IND - Independent Redistricting Commission	1,115,300		1,115,300
CIA - Arizona Commission of Indian Affairs	57,400		57,400
INS - Department of Insurance	5,867,400		5,856,000
INS - Remove One-time Equipment Funding		(11,400)	
SPA - Judiciary - Supreme Court	17,951,100		17,951,100
COA - Judiciary - Court of Appeals	14,315,500		14,315,500
SUP - Judiciary - Superior Court	73,911,400		73,911,400
DJC - Department of Juvenile Corrections	26,984,600		25,984,600
DJC - Admission Changes		(1,000,000)	
LAN - State Land Department	12,520,500		12,520,500
Legislature			

	FY 2016 GF <u>1</u> / Current		FY 17 Baseline <u>2</u> / Above FY 16	FY 2017 GF JLBC Baseline
AUD - Auditor General	17,933,300			17,933,300
HOU - House of Representatives	13,289,500			13,289,500
JLBC - Joint Legislative Budget Committee	2,490,900			2,490,900
LEG - Legislative Council	8,233,300			8,233,300
SEN - Senate	8,223,900			8,223,900
MIN - State Mine Inspector	1,215,200			1,215,200
NAV - Arizona Navigable Steam Adjudication Comm.	126,600			126,600
POS - Commission for Postsecondary Education	1,396,800			1,396,800
DPS - Department of Public Safety	93,374,800			93,511,000
DPS - Moving Program From Weights and Measures			136,200	
PSP - Public Safety Personnel Retirement System	6,000,000			6,000,000
RAD - Radiation Regulatory Agency	1,595,000			1,565,000
RAD - NEMF Decrease			(30,000)	
REA - State Real Estate Department	2,985,200			2,985,200
REV - Department of Revenue	30,338,600			30,338,600
SFB - School Facilities Board	216,878,100			211,021,600
SFB - New School Construction			(1,075,000)	
SFB - Lease-Purchase Changes			(128,500)	
SFB - Access Our Best Public Schools Fund Deposit			(2,400,000)	
SFB - Refinancing Agreement			(2,253,000)	
SOS - Secretary of State	24,306,500			15,006,500
SOS - Remove One-time Special Election Funding			(9,300,000)	
TAX - State Board of Tax Appeals	266,400			266,400
TOU - Office of Tourism	7,110,400			7,110,400
DOT - Department of Transportation	50,400			50,400
TRE - State Treasurer	1,205,100			1,205,100
UNI - Universities				
UNI - Arizona Board of Regents	21,928,400			21,928,400
UNI - ASU - Tempe/DPC	239,189,400			243,651,000
UNI - Refinance Adjustment			716,100	
UNI - Additional Resources			3,745,500	
UNI - ASU - East Campus	22,162,700			22,460,700
UNI - Additional Resources			298,000	
UNI - ASU - West Campus	28,754,100			29,121,600
UNI - Additional Resources			367,500	
UNI - Northern Arizona University	100,917,600			101,104,400
UNI - Refinance Adjustment			(1,246,400)	
UNI - Additional Resources			1,433,200	
UNI - UA - Main Campus	179,499,400			186,198,500
UNI - Refinance Adjustment			4,384,800	
UNI - Additional Resources			2,314,300	

	FY 2016 GF <u>1/</u> Current	FY 17 Baseline <u>2/</u> Above FY 16	FY 2017 GF JLBC Baseline
UNI - UA - Health Sciences Center	68,393,500		68,435,000
UNI - Additional Resources		41,500	
VSC - Department of Veterans' Services	6,077,800		6,077,800
WAT - Department of Water Resources	12,803,100		12,803,100
WEI - Department of Weights & Measures	1,399,000		0
WEI - Agency Consolidation (To Dept. of Agriculture)		(1,262,800)	
WEI - Agency Consolidation (To Dept. of Public Safety)		(136,200)	
OTH - Other			
OTH - FY 16 Supplemental/Ex-Appropriation	29,409,300	(29,409,300)	0
OTH - Debt Service Payments	84,114,600	2,800	84,117,400
OTH - Civic Center Debt Service	20,449,000		20,449,000
OTH - Unallocated HITF Rate Reduction	0	(7,800,000)	(7,800,000)
OTH - Unallocated HITF Rate Reduction	(600)	600	0
OTH - Unallocated AFIS Cost Charges	17,400	(17,400)	0
OTH - Rio Nuevo Distribution	10,000,000		10,000,000
OTH - Administrative Adjustments	85,000,000	(15,000,000)	70,000,000
OTH - Revertments	(110,000,000)		(110,000,000)
TOTAL - OPERATING SPENDING CHANGES	9,234,830,900	136,097,600	9,370,928,500
CAPITAL SPENDING			
ADOA Building Renewal	5,000,000	(5,000,000)	0
Navajo Nation Highway Construction	1,200,000	(1,200,000)	0
TOTAL - CAPITAL SPENDING	6,200,000	(6,200,000)	0
TOTAL - ALL SPENDING	9,241,030,900	129,897,600	9,370,928,500
REVENUE CHANGES			
Ongoing Revenue			
REV - Ongoing Revenue	9,164,014,200	232,912,900	9,396,927,100
One-Time Revenue			
REV - Beginning Balance	312,276,000	187,049,500	499,325,500
REV - Tax Amnesty	47,048,500	(47,048,500)	0
REV - Fund Transfers	217,017,700	(117,017,700)	100,000,000
TOTAL - REVENUE CHANGES <u>3/</u>	9,740,356,400	255,896,200	9,996,252,600
ENDING BALANCE	499,325,500	125,998,600	625,324,100

1/ Represents original FY 2016 appropriations adjusted for revisions in Community Colleges, Arizona Department of Education, and Secretary of State.

2/ Represents FY 2017 Baseline cost above FY 2016 Current estimate.

3/ Represents all revenue changes, including fund transfers.

DETAILED LIST OF OTHER FUND CHANGES BY AGENCY

	FY 2016 OF 1/ Current	FY 17 Baseline 2/ Above FY 16	FY 2017 OF JLBC Baseline
OPERATING SPENDING CHANGES			
SBA - State Board of Accountancy	1,939,100		1,939,100
ACU - Acupuncture Board of Examiners	159,100		156,100
ACU - Remove One-time Rulemaking Funding		(3,000)	
DOA - Arizona Department of Administration	183,628,300		184,178,300
DOA - State Surplus Materials Fund Revenue Adjustment		550,000	
APF - Automation Projects Fund/ADOA	24,794,400		16,100,000
APF - Remove One-Time ADE Automation		(5,400,000)	
APF - Remove ADOA Accounting Automation		(2,383,000)	
APF - Remove One-Time ADOA ASET Funding		(7,975,000)	
APF - Remove One-Time DEQ Automation		(5,000,000)	
APF - Remove One-time DES IT Security Project		(936,400)	
APF - DCS Automation		5,000,000	
APF - ADC Automation		8,000,000	
OAH - Office of Administrative Hearings	12,300		0
OAH - Remove Healthcare Group Fund Monies		(12,300)	
AGR - Department of Agriculture	0		1,439,800
AGR - Weights and Measures Transfer		1,439,800	
AXS - AHCCCS	143,447,500		209,260,500
AXS - Acute Care Caseload/Inflation		28,715,400	
AXS - Behavioral Health Services Transfer		37,017,200	
AXS - Other Adjustments		80,400	
BAT - Board of Athletic Training	118,900		118,900
ATT - Attorney General	43,854,000		44,754,000
ATT - Internet Crimes Against Children Enforcement		900,000	
ATA - Automobile Theft Authority	5,297,500		5,297,500
BAR - Board of Barbers	335,400		335,400
BHE - Board of Behavioral Health Examiners	1,760,500		1,760,500
DCS - Department of Child Safety	160,667,600		160,667,600
BCE - State Board of Chiropractic Examiners	451,400		451,400
ROC - Registrar of Contractors	12,187,500		12,187,500
COR - Corporation Commission	26,364,100		26,364,100
ADC - Department of Corrections	46,876,200		46,876,200
COS - Board of Cosmetology	1,807,700		1,807,700
JUS - Arizona Criminal Justice Commission	5,956,200		5,956,200
SDB - AZ State Schools for the Deaf and the Blind	11,561,400		11,707,300
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
DEN - Board of Dental Examiners	1,215,500		1,215,500
DES - Department of Economic Security	306,981,800		302,284,500
DES - Long Term Care System Fund Adjustment		(4,697,300)	

	FY 2016 OF 1/ Current	FY 17 Baseline 2/ Above FY 16	FY 2017 OF JLBC Baseline
BOE - State Board of Education	379,800		379,800
ADE - Arizona Department of Education	229,058,100		232,035,000
ADE - Professional Development		2,700,000	
ADE - Land Trust Distribution		363,700	
ADE - Language Pilot Technical Change		(246,800)	
ADE - Tribal College Dual Enrollment		160,000	
DEQ - Department of Environmental Quality	69,273,300		69,273,300
COL - Arizona Exposition and State Fair Board	11,616,100		11,616,100
DFI - Dept of Financial Institutions	2,279,100		2,279,100
EMB - Board of Funeral Directors and Embalmers	352,200		352,200
FIS - Arizona Game and Fish Department	41,845,400		40,909,200
FIS - Remove One-time Equipment Funding		(936,200)	
GAM - Department of Gaming	16,367,000		16,367,000
DHS - Department of Health Services	88,098,200		51,081,000
DHS - Behavioral Health Services Transfer		(37,017,200)	
HOM - Board of Homeopathic & Integrated Medicine Examiners	102,800		102,800
DOH - Department of Housing	318,500		318,500
IND - Industrial Commission	19,940,300		19,940,300
SPA - Judiciary - Supreme Court	28,952,200		28,952,200
SUP - Judiciary - Superior Court	12,066,600		12,066,600
DJC - Department of Juvenile Corrections	16,132,100		16,132,100
LAN - State Land Department	4,525,400		4,525,400
LIQ - Department of Liquor Licenses & Control	3,355,300		2,955,300
LIQ - Remove One-time Automation Funding		(400,000)	
LOT - Arizona State Lottery Commission	108,373,000		113,473,500
LOT - Sales Adjustment		5,100,500	
MAS - Board of Massage Therapy	455,800		440,800
MAS - Remove One-time On-Line Licensing Funding		(15,000)	
MED - Arizona Medical Board	6,426,000		6,426,000
MIN - State Mine Inspector	112,800		112,800
NAT - Naturopathic Physicians Medical Board	179,700		179,700
NAV - Navigable Stream Adjudication Commission	200,000		200,000
NUR - State Board of Nursing	4,802,600		4,802,600
NCI - Nursing Care Inst. Administrators Board	422,100		422,100
OCC - Board of Occupational Therapy Examiners	172,000		172,000
DIS - State Board of Dispensing Opticians	136,800		136,800
OPT - State Board of Optometry	230,200		206,400
OPT - Remove One-time Database Upgrade Funding		(23,800)	
OST - Arizona Board of Osteopathic Examiners	803,700		803,700

	FY 2016 OF 1/ Current	FY 17 Baseline 2/ Above FY 16	FY 2017 OF JLBC Baseline
SPB - Arizona State Parks Board	12,854,800		12,854,800
PER - Personnel Board	375,700		375,700
PES - Office of Pest Management	1,699,500		1,699,500
PHA - Arizona State Board of Pharmacy	2,020,500		2,020,500
PHY - Board of Physical Therapy Examiners	480,400		409,000
PHY - Remove One-time Funding		(71,400)	
PIO - Arizona Pioneers' Home	6,204,900		6,204,900
POD - State Board of Podiatry Examiners	148,200		148,200
POS - Commission for Postsecondary Education	1,534,800		1,534,800
PRI - Board for Private Postsecondary Education	996,300		396,300
PRI - Eliminate One-time Transfer		(600,000)	
PSY - State Board of Psychologist Examiners	448,500		436,500
PSY - Remove One-Time Funding		(12,000)	
DPS - Department of Public Safety	164,164,700		164,164,700
RAD - Radiation Regulatory Agency	851,200		851,200
RUC - Residential Utility Consumer Office	1,335,000		1,335,000
RES - Board of Respiratory Care Examiners	300,100		300,100
RET - Arizona State Retirement System	27,981,600		27,565,000
RET - Remove One-Time Automation Funding		(200,000)	
RET - Remove One-Time IT Security Funding		(216,600)	
REV - Department of Revenue	47,484,400		46,253,700
REV - Remove One-time TPT IT Changes		(1,230,700)	
SFB - School Facilities Board	23,900,000		21,500,000
SFB - Access Our Best Public Schools Fund		(2,400,000)	
SOS - Secretary of State	3,683,500		3,683,500
SBO - State Boards' Office	215,800		215,800
TEC - State Board of Technical Registration	2,122,600		2,122,600
DOT - Department of Transportation	367,364,400		367,597,900
DOT - Vehicle for Hire Program Shift		233,500	
TRE - State Treasurer	5,044,000		5,031,900
TRE - Remove One-time Border Security Funding		(12,100)	
UNI - Universities			
UNI - ASU - Tempe/DPC	551,220,900		551,220,900
UNI - ASU - East Campus	37,722,900		37,722,900
UNI - ASU - West Campus	45,841,400		45,841,400
UNI - Northern Arizona University	145,286,600		145,286,600
UNI - UA - Main Campus	361,149,600		361,149,600
UNI - UA - Health Sciences Center	44,053,800		44,053,800
VSC - Department of Veterans' Services	31,889,500		31,889,500

	FY 2016 OF <u>1</u> / Current	FY 17 Baseline <u>2</u> / Above FY 16	FY 2017 OF JLBC Baseline
VME - Veterinary Medical Examining Board	545,200		545,200
WAT - Department of Water Resources	2,356,300		2,118,900
WAT - Eliminate One-time Water Banking Funding		(237,400)	
WEI - Department of Weights & Measures	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
OTH - Unallocated AFIS Cost Charges	4,484,100	(4,484,100)	0
OTH - Unallocated HITF Rate Reduction	(2,952,200)	2,952,200	0
OTH - HITF Rate Reduction	0	(8,561,500)	(8,561,500)
TOTAL - OPERATING SPENDING CHANGES	\$3,576,193,800	(\$22,391,700)	\$3,553,802,100
CAPITAL SPENDING CHANGES			
Building Renewal			
Arizona Department of Administration	9,000,000		9,000,000
ADC Building Renewal	5,464,300		5,464,300
Game & Fish Department	530,000		530,000
Arizona Lottery Commission	103,600	14,500	118,100
Arizona Department of Transportation	3,396,800		3,396,800
New Projects			
ADOT Statewide Highway Construction	30,452,000	19,640,000	50,092,000
ADOT Controlled Access	88,663,000	5,719,000	94,382,000
ADOT Debt Service	115,356,000	10,785,000	126,141,000
ADOT Airport Planning	21,791,800	(2,711,900)	19,079,900
ADOT De-Icer Storage	2,280,000	(2,280,000)	0
ADOT Vehicle Wash Systems	2,910,000	(2,910,000)	0
Arizona Exposition and State Fair	1,000,000	(1,000,000)	0
State Parks Board	1,500,000	(1,500,000)	0
TOTAL - CAPITAL SPENDING CHANGES	\$282,447,500	\$25,756,600	\$308,204,100
TOTAL - OPERATING & CAPITAL SPENDING	\$3,858,641,300	\$3,364,900	\$3,862,006,200
FUND TRANSFERS			
APF/DOA - Automation Projects Fund/ Arizona Department of Administration			
APF/DOA - Automation Operations from ADOA	5,700,000	(4,200,000)	1,500,000
APF/DOA - State Web Portal from ADOA	3,775,000	(3,775,000)	0
APF/DOA - ELAS Fund from ADE	1,600,000		1,600,000
APF/DOA - Emissions Inspection Fund from DEQ	5,000,000	(5,000,000)	0
APF/DOA - Prison Construction Fund from ADC	0	1,000,000	1,000,000
APF/DOA - Inmate Store Proceeds from ADC	0	1,000,000	1,000,000
APF/DOA - Penitentiary Land Earnings Fund from ADC	0	1,000,000	1,000,000
APF/DOA - Charitable, Penal & Reformatory Land Fund from ADC	0	1,000,000	1,000,000
APF/DOA - Special Services Fund from ADC	0	4,000,000	4,000,000
APF/DOA - Special Admin Fund from DES	936,400	(936,400)	0
Other Transfers			0
ADOT - Motor Vehicle to SETIF	710,000	(710,000)	0
TOTAL - FUND TRANSFERS	\$17,721,400	(\$6,621,400)	\$11,100,000

1/ Represents original FY 2016 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 Current estimate.

FY 2016 SUPPLEMENTALS

	Change to Original '16 Budget
General Fund	
Corrections, State Department of - Health Contract	\$5,200,000
Department of Health Services - Caseload	21,412,000
School Facilities Board - Refinancing Savings	(1,278,700)
University - Arizona State University - Tempe/DPC - Health Insurance	2,283,200
University - Northern Arizona University - Health Insurance	40,200
University - University of Arizona - Main Campus - Health Insurance	1,752,600
General Fund - Total	\$29,409,300
Other Funds	
AHCCCS - Caseload	\$26,249,300
Attorney General - Department of Law - Internet Crimes Against Children	1,800,000
Department of Education - Professional Development Revolving Fund and the Tribal College Dual Enrollment Program Fund	2,860,000
Other Funds - Total	\$30,909,300
Expenditure Authority	
AHCCCS - Caseload	\$535,959,400
Department of Economic Security - Caseload	14,893,200
Department of Health Services - Caseload	112,373,300
Expenditure Authority - Total	\$663,225,900

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES For Fiscal Years 2015, 2016 and 2017 1/

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
BUDGET UNITS			
Department of Administration (ADA)			
Administration - AFIS II Collections (4203)	\$2,138,500	\$1,554,300	\$0
Certificate of Participation (5005)	111,653,400	115,223,100	121,333,000
Construction Insurance (4219)	8,926,300	3,447,400	4,907,800
Co-Op State Purchasing Agreement (4213)	4,484,900	3,196,100	3,196,100
Emergency Telecommunication Services Revolving (2176)	18,926,400	20,490,000	19,479,600
Employee Related Expenditures/Benefits Admin (ITA3035)	35,793,000	32,573,000	32,573,000
Federal Grants (2000)	2,778,800	7,666,600	7,666,600
Federal Grants - American Recovery and Reinvestment Act (2999)	932,100	1,099,500	0
IGA and ISA (2500)	8,423,100	8,170,700	8,170,700
Oil Overcharge (3171)	0	104,200	104,200
Payroll Administration (9200)	158,800	143,100	143,100
Privatized Lease-to-Own (2495)	9,915,600	1,738,300	0
Retiree Accumulated Sick Leave (3200)	12,266,500	13,753,400	13,753,400
Special Employee Health Insurance Trust (3015)	775,847,200	781,986,500	806,958,400
Special Events (2503)	24,600	24,400	24,400
Special Services Revolving (4208)	891,500	881,100	881,000
State Employee Travel Reduction (2261)	481,200	535,000	535,000
State Web Portal (2531)	0	0	0
Statewide ARRA Administration SWCAP (GVA2950)	301,700	20,000	20,000
Statewide Donations (2025)	30,800	857,200	857,200
Statewide E-Rate Program (2584)	0	0	0
Total - Department of Administration	<u>\$993,974,400</u>	<u>\$993,463,900</u>	<u>\$1,020,603,500</u>
Office of Administrative Hearings (HGA)			
IGA and ISA (2500)	\$885,700	\$749,500	\$749,500
Arizona Commission of African-American Affairs (AMA)			
African-American Affairs, Arizona Commission of (2397)	\$0	\$0	\$0
Arizona Department of Agriculture (AHA)			
Administrative Support (2436)	\$37,400	\$39,200	\$39,200
Agricultural Consulting and Training Trust (1239)	0	1,700	1,700
Agricultural Products Marketing (2368)	454,600	569,400	569,400
Aquaculture Trust (2297)	0	6,200	6,200
Beef Council (2083)	258,100	258,000	258,000
Citrus, Fruit and Vegetable Trust (2260)	326,800	370,400	388,900
Citrus Trust (2299)	14,800	66,800	60,800
Commercial Feed Trust (2012)	247,500	252,300	270,800
Commodity Promotion (2458)	8,000	8,000	8,000
Cotton Research and Protection Council (2013)	2,671,400	3,093,000	3,093,000
Dangerous Plants, Pests and Diseases Trust (2054)	62,600	97,500	97,500
Designated (3011)	482,100	781,700	811,000
Egg Inspection Trust (2022)	1,300,100	1,408,300	1,708,500
Equine Inspection (2489)	0	0	0
Federal (2000)	4,126,400	4,152,000	4,152,000
Federal-State Inspection (2113)	2,823,500	3,013,800	3,193,800
Fertilizer Materials Trust (2081)	302,400	340,300	354,600
Grain Trust (2201)	116,900	155,100	155,100
Iceberg Lettuce Trust (2259)	89,200	100,000	100,000
IGA and ISA (2500)	104,100	104,100	104,100
Indirect Cost Recovery (9000)	24,800	229,600	229,600
Livestock and Crop Conservation (2378)	415,700	1,274,400	75,900
Livestock Compensation (2378)	0	0	0
Livestock Custody Trust (2065)	59,200	220,000	220,000
Nuclear Emergency Management (2138)	0	0	0
Pesticide Trust (2051)	273,700	445,500	471,800
Protected Native Plant Trust (2298)	57,500	82,000	92,900
Seed Law Trust (2064)	53,600	53,500	59,300
Total - Arizona Department of Agriculture	<u>\$14,310,400</u>	<u>\$17,122,800</u>	<u>\$16,522,100</u>
AHCCCS (HCA)			
County Funds (2120/2223)	\$295,518,400	\$299,114,300	\$298,550,600
Employee Recognition (2025)	5,000	3,000	3,000

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Federal - Medicaid Direct Services (2120)	36,504,900	62,068,700	46,613,800
Federal Funds (2000)	498,100	3,860,100	56,604,900
Federal Grants - American Recovery and Reinvestment Act (2999)	48,834,800	58,744,500	58,744,500
Federal Medicaid Authority (2120/2223)	5,739,824,100	6,165,751,200	8,416,152,600
Healthcare Group (3197)	0	0	0
Hospital Assessment (9692)	260,916,800	215,558,800	260,462,700
Hospital Loan Residency (2532)	0	0	0
IGA for County Behavioral Health Services (4503)	0	0	60,519,600
Intergovernmental Service (2438)	7,376,400	8,000,000	8,000,000
Nursing Facility Provider Assessment (2567)	18,448,800	23,366,900	22,189,400
Political Subdivision (1111)	118,828,600	108,546,300	98,528,100
Prescription Drug Rebate (2546)	257,162,000	222,458,100	322,743,500
Proposition 202 - Trauma and Emergency Services (2494)	31,004,500	25,057,800	25,057,800
Seriously Mentally Ill Housing Trust (2555)	0	0	2,000,000
Third Party Liability and Recovery (3791/3019)	859,600	1,542,000	821,200
Tobacco Litigation Settlement, Arizona (TRA2561)	99,975,000	100,000,000	100,000,000
Tobacco Tax and Health Care - Medically Needy Account (1306)	0	0	0
Tobacco Products Tax Fund - Proposition 204 Protection Account (1303)	38,225,000	36,396,000	37,521,000
Total - AHCCCS	<u>\$6,953,982,000</u>	<u>\$7,330,467,700</u>	<u>\$9,814,512,700</u>
Arizona Commission on the Arts (HUA)			
Arts Special Revenues (2116)	\$30,900	\$176,600	\$176,600
Arts Trust, Arizona (3043)	1,759,200	1,337,400	1,337,400
Federal Grants (2000)	752,600	802,100	802,100
State Poet Laureate (2569)	2,500	2,500	2,500
Total - Arizona Commission on the Arts	<u>\$2,545,200</u>	<u>\$2,318,600</u>	<u>\$2,318,600</u>
Attorney General - Department of Law (AGA)			
Anti-Racketeering Revolving (2131)	\$14,745,200	\$22,544,700	\$22,666,500
Attorney General Expendable Trust (3102)	1,064,900	1,486,100	1,486,100
CJEF Distribution to County Attorneys (2068)	2,553,200	4,061,200	4,061,200
Colorado River Land Claims Revolving (2430)	0	0	0
Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving (2573)	560,700	1,550,000	1,550,000
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving (2573)	0	3,500,000	3,500,000
Court-Ordered Trust (3180)	2,239,400	1,380,000	1,380,000
Criminal Case Processing (2461)	5,000	81,800	81,800
Federal Grants (2000)	4,748,700	5,485,900	5,506,800
Indirect Cost Recovery (9000)	2,244,100	3,799,300	3,799,300
Intergovernmental Agreements (2500)	3,932,000	6,326,000	6,384,700
Motor Carrier Safety Revolving (2380)	1,400	0	0
Prosecuting Attorneys' Advisory Council Training (2057)	1,068,000	1,256,000	1,256,000
Victim Witness Assistance (2228)	58,500	57,300	57,300
Total - Attorney General - Department of Law	<u>\$33,221,100</u>	<u>\$51,528,300</u>	<u>\$51,729,700</u>
Automobile Theft Authority (ATA) Settlement (1991)	\$0	\$66,500	\$66,500
State Board for Charter Schools (CHA)			
Charter Arizona Online Instruction Processing (2319) Implementation Project (2025)	\$3,000	\$3,000	\$3,000
New Charter Application Processing (2568)	0	0	0
Total - State Board for Charter Schools	<u>96,400</u>	<u>45,500</u>	<u>45,500</u>
Department of Child Safety (CHA)			
Child Restraint (2192)	\$0	\$0	\$0
Child Safety Expedited Substance Abuse Treatment (2421)	0	0	0
Child Safety Expenditure Authority (2009)	324,896,500	330,400,000	326,463,800
Client Trust (3152)	0	0	0
Economic Security Donations (3145)	1,200	1,100	1,100
Joint Substance Abuse Treatment (2429)	0	0	0
Total - Department of Child Safety	<u>\$324,897,700</u>	<u>\$330,401,100</u>	<u>\$326,464,900</u>
Citizens Clean Elections Commission (ECA)			
Citizens Clean Elections Fund (2425)	\$8,909,200	\$11,732,600	\$11,732,600
Arizona Commerce Authority (CAA)			
Application Fees (3005)	\$532,900	\$943,800	\$943,800
Commerce Authority, Arizona (2547)	0	0	0

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Commerce Authority Carryover, Arizona (1001)	2,660,600	2,185,800	0
Commerce Authority Local Communities, Arizona (EPA2498)	0	0	0
Commerce Development Bond (2196)	1,100	5,000	5,000
Competes, Arizona (2548)	0	0	0
Corporation for Skilled Workforce (1002)	0	0	0
Donations (3189)	0	0	0
Federal Funds (2000)	2,853,300	2,551,500	1,488,200
Innovation Accelerator, Arizona (9507)	244,000	267,000	267,000
Job Training (1237)	5,398,500	4,725,000	4,725,000
Twenty-First Century Competitive Initiative, Arizona (2524)	0	0	0
Total - Arizona Commerce Authority	\$11,690,400	\$10,678,100	\$7,429,000
Arizona Community Colleges (CMA)			
Community College District Collegiate			
Special Plate (varies by account)	\$0	\$0	\$0
Tribal Assistance (NA)	765,700	775,400	775,400
Workforce Development Accounts (varies by account)	16,755,200	17,424,900	17,424,900
Total - Arizona Community Colleges	\$17,520,900	\$18,200,300	\$18,200,300
Constable Ethics Standards and Training Board (CNA)			
Constable Ethics Standards and Training (2346)	\$303,200	\$383,000	\$383,000
Registrar of Contractors (RGA)			
Residential Contractors' Recovery (3155)	\$931,900	\$4,666,800	\$4,666,800
Corporation Commission (CCA)			
Federal (2000)	\$812,100	\$825,000	\$825,000
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
IGA and ISA (2500)	1,500	0	0
Utility Siting (2076)	7,500	0	0
Total - Corporation Commission	\$821,100	\$825,000	\$825,000
State Department of Corrections (DCA)			
Correctional Industries Revolving, Arizona (4002)	\$38,088,700	\$41,033,500	\$41,033,500
Community Corrections Enhancement (2395)	467,200	427,000	427,000
Corrections Donations (3147)	25,800	900	900
Federal (2000)	6,712,000	6,755,800	6,732,800
Indirect Cost Recovery (9000)	410,300	517,700	517,700
Inmate Store Proceeds (2505)	5,126,500	5,152,000	5,152,000
Interagency Service Agreement (2500)	58,200	57,700	72,700
Prisoner Spendable Accounts (2428)	0	0	0
Special Services (3187)	4,001,200	4,995,000	4,995,000
State DOC Revolving (2515)	2,067,600	1,952,300	1,952,300
Statewide Employee Recognition Gifts/Donations (2449)	0	0	0
Total - State Department of Corrections	\$56,957,500	\$60,891,900	\$60,883,900
Arizona Criminal Justice Commission (JCA)			
Drug and Gang Enforcement Account (2134)	\$6,129,100	\$6,164,300	\$5,313,900
Federal Grants (2000)	7,606,900	11,308,500	7,706,500
Total - Arizona Criminal Justice Commission	\$13,736,000	\$17,472,800	\$13,020,400
Arizona State Schools for the Deaf and the Blind (SDA)			
ASDB Classroom Site (2486)	\$998,600	\$2,136,400	\$2,136,400
Enterprise (4222)	59,900	167,500	167,500
Federal Grants (2000)	1,620,300	2,495,300	2,495,300
IGA and ISA (2500)	0	0	0
Instructional Improvement (2492)	84,200	1,800	1,800
Regional Cooperatives (4221)	14,781,700	15,708,900	15,708,900
State Grants (2011)	380,800	486,400	486,400
Trust (3148)	94,900	138,000	138,000
Total - Arizona State Schools for the Deaf and the Blind	\$18,020,400	\$21,134,300	\$21,134,300
Commission for the Deaf and the Hard of Hearing (DFA)			
Private Grants (3000)	\$0	\$0	\$0
Arizona Early Childhood Development and Health Board			
Early Childhood Development and Health (2542)	\$160,962,700	\$136,273,300	\$144,290,800
Federal Grants (2000)	1,587,800	9,400,400	7,477,800
Total - Arizona Early Childhood Development and Health Board	\$162,550,500	\$145,673,700	\$151,768,600
Department of Economic Security (DEA)			
Child Restraint (2192)	\$110,800	\$0	\$0
Child Support Enforcement Administration (2091)	36,352,500	40,230,200	42,479,100
Client Trust (3152)	914,700	885,800	885,800
Developmentally Disabled Client Investment (3146)	804,700	10,000	10,000

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Developmentally Disabled Client Services Trust (2019)	76,200	62,700	62,700
Donations (3145)	2,000	5,300	5,300
Economic Security Capital Investment (2093)	100,000	224,500	224,500
Federal Grants (2000)	1,928,553,600	1,944,424,900	1,962,967,200
Industries for the Blind, Arizona (4003)	18,895,600	19,400,800	19,400,800
Interagency Service Agreement (2500)	0	7,936,400	0
Job Training, Arizona (1237)	1,039,100	495,500	0
Long Term Care System - Federal Matched (2225)	679,052,800	817,836,900	893,202,300
Neighbors Helping Neighbors (2348)	34,200	35,000	35,000
Special Olympics Tax Refund (3207)	46,800	40,200	40,200
Unemployment Insurance Benefits (7510)	314,017,800	305,900,000	304,600,000
Unemployment Special Assessment (2558)	1,134,900	112,000	50,000
Total - Department of Economic Security	\$2,981,135,700	\$3,137,600,200	\$3,223,962,900
Department of Education (EDA)			
Agricultural Youth Organization Special Plate, Arizona (2650)	\$100,000	\$100,000	\$100,000
Assistance for Education (2420)	195,700	110,600	110,600
Character Education Special Plate (2522)	40,500	35,000	35,000
Classroom Site (2471)	356,890,200	435,335,500	435,335,500
Department of Education Empowerment Scholarship Account (2570)	67,100	33,900	33,900
Education Commodity (4210)	16,800	261,200	261,200
Education Donations (2025)	453,900	110,400	110,400
Education Learning and Accountability (2552)	0	0	0
Failing Schools Tutoring (2470)	1,162,300	1,451,800	1,451,800
Federal (2000)	1,126,218,000	1,175,376,900	1,175,376,900
Federal Grants - American Recovery and Reinvestment Act (2999)	9,395,800	0	0
Golden Rule Special Plate (2366)	189,300	190,900	190,900
IGA and ISA (2500)	4,760,800	3,037,200	3,037,200
Indirect Cost Recovery (9000)	4,875,600	5,109,700	5,109,700
Instructional Improvement (2492)	43,077,300	44,032,900	44,032,900
Internal Services (4209)	3,518,500	3,823,300	3,823,300
Production Revolving (4211)	1,681,400	1,672,800	1,672,800
Proposition 301 (1014)	104,818,300	98,302,500	98,302,500
Special Education (1009)	0	0	0
Structured English Immersion, Arizona (2535)	0	0	0
Youth Farm Loan, Arizona (2136)	0	0	0
Total - Department of Education	\$1,657,461,500	\$1,768,984,600	\$1,768,984,600
Department of Emergency and Military Affairs (MAA)			
Camp Navajo (2106)	\$12,840,700	\$14,811,800	\$12,200,800
Emergency Management Training (2087)	0	0	0
Federal Funds - Emergency (2000)	6,534,600	21,866,900	9,306,900
Federal Funds - Military (2000)	37,469,100	29,067,400	28,292,900
Freedom Academy (2104)	0	0	0
Indirect Cost Recovery (9000)	769,900	871,000	871,000
Interagency Service Agreement (2500)	1,070,400	1,764,700	1,764,700
Military Installation (1010)	0	0	0
Morale, Welfare and Recreational (2124)	17,500	10,000	10,000
National Guard (2140)	208,600	100,000	100,000
National Guard Relief (2349)	0	0	0
Nuclear Emergency Management (2138)	0	0	0
State Armory Property (2146)	0	0	0
Statewide Donations (2025)	0	0	0
Total - Department of Emergency and Military Affairs	\$58,910,800	\$68,491,800	\$52,546,300
Department of Environmental Quality (EVA)			
Donations (2449)	\$4,200	\$3,900	\$3,900
Federal (2000)	13,984,100	17,451,700	17,451,700
IGA and ISA (2500)	5,757,800	4,427,100	4,427,100
Institutional and Engineering Control (2563)	25,900	23,900	23,900
Intergovernmental Agreement (2180)	0	0	0
Monitoring Assistance (2308)	452,200	646,900	646,900
Regulated Substance (2545)	7,483,600	0	0
Specific Site Judgment (3006)	4,200	130,000	130,000
Underground Storage Tank Revolving Summary (2271)	4,589,500	17,531,000	39,531,000
Voluntary Lawn and Garden Equipment Emissions Reduction (2306)	0	0	0
Voluntary Remediation (2564)	303,600	588,300	588,300

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Voluntary Vehicle Repair and Retrofit Program (2365)	0	0	0
Water Quality Assurance Revolving (2221)	11,410,400	14,685,900	14,685,900
Total - Department of Environmental Quality	\$44,015,500	\$55,488,700	\$77,488,700
Governor's Office of Equal Opportunity (AFA)			
Equal Employment and Economic Development (2000)	\$200	\$0	\$0
State Department of Financial Institutions (BDA)			
IGA and ISA (2500)	\$80,400	\$81,700	\$81,700
Mortgage Recovery (1997)	0	0	0
Receivership Revolving (3023)	328,700	930,000	50,600
Revolving (2126)	805,600	794,700	794,700
Total - State Department of Financial Institutions	\$1,214,700	\$1,806,400	\$927,000
Board of Executive Clemency (PPA)			
Federal Grants (2000)	\$21,000	\$41,200	\$41,200
Department of Fire, Building and Life Safety (MMA)			
Arson Detection Reward (2169)	\$0	\$0	\$0
Building and Fire Safety (2211)	0	0	0
Condominium and Planned Community Hearing Office (2537)	19,300	0	0
Consumer Recovery (3090)	0	0	0
DPS-FBI Fingerprint (2159)	0	0	0
Federal Grants (2000)	325,000	266,300	266,300
Interagency Service Agreement (2500)	111,300	86,900	86,900
Manufactured Housing Cash Bond (3722)	0	0	0
Mobile Home Relocation (2237)	233,500	350,000	350,000
Trampoline Court Safety (2578)	0	500	500
Total - Department of Fire, Building and Life Safety	\$689,100	\$703,700	\$703,700
State Forester (FOA)			
Cooperative Forestry (2232)	\$6,067,900	\$8,003,100	\$8,222,600
Fire Suppression Revolving (2360)	19,588,000	17,267,400	17,267,400
Total - State Forester	\$25,655,900	\$25,270,500	\$25,490,000
Arizona Game and Fish Department (GFA)			
Big Game Permit (3712)	\$0	\$0	\$0
Conservation Development (2062)	2,045,500	1,415,500	1,415,500
Federal (2000)	15,100	0	0
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
Federal Revolving (2028)	40,881,100	36,041,200	36,041,200
Firearms Safety and Ranges (2442)	11,100	11,000	11,000
Game and Fish Publications Revolving (4007)	280,000	253,300	253,300
Game and Fish Stamps (3708)	900	0	0
Game and Fish Trust (3111)	2,587,300	2,360,000	2,360,000
Heritage (2295)	10,223,100	11,053,900	11,053,900
IGA and ISA (2500)	37,600	0	0
Indirect Cost Recovery (9000)	4,733,000	5,386,400	5,386,400
Kaibab Co-op (3714)	0	0	0
Off Highway Vehicle Recreation (2253)	1,837,400	2,276,200	2,276,200
Wildlife Conservation (2497)	5,776,400	7,724,000	7,724,000
Wildlife Conservation Enterprise (2029)	469,000	369,700	369,700
Wildlife Theft Prevention (2080)	117,800	117,800	117,800
Total - Arizona Game and Fish Department	\$69,015,300	\$67,009,000	\$67,009,000
Department of Gaming (GMA)			
Breeders Award, Arizona (2206)	\$0	\$17,500	\$17,500
DPS-FBI Fingerprint (2159)	0	0	0
Greyhound and Retired Racehorse Adoption (2015)	0	3,100	3,100
IGA and ISA (2500)	0	1,320,000	1,320,000
Racing Administration (2018)	0	0	0
Racing Commission Bond Deposit (3720)	0	0	0
Racing Investigation (2369)	0	0	0
Racing Regulation Fund - Mixed Martial Arts Account (2393)	0	29,400	29,400
Total - Department of Gaming	\$0	\$1,370,000	\$1,370,000
Arizona Geological Survey (GSA)			
Federal Grants (2000)	\$2,101,100	\$2,781,500	\$184,200
Federal Grants - American Recovery and Reinvestment Act (2999)	1,174,900	0	0
Geological Survey (3030)	650,500	752,900	59,400
Indirect Cost Recovery (9000)	634,100	627,700	119,000
Total - Arizona Geological Survey	\$4,560,600	\$4,162,100	\$362,600
Office of the Governor (GVA)			

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
County Fairs Livestock and Agriculture Promotion (2037)	\$0	\$0	\$0
Endowment Partnership (3206)	1,007,400	474,800	474,800
Federal Grants (2000)	17,290,700	14,278,100	14,278,100
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
Human Trafficking Victim Assistance (3210)	0	0	0
IGA and ISA (2500)	871,600	866,700	866,700
Indirect Cost Recovery (9000)	0	1,539,500	1,539,500
Oil Overcharge (3171)	269,700	0	0
Prevention of Child Abuse (2439)	292,500	282,000	282,000
Statewide ARRA Administration SWCAP (2950)	29,500	0	0
Total - Office of the Governor	\$19,761,400	\$17,441,100	\$17,441,100
Department of Health Services (HSA)			
Breast and Cervical Cancer Screening and Diagnostic Special Plate (2513)	\$103,700	\$425,000	\$348,200
Childhood Cancer and Rare Childhood Disease Research (NA)	0	0	0
Disease Control Research (2090)	1,956,100	2,203,700	2,203,700
Donations - DHS (3010/2025)	798,600	798,600	798,600
Donations - Statewide (2025)	2,700	2,800	2,800
Federal Funds (2000)	295,902,400	291,116,300	249,596,000
Federal Medicaid Services (2500)	1,189,783,700	0	0
Health Services Lottery (4250)	0	7,130,400	7,130,400
IGA/County Contributions (2144/2500)	85,347,400	0	0
IGA and ISA (4500)	0	17,651,700	17,651,700
IGA for County Behavioral Health Services (4503)	0	60,519,600	0
Interagency Service Agreement for Behavioral Health Services (4502)	0	1,239,957,100	0
Internal Services (4202)	7,700	7,700	7,700
Medical Marijuana (2544)	9,476,200	10,198,700	10,198,700
Medical Student Loan (3306)	0	0	0
Oral Health (3038)	131,400	353,800	353,800
Risk Assessment (2427)	43,800	60,000	60,000
Serious Mental Illness Services (2464)	0	0	0
Seriously Mentally Ill Housing Trust (2555)	822,500	2,000,000	0
Smoke-Free Arizona (2541)	3,163,700	3,160,000	3,160,000
Tobacco Tax and Health Care - Health Education Account (1308)	20,343,900	20,343,900	20,343,900
Tobacco Tax and Health Care - Health Research Account (2096)	1,340,900	3,274,800	3,274,800
Tobacco Tax and Health Care - Medically Needy Account (1306)	0	0	0
Total - Department of Health Services	\$1,609,224,700	\$1,659,204,100	\$315,130,300 2/
Arizona Historical Society (HIA)			
Exposition Museum Centennial, Arizona (2650)	\$116,400	\$147,400	\$142,400
Federal Grants (2000)	100	0	0
Permanent Arizona Historical Society Revolving (2900)	422,500	575,200	581,600
Preservation and Restoration (2125)	46,900	44,700	41,000
Private (9447)	410,300	313,600	318,200
Private Grants (9449)	47,300	46,200	23,500
Restricted (9448)	142,000	132,500	102,600
Trust (9450)	12,700	22,400	22,400
Total - Arizona Historical Society	\$1,198,200	\$1,282,000	\$1,231,700
Prescott Historical Society of Arizona (PHA)			
Sharlot Hall Historical Society (9505)	\$569,800	\$901,200	\$726,200
Department of Homeland Security (HLA)			
Federal Funds (2000)	\$24,454,800	\$25,423,300	\$19,744,500
Arizona Department of Housing (HDA)			
Federal Funds (2000)	\$76,291,500	\$79,594,600	\$81,495,200
Federal Grants - American Recovery and Reinvestment Act (2999)	0	0	0
Housing Development (2313)	0	0	0
Housing Program (2200)	4,899,200	5,265,200	5,401,000
Housing Trust (2235)	6,412,700	6,108,800	7,619,200
IGA and ISA (2500)	2,668,300	2,457,800	2,470,300
Total - Arizona Department of Housing	\$90,271,700	\$93,426,400	\$96,985,700
Arizona Commission of Indian Affairs (IAA)			
Indian Town Hall, Arizona (4014)	\$0	\$0	\$0
Publications (4013)	1,300	1,300	1,300

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Statewide Donations (2025)	18,100	13,500	13,500
Total - Arizona Commission of Indian Affairs	\$19,400	\$14,800	\$14,800
Industrial Commission of Arizona (ICA)			
Federal Grants (2000)	\$4,843,000	\$3,216,500	\$3,216,500
Revolving (2002)	90,600	196,000	196,000
Special (2180)	31,653,300	21,700,300	18,441,400
Total - Industrial Commission of Arizona	\$36,586,900	\$25,112,800	\$21,853,900
Department of Insurance (IDA)			
Assessment Fund for Voluntary Plans (2316)	\$119,000	\$145,300	\$145,300
Captive Insurance Regulatory/Supervision (2377)	207,000	247,700	247,700
Federal (2000)	675,800	1,646,100	107,400
Financial Surveillance (2473)	298,800	307,100	307,100
Health Care Appeals (2467)	254,200	181,200	181,200
Insurance Examiners' Revolving (2034)	4,547,800	5,531,400	5,981,400
Life and Disability Insurance Guaranty (2154)	2,674,600	4,755,200	4,752,900
Property and Casualty Insurance Guaranty, Arizona (2114)	1,009,700	21,723,600	21,721,300
Receivership Liquidation (3104)	38,400	67,100	67,100
Total - Department of Insurance	\$9,825,300	\$34,604,700	\$33,511,400
Judiciary - Supreme Court (SPA)			
Alternative Dispute Resolution (3245)	\$149,300	\$259,000	\$259,000
Certified Reporters (2440)	39,700	95,400	95,400
Drug Treatment and Education (2277)	0	386,000	386,000
Grants and Special Revenue (2084)	15,396,700	19,611,900	19,611,900
Juvenile Probation Services (2193)	0	0	0
Lengthy Trial, Arizona (2382)	615,300	610,300	610,300
Public Defender Training (3013)	441,200	441,200	441,200
Total - Judiciary - Supreme Court	\$16,642,200	\$21,403,800	\$21,403,800
Judiciary - Superior Court (SPA)			
Community Punishment Program Fines (2119)	\$57,900	\$110,000	\$110,000
Criminal Justice Enhancement (2075)	1,216,700	1,258,200	1,258,200
Drug and Gang Enforcement Account (2074)	0	0	0
Drug Treatment and Education (2277)	3,841,100	3,769,700	3,769,700
Grants and Special Revenue (2084)	1,283,300	1,289,900	1,289,900
Juvenile Probation Services (2193)	0	0	0
State Aid to Detention (2141)	0	0	0
Total - Judiciary - Superior Court	\$6,399,000	\$6,427,800	\$6,427,800
Department of Juvenile Corrections (DJA)			
DJC Career Technical Education (2326)	\$0	\$0	\$0
DJC Restitution (2476)	0	0	0
Employee Recognition (2449)	2,100	2,100	2,100
Federal (2000)	1,565,000	1,678,100	1,678,100
IGA and ISA (2500)	0	0	0
Indirect Cost Recovery (9000)	0	0	0
Instructional Improvement (2492)	0	0	0
Juvenile Corrections (3024)	53,600	53,600	53,600
State Education System for Committed Youth Classroom Site (2487)	90,000	90,000	90,000
Statewide Donations (2025)	26,700	10,100	10,100
Training Institute (2001)	0	0	0
Total - Department of Juvenile Corrections	\$1,737,400	\$1,833,900	\$1,833,900
State Land Department (LDA)			
CAP Municipal and Industrial Repayment (2129)	\$0	\$0	\$0
Federal (2000)	96,600	50,000	0
Federal Grants - American Recovery and Reinvestment Act (2999)	602,300	0	0
Federal Reclamation Trust (2024)	0	0	0
Interagency Agreements (2212)	0	0	0
Off-Highway Vehicle Recreation (2253)	365,800	365,000	365,000
Resource Analysis Division Revolving (4009)	17,600	110,000	60,000
State Land Department (2451)	367,800	375,000	375,000
Total - State Land Department	\$1,450,100	\$900,000	\$800,000
Legislature - Auditor General (AUA)			
Audit Services Revolving (2242)	\$1,919,300	\$1,940,300	\$1,940,300
Department of Liquor Licenses and Control (LLA)			
Anti-Racketeering Revolving (2131)	\$14,800	\$0	\$0
Audit Surcharge (3010)	139,200	171,000	171,000

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
DPS - FBI Fingerprint (2159)	0	0	0
Enforcement Surcharge - Enforcement Unit (3012)	352,900	354,100	360,200
Enforcement Surcharge - Multiple Complaints (3011)	408,700	409,100	403,000
Federal Grants (2000)	136,800	0	0
Total - Department of Liquor Licenses and Control	\$1,052,400	\$934,200	\$934,200
Arizona State Lottery Commission (LOA)			
State Lottery (2122)	\$488,728,000	\$514,176,300	\$539,989,200
Debt Service Fund (NA)	37,499,000	37,501,800	37,501,500
University Capital Improvement (NA)	22,273,200	38,653,000	39,928,200
Mass Transit (NA)	11,444,400	11,444,400	11,444,400
Total - Arizona State Lottery Commission	\$559,944,600	\$601,775,500	\$628,863,300
State Mine Inspector (MIA)			
Abandoned Mines Safety (2408)	\$0	\$0	\$0
Federal Education and Training (2400)	69,600	69,900	69,900
Federal Grants (2000)	473,400	274,300	274,300
IGA and ISA (2500)	0	0	0
Total - State Mine Inspector	\$543,000	\$344,200	\$344,200
State Board of Nursing (BNA)			
Nurse Aide Training and Registration (2000)	\$422,000	\$414,700	\$414,700
Statewide Donations (2025)	0	0	0
Total - State Board of Nursing	\$422,000	\$414,700	\$414,700
Arizona Parents Commission on Drug Education and Prevention (PCA)			
Drug Treatment and Education (2277)	\$4,929,100	\$4,641,700	\$4,641,700
Arizona State Parks Board (PRA)			
Arizona Trail Fund (2525)	\$0	\$0	\$0
Federal (2000)	1,906,500	6,209,400	3,911,800
Land Conservation - Administration Account (2432)	315,700	870,000	107,000
Land Conservation - Donation Account (2432)	0	0	0
Land Conservation - Public Conservation Account (2432)	738,100	0	0
Off Highway Vehicle Recreation (2253)	1,330,700	3,040,100	3,040,100
Partnership (2448)	192,100	192,500	192,500
State Lake Improvement (2105)	6,368,700	11,977,900	9,280,000
State Parks Fund (3117)	87,700	286,800	175,000
Sustainable State Parks and Roads (3125)	0	50,000	50,000
Yarnell Hill Memorial (3124)	0	10,000	10,000
Total - Arizona State Parks Board	\$10,939,500	\$22,636,700	\$16,766,400
Office of Pest Management (SBA)			
Federal (2000)	\$77,800	\$113,500	\$113,500
Arizona State Board of Pharmacy (PMA)			
Controlled Substances Prescription Monitoring Program (2359)	\$510,300	\$510,500	\$510,500
Federal Grants (2000)	0	0	0
Pharmacy, Arizona State Board of (2052)	200,000	200,000	200,000
Total - Arizona State Board of Pharmacy	\$710,300	\$710,500	\$710,500
Arizona Pioneers' Home (PIA)			
IGA and ISA (2500)	\$0	\$0	\$0
Pioneers' Home Fund (Cemetery Proceeds) (3144)	1,700	100	100
Pioneers' Home Fund (Donations) (3143)	16,800	9,000	9,000
Statewide Employee Recognition Gifts (2449)	4,800	5,000	5,000
Total - Arizona Pioneers' Home	\$23,300	\$14,100	\$14,100
Commission for Postsecondary Education (PEA)			
Family College Savings Program Trust (3121)	\$514,800	\$583,200	\$583,200
Federal Grants (2000)	34,300	10,000	10,000
IGA and ISA (2500)	546,800	0	0
Mathematics, Science, and Special Education			
Teacher Student Loan (2358)	0	0	0
Postsecondary Education (2405)	70,000	139,900	139,900
Postsecondary Education Grant Program (2530)	0	0	0
Private Postsecondary Education Student Financial Assistance (2128)	0	0	0
Teachers Incentive Program (2249)	0	0	0
Total - Commission for Postsecondary Education	\$1,165,900	\$733,100	\$733,100
Arizona Power Authority (PAA)			
Hoover Uprating (1113)	\$33,345,100	\$33,863,900	\$33,863,900

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Interest Income (1112)	3,500	2,800	2,800
Power Authority, Arizona (9506)	2,328,100	2,033,400	2,033,400
Total - Arizona Power Authority	\$35,676,700	\$35,900,100	\$35,900,100
State Board for Private Postsecondary Education (PVA)			
Student Tuition Recovery (3027)	\$197,200	\$322,700	\$223,600
Department of Public Safety (PSA)			
Anti-Racketeering Revolving (3123)	\$3,911,400	\$8,250,600	\$8,250,600
Capitol Police Administrative Towing (1999)	0	0	0
Conferences, Workshops, and Other Education (2700)	0	0	0
Criminal Justice Enhancement (3702)	0	0	0
DPS Administration (2322)	1,827,200	1,733,700	1,733,700
DPS Licensing Fund (2490)	1,081,700	1,184,000	1,184,000
Driving Under the Influence Abatement (2422)	1,248,800	1,252,700	1,252,700
Families of Fallen Police Officers Special Plate Fund (2386)	191,000	230,000	230,000
Federal Grants and Reimbursements (2000)	35,168,700	52,467,000	46,016,300
Fingerprint Clearance Card (2433)	6,862,300	4,170,500	4,170,500
Fingerprinting Fund, Board of (2435)	549,200	594,000	594,000
IGA and ISA (2500)	8,080,800	8,884,300	8,884,300
Indirect Cost Recovery (9000)	1,624,600	2,271,000	2,271,000
Motor Carrier Safety Revolving (2380)	1,400	3,000	3,000
Peace Officers' Training (2049)	6,711,700	6,149,600	6,149,600
Public Safety Equipment Fund (2391)	893,000	1,200,000	1,200,000
Records Processing (2278)	4,800,000	4,923,500	4,923,500
State Highway Work Zone Safety (2480)	0	0	0
Statewide Donations (2025)	0	0	0
State Traffic and Parking Control (ADA2453)	0	0	0
Victims' Rights Enforcement (2519)	2,500	1,013,300	1,013,300
Total - Department of Public Safety	\$72,954,300	\$94,327,200	\$87,876,500
Public Safety Personnel Retirement System (NA)			
Fire Fighter, Peace Officer, and Corrections Officer Cancer Insurance Policy Program Account (NA)	\$32,900	\$29,400	\$30,300
Investment and Administrative Expenses (NA)	12,092,200	10,856,000	11,181,700
Total - Public Safety Personnel Retirement System	\$12,125,100	\$10,885,400	\$11,212,000
Arizona Department of Racing (GMA)			
Breeders Award, Arizona (2206)	\$0	\$0	\$0
DPS-FBI Fingerprint (2159)	0	0	0
Greyhound and Retired Racehorse Adoption (2015)	2,200	0	0
Racing Administration (2018)	0	0	0
Racing Commission Bond Deposit (3720)	0	0	0
Racing Investigation (2369)	17,900	0	0
Racing Regulation Fund - Mixed Martial Arts Account (2393)	29,800	0	0
Total - Arizona Department of Racing	\$49,900	\$0	\$0
Radiation Regulatory Agency (AEA)			
Federal Grants (2000)	\$268,200	\$268,200	\$268,200
Laser Safety (2388)	32,900	32,900	32,900
Nuclear Emergency Management (2138)	0	0	0
Total - Radiation Regulatory Agency	\$301,100	\$301,100	\$301,100
State Real Estate Department (REA)			
Education Revolving (4011)	\$11,000	\$15,000	\$15,000
Recovery (3119)	48,500	170,100	170,100
Total - State Real Estate Department	\$59,500	\$185,100	\$185,100
Arizona State Retirement System (RSA)			
Administrative Account - Investment Expenses (1407)	\$84,258,500	\$87,805,200	\$78,165,000
Long-Term Disability Trust Fund Administration Account (1408)	0	0	0
Total - Arizona State Retirement System	\$84,258,500	\$87,805,200	\$78,165,000
Department of Revenue (RVA)			
Escheated Estates (3745)	\$0	\$0	\$0
Estate and Unclaimed Property (1520)	0	0	0
I Didn't Pay Enough (6001)	0	0	0
IGA and ISA (2500)	4,011,200	3,017,100	3,017,100
Revenue Publications Revolving (2166)	0	0	0
Special Collections (2168)	0	0	0
Statewide Employee Recognition Gifts/Donations (2449)	0	0	0
Waste Tire (2356)	0	0	0
Total - Department of Revenue	\$4,011,200	\$3,017,100	\$3,017,100

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
School Facilities Board (SFA)			
Building Renewal Grant (2392)	\$0	\$0	\$0
Emergency Deficiencies Correction (2484)	142,000	1,569,900	0
Land Trust Bond Debt Service (5030)	23,294,000	24,905,000	24,906,000
Lease-to-Own Debt Service (2373)	105,700	14,600	14,600
New School Facilities (2460)	6,100	9,300	9,300
School Improvement Revenue Bond Debt Service (5020)	64,195,700	64,148,000	64,143,500
Total - School Facilities Board	\$87,743,500	\$90,646,800	\$89,073,400
Secretary of State - Department of State (STA)			
Address Confidentiality Program (2557)	\$161,000	\$151,100	\$151,100
Blue Book Revolving, Arizona (2006)	0	0	0
Data Processing Acquisition (2265)	83,600	268,500	268,500
Election Training (2521)	0	0	0
Federal Grants (LAA2000)	2,783,500	3,727,700	3,727,700
IGA and ISA (2500)	0	0	0
Museum Gift Shop Revolving (LAA4008)	112,300	97,700	97,700
Notary Bond (2387)	89,100	100,000	100,000
Standing Political Committee Administrative (2426)	0	0	0
State Library (LAA2115)	198,000	633,700	633,700
Total - Secretary of State - Department of State	\$3,427,500	\$4,978,700	\$4,978,700
State Board of Technical Registration (TEA)			
Technical Registration Board of Investigations (2072)	\$16,300	\$20,400	\$20,400
Office of Tourism (TOA)			
Tourism (2236)	\$15,606,600	\$13,779,000	\$13,779,000
Department of Transportation (DTA)			
Highways Magazine, Arizona (2031)	\$4,751,200	\$4,637,500	\$4,637,500
Cash Deposits (2266)	12,900	13,000	13,000
Contract Counsel (4212)	0	0	0
Federal Grants (2097)	1,827,800	1,441,000	1,441,000
Highway Expansion and Extension Loan Program (2417)	21,400	58,000,000	58,000,000
International Development Authority, Arizona (1994)	0	0	0
Local Agency Deposits (3701)	1,158,600	207,000	207,000
Maricopa Regional Area Road (2029)	45,112,000	42,927,500	42,927,500
Motor Carrier Safety Revolving (2380)	0	0	0
Railroad Corridor Acquisition Fund (2493)	0	0	0
Rental Tax and Bond Deposit (3737)	0	0	0
Shared Location and Advertising Agreements Expense (2414)	34,500	39,300	39,300
Statewide Employee Recognition Gifts/Donations (2449)	22,300	22,500	22,500
Statewide Special Plates (2650)	1,623,200	1,602,000	1,602,000
Underground Storage Tank Revolving (3728)	0	0	0
Total - Department of Transportation	\$54,563,900	\$108,889,800	\$108,889,800
State Treasurer (TRA)			
Criminal Justice Enhancement (3702)	\$4,495,400	\$4,495,400	\$4,495,400
Public Deposit Administration (2574)	0	0	0
Total - State Treasurer	\$4,495,400	\$4,495,400	\$4,495,400
Arizona Board of Regents (BRA)			
Health Education Center Program, Arizona (BRA2) Federal (2000)	\$0	\$0	\$0
Regents Local (BRA1)	250,100	1,786,600	915,800
Technology and Research Initiative (2472)	1,991,600	2,992,500	2,992,500
Trust Land (3131/3132/3134/3136)	1,616,900	4,850,100	2,000,000
Total - Arizona Board of Regents	4,668,200	4,611,500	4,611,500
Arizona State University - Tempe/DPC (ASA)			
Auxiliary (UNI8906)	\$141,820,500	\$151,651,800	\$151,651,800
Designated (UNI8905)	578,260,500	708,551,400	741,317,300
Endowment and Life Income (UNI8904)	1,398,900	0	0
Federal Grants (UNI8903)	281,606,600	286,349,700	286,349,700
Indirect Cost Recovery (Non-Federal) (UNI8900)	29,357,300	31,368,800	31,368,800
Loan (UNI8901)	504,600	0	0
Restricted (Excluding Federal Funds) (UNI8907)	125,559,400	129,945,000	129,945,000
University Capital Improvement Lease-to-Own and Bond (BRA3042)	6,401,000	11,918,300	11,925,300
Total - Arizona State University - Tempe/DPC	\$1,164,908,800	\$1,319,785,000	\$1,352,557,900
Arizona State University - East Campus (ASA)			
Auxiliary (UNI8906)	\$1,545,600	\$1,661,000	\$1,661,000

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Designated (UNI8905)	12,390,100	15,228,500	16,628,700
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	8,211,400	8,377,200	8,377,200
Restricted (Excluding Federal Funds) (UNI8907)	2,115,000	2,157,600	2,157,600
Total - Arizona State University - East Campus	\$24,262,100	\$27,424,300	\$28,824,500
Arizona State University - West Campus (ASA)			
Auxiliary (UNI8906)	\$276,200	\$286,300	\$286,300
Designated (UNI8905)	29,910,000	47,020,200	48,853,000
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	12,359,000	12,608,400	12,608,400
Restricted (Excluding Federal Funds) (UNI8907)	4,205,100	4,289,900	4,289,900
Total - Arizona State University - West Campus	\$46,750,300	\$64,204,800	\$66,037,600
Northern Arizona University (NAA)			
Auxiliary (UNI8906)	\$58,967,200	\$62,545,500	\$68,525,000
Designated (UNI8905)	107,612,200	128,177,400	131,586,600
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	77,299,700	78,132,200	78,941,300
Federal Indirect Cost Recovery (UNI8902)	3,958,000	3,938,100	3,949,400
Indirect Cost Recovery (Non-Federal) (UNI8900)	896,900	1,179,900	1,406,700
Loan (UNI8901)	251,600	235,000	243,000
Restricted (Excluding Federal Funds) (UNI8907)	22,712,900	24,364,300	24,749,400
University Capital Improvement Lease-to-Own and Bond (BRA3042)	6,147,800	9,494,100	11,087,700
Total - Northern Arizona University	\$277,846,300	\$308,066,500	\$320,489,100
University of Arizona - Main Campus (UAA)			
Auxiliary (UNI8906)	\$210,012,200	\$215,646,900	\$219,254,600
Designated (UNI8905)	538,475,100	549,244,600	565,722,000
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	172,508,900	175,959,000	181,237,500
Federal Indirect Cost Recovery (UNI8902)	45,771,300	46,686,800	48,087,500
Indirect Cost Recovery (Non-Federal) (UNI8900)	10,575,600	10,787,200	11,110,900
Loan (UNI8901)	757,500	772,600	795,800
Restricted (Excluding Federal Funds) (UNI8907)	186,230,700	169,555,800	174,642,900
University Capital Improvement Lease-to-Own and Bond (BRA3042)	15,313,500	26,903,800	26,897,300
Total - University of Arizona - Main Campus	\$1,179,644,800	\$1,195,556,700	\$1,227,748,500
University of Arizona - Health Sciences Center (UAA)			
Auxiliary (UNI8906)	\$9,902,400	\$10,148,000	\$10,452,400
Designated (UNI8905)	171,766,500	227,475,200	168,311,500
Endowment and Life Income (UNI8904)	0	0	0
Federal Grants (UNI8903)	71,302,700	72,728,800	74,910,800
Federal Indirect Cost Recovery (UNI8902)	21,535,800	21,966,500	22,625,500
Indirect Cost Recovery (Non-Federal) (UNI8900)	2,789,700	2,845,500	2,930,900
Restricted (Excluding Federal Funds) (UNI8907)	100,461,000	102,470,300	105,544,400
Total - University of Arizona - Health Sciences Center	\$377,758,100	\$437,634,300	\$384,775,500
Department of Veterans' Services (VSA)			
Federal (2000)	\$732,400	\$1,382,500	\$1,262,100
Military Family Relief (2339)	484,900	593,600	593,600
Statewide Employee Recognition Gifts (2449)	900	200	200
Veterans' Cemetery (2481)	8,088,300	7,065,800	0
Arizona State Veterans' Cemetery Trust (2499)	184,300	192,800	192,800
Veterans' Donations (2441)	910,000	896,700	896,700
Total - Department of Veterans' Services	\$10,400,800	\$10,131,600	\$2,945,400
Water Infrastructure Finance Authority (WFA)			
Clean Water Revolving (2254)	\$104,157,900	\$171,371,400	\$171,371,400
Drinking Water Revolving (2307)	49,927,000	67,353,900	67,353,900
Federal (2000)	25,904,100	37,020,100	37,020,100
Greater Arizona Development Authority Revolving (2311)	111,000	213,200	213,200
Small Water Systems (2225)	0	0	0
Water Supply Development Revolving (2336)	8,100	0	0
Total - Water Infrastructure Financing Authority	\$180,108,100	\$275,958,600	\$275,958,600
Department of Water Resources (WCA)			
Administrative (3025)	\$0	\$0	\$0
Augmentation and Conservation Assistance (2213)	1,093,400	1,000,000	1,000,000
Colorado River Water Use Fee Clearing Account (2538)	7,000	7,000	7,000
Dam Repair (2218)	46,700	76,400	76,400
Federal Grants (2000)	1,600	155,700	155,700

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Flood Warning System (1021)	38,100	65,000	65,000
General Adjudications (2191)	11,900	12,000	12,000
Indirect Cost Recovery (9000)	164,900	143,000	143,000
Interagency Service Agreement (2500)	477,900	304,100	304,100
Production and Copying (2411)	100	300	300
Publication and Mailing (2410)	4,800	5,000	5,000
Purchase and Retirement Fund (2474)	0	0	0
Statewide Donations (2025)	8,400	10,000	10,000
Water Banking, Arizona (2110)	8,050,500	7,924,800	7,924,800
Water Protection, Arizona (1302)	676,900	808,400	808,400
Water Quality, Arizona (2304)	161,400	140,900	140,900
Well Administration and Enforcement (2491)	330,600	302,500	302,500
Total - Department of Water Resources	\$11,074,200	\$10,955,100	\$10,955,100
OPERATING TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$19,514,672,400	\$20,790,499,600	\$22,053,456,200
Subtotal - Other Funds	7,417,657,700	7,915,386,100	8,109,219,200
Subtotal - Federal Funds	12,097,014,700	12,875,113,500	13,944,237,000
OPERATING TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$19,514,672,400	\$20,790,499,600	\$22,053,456,200
CAPITAL - NON-APPROPRIATED			
Aviation Federal Funds (DTA2267)	\$323,000	\$4,000,000	\$4,500,000
Federal Grants (DTA2097)	665,534,000	665,534,000	665,534,000
Economic Strength Project (DTA2244)	1,000,000	1,000,000	1,000,000
Highway Expansion and Extension Loan Program (DTA2417)	0	78,000,000	0
Local Agency Deposits (DTA3701)	121,560,000	106,000,000	98,000,000
Maricopa Regional Area Road (DTA2029)	314,621,000	619,634,000	243,567,000
Department of Public Safety Federal Funds (PSA2000)	0	250,000	250,000
CAPITAL TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$1,103,038,000	\$1,474,418,000	\$1,012,851,000
Subtotal - Other Funds	437,181,000	804,634,000	342,567,000
Subtotal - Federal Funds	665,857,000	669,784,000	670,284,000
CAPITAL TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$1,103,038,000	\$1,474,418,000	\$1,012,851,000
GRAND TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$20,617,710,400	\$22,264,917,600	\$23,066,307,200
Subtotal - Other Funds	7,854,838,700	8,720,020,100	8,451,786,200
Subtotal - Federal Funds	12,762,871,700	13,544,897,500	14,614,521,000
GRAND TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	\$20,617,710,400	\$22,264,917,600	\$23,066,307,200

1/ If General Fund monies are deposited into a non-appropriated fund, the expenditures of these monies are not displayed in this chart to avoid double counting.

2/ The Baseline includes a reduction of \$(1,343,060,600) from non-appropriated funds in the Department of Health Services (DHS) in FY 2017 to transfer behavioral health services from DHS to AHCCCS. Of this amount, \$(1,239,020,700) is from the ISA for Behavioral Health Services Fund, \$(60,519,600) is from the IGA for County Behavioral Health Services Fund, \$(41,520,300) is from Federal Funds, and \$(2,000,000) is from the Seriously Mentally Ill Housing Trust Fund.

NA = No Fund Number

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 Fund	Other Fund	Total	General Fund	Other Fund	Total
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	532.1
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	552.1
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 2/ 3/	162.9	0.0	162.9	182.0	14.3	196.3
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 4/ 5/	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 6/	212.6	362.1	574.7	212.6	362.1	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 7/	1,414.9	1,642.2	3,057.1	1,414.9	1,642.2	3,057.1
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	9,534.0	6.0	9,540.0
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 8/	1,336.1	2,811.6	4,147.7	1,356.9	2,861.1	4,218.0
Education, State Board of	6.0	5.0	11.0	6.0	5.0	11.0
Education, Department of	137.2	27.7	164.9	137.2	27.7	164.9
Emergency and Military Affairs, Department of 2/ 9/	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	48.0	0.0	48.0	48.0	0.0	48.0
Forester, State	55.0	0.0	55.0	55.0	0.0	55.0
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	10.3	0.0	10.3	10.3	0.0	10.3
Governor's Office of Strategic Planning and Budgeting	22.0	0.0	22.0	22.0	0.0	22.0
Health Services, Department of 5/	900.9	275.8	1,176.7	859.6	176.9	1,036.5
Historical Society, Arizona	51.9	0.0	51.9	51.9	0.0	51.9
Historical Society of Arizona, Prescott	13.0	0.0	13.0	13.0	0.0	13.0
Homeopathic and Integrated Medicine Examiners, Board of	0.0	1.0	1.0	0.0	1.0	1.0
Housing, Department of	0.0	3.0	3.0	0.0	3.0	3.0
Indian Affairs, Arizona Commission of	3.0	0.0	3.0	3.0	0.0	3.0
Industrial Commission of Arizona	0.0	235.6	235.6	0.0	235.6	235.6
Insurance, Department of	95.5	0.0	95.5	95.5	0.0	95.5
Judiciary						
Supreme Court	136.6	38.4	175.0	136.6	38.4	175.0
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	402.2	47.1	449.3
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
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	58.5	58.5
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, Board	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	6.7	6.7

BUDGET UNITS	Fiscal Year 2016			Fiscal Year 2017		
	General Fund	Other Fund	Total	General Fund	Other Fund	Total
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	0.0	30.0	30.0	0.0	30.0	30.0
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 for	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	706.8	1,201.9	1,908.7
Radiation Regulatory Agency ^{2/}	25.5	9.0	34.5	25.5	9.0	34.5
Real Estate Department, State	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	3.0	3.0
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
Universities ^{10/ 11/}						
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	1,937.7	3,667.8	5,605.5	1,937.7	3,667.8	5,605.5
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	5,979.1	10,767.8	16,746.9
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	94.0	6.0	100.0
Weights and Measures, Department of ^{3/}	20.9	17.5	38.4	0.0	0.0	0.0
TOTAL APPROPRIATED FUNDS	24,867.1	27,042.8	51,909.9	24,859.7	27,038.3	51,898.0

- ^{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.
- ^{3/} 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 14.3 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.
- ^{4/} Includes 1,177.7 FTE Positions in FY 2016 and 1,281.8 FTE Positions in FY 2017 in the Other Fund FTE Positions column funded from Federal Medicaid Expenditure Authority.
- ^{5/} 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.
- ^{6/} The FY 2016 budget included 565.9 FTE Positions for the Attorney General, plus a reserve appropriation of 11.0 FTE Positions from the Interagency Service Agreement (ISA) Fund. In October 2015, the Attorney General notified the JLBC that it expected to use 8.8 FTE Positions of its ISA Fund reserve appropriation. As a result, the FTE authority for FY 2016 increased to 574.7 FTE Positions. The FY 2017 Baseline continues the revised level of FTE authority and provides an additional ISA Fund reserve appropriation of 11.0 FTE Positions.
- ^{7/} Includes 1,034.9 FTE Positions in FY 2016 and FY 2017 in the Other Fund FTE Positions column funded with Expenditure Authority.
- ^{8/} Includes 1,863.3 FTE Positions in FY 2016 and 1,912.8 FTE Positions in FY 2017 in the Other Fund FTE Positions column funded by the Long Term Care System Fund and Federal Funds for Child Support Enforcement.
- ^{9/} 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.
- ^{10/} 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. (Please see the Arizona Board of Regents narrative for additional information.)
- ^{11/} 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.

FY 2017 BUDGET RECONCILIATION BILL PROVISIONS

The Baseline would include the enactment of statutory changes associated with its funding amount. The following provisions would be grouped by subject into Budget Reconciliation Bills (BRBs). New provisions in the Baseline are noted with an asterisk (*). Deleted prior-year session law BRB provisions are shown with strike-through text.

Statewide

1. As session law, notwithstanding A.R.S. § 35-111 to permit the Governor to submit an annual budget for FY 2018.
2. As session law, notwithstanding A.R.S. § 35-113 to permit the head of each department to submit an annual budget for FY 2018.
3. 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.)
4. 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.
5. As session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.

Arizona Department of Administration

6. * 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.

Arizona Department of Agriculture

7. 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.

AHCCCS

Rates and Services

8. 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.
9. As session law, place "hard cap" limiting capitation rate increase to 1.5% in FY 2017 and FY 2018. (This repeats the same language that appeared in the FY 2016 Health BRB.)
10. ~~As session law, authorize agency to reduce provider rates by a cumulative total of up to (5)%; would exclude nursing facility, developmental disability, and home and community based services rates. Permit agency to reduce provider rate reduction if capitation rate increase in FY 2016 is less than 3.0%.~~
11. ~~As session law, require AHCCCS to apply for waivers from the federal government to impose the following statutory changes: 1) require adult Medicaid enrollees up to 133% of the Federal Poverty Limit (FPL) to pay a premium of 2% of their income, 2) allow providers to charge co-pays of up to \$25 for non-emergency use of the emergency room, and 3) eliminate payment for non-emergency medical transportation from October 1, 2015 through September 30, 2016 for adults at 100%–133% FPL.~~

Counties

12. As session law, set FY 2017 county Arizona Long Term Care System (ALTCS) contributions at \$248,862,900.
13. 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.
14. 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.

15. As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
16. 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.

Hospitals

17. 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. As session law, continue to require agency to report to JLBC and OSPB on any supplemental hospital payments paid to Critical Access Hospitals (CAH) in FY 2017.

Erroneous Payments

19. 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.

Available Funding

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

Substance Abuse Services

21. * As permanent law, require AHCCCS to establish services for alcohol and drug abuse pursuant to A.R.S. § 36-2001.
22. * 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.
23. * 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.
24. * As permanent law, provide AHCCCS with the authority to administer the Substance Abuse Services Fund pursuant to A.R.S. § 36-2005.

Reports

25. As session law, continue to require AHCCCS to submit a report by December 1, 2016 on utilization of emergency departments for non-emergency use by AHCCCS enrollees.
26. As session law, continue to require AHCCCS and DHS to submit a joint report by January 1, 2017 on hospital costs and charges.
27. As session law, continue to require AHCCCS to report by December 31, 2016 on efforts to increase third-party liability payments for behavioral health services. This report was previously prepared by the Department of Health Services (DHS).
28. * As session law, require AHCCCS to report on or before January 2, 2017 on the availability of inpatient psychiatric treatment for children and adolescents enrolled in Arizona's Regional Behavioral Health Authorities.

Attorney General - Department of Law

29. As session law, continue to permit the Attorney General to use State Aid to Indigent Defense Fund for capital postconviction prosecution activities in FY 2017.
30. * As permanent law, eliminate JLBC review of funding sources that agencies have selected to pay their Attorney General Legal Services charges.

Department of Child Safety

31. 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.
32. As session law, continue to require the Auditor General to evaluate the department's performance in selected program areas.

Arizona Community Colleges

33. 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.

State Department of Corrections

34. As session law, continue to permit the department to award contracts for remaining 1,000 male medium security beds from 2,000-bed Request for Proposals issued by the department in May 2015 only with legislative authorization.
35. 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.
36. * 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.

Counties and Cities & Towns

37. As session law, continue to allow counties with a population below 200,000 in the 2010 decennial census to use any source of county revenue to meet a county fiscal obligation for FY 2017. Continue to allow counties with populations between 200,000 and 900,000 to use any source of county revenue to meet a county fiscal obligation for FY 2017, up to \$1,000,000 of county revenue for each county. Requires counties using either authority to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2016.
38. ~~As session law, modify the JLBC's reporting requirements relating to the fiscal impact of government property excise tax (GPLET) rates by requiring counties to provide the JLBC Staff with the information necessary to complete the report, eliminating a report section pertaining to the determination of the property tax levy per square foot, and permitting the JLBC Staff to sample leases to produce the report.~~

Department of Economic Security

39. 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 the Department of Economic Security (DES) has reasonable cause to believe that the recipient uses illegal drugs.
40. 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.

Department of Education

JTEDs

41. 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.

Formula Requirements

42. 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 1.15% for standard inflation.

Funding Formula Changes

43. 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.
44. As session law, continue to reduce Charter Additional Assistance by \$18,656,000.
45. ~~As session law, require all school districts to hold a public meeting to discuss or present their plans for reductions pertaining to District Additional Assistance funding. Require a "C", "D" or "F" school to allow the community to submit comments or recommendations on the reductions within 30 days of the meeting and require the governing board to consider the comments or recommendations at a subsequent public meeting. Require the governing board of all school districts to include the percentage of classroom spending in the school district's adopted budget on the page of the budget that governing board members sign.~~

46. ~~As session law, continue to reduce Charter Additional Assistance funding to school districts with charter schools that do not receive state aid by the amount that would be reduced under the \$18,656,000 statewide Charter Additional Assistance suspension if they did qualify for state aid for FY 2016 and reduce budget limits accordingly.~~
47. As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.
48. ~~As session law, require ADE to notify school districts by December 15, 2015 how it plans to implement current year Average Daily Membership funding in FY 2017 and report the estimated fiscal impact by district.~~
49. * As permanent law, repeal statutes authorizing district-sponsored charter schools starting in FY 2017.
50. * 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.
51. * 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.
52. * As session law, also amend the language in Laws 2014, Chapter 16, Section 5 to make that section of law apply to both FY 2016 and FY 2017 in order to address school districts that still operate district-sponsored charters in FY 2016.
53. * 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.

Other

54. As session law, continue to require community colleges and universities to transfer \$6 per pupil by December 1, 2016 to help fund the Education Learning and Accountability System.
55. 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.
56. As session law, continue to require the department to report results of the pilot program by November 1 of the fiscal year.
57. * 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.
58. * 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.

Potential Other Statutory Changes

For the following 6 provisions, the JLBC Staff recommends the Legislature consider whether to:

59. * As permanent law, amend the 1% cap statute (A.R.S. § 15-972) to further clarify how the \$1,000,000 limit on 1% cap costs per county in A.R.S. § 15-972K is to be implemented.
60. * As permanent law, continue to use prior year ADM for determining eligibility for small school budget exemptions pursuant to A.R.S. § 15-949.
61. * As permanent law, continue to use prior year ADM in order to determine school district allocations from the Classroom Site Fund, Instructional Improvement Fund, K-12 rollover and lump sum reductions.
62. * As permanent law, continue to use prior year ADM to compute budget capacity for school district overrides, high school tuition amounts and "minimum QTR" payments required by A.R.S. § 15-992.
63. * As permanent law, amend A.R.S. § 15-393R4 to require JCCR review of JTED centralized campus leases on a permanent basis, rather than only through December 31, 2016.
64. * 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.

Department of Environmental Quality

65. 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.

66. As session law, continue to decrease the General Fund appropriation to the Water Quality Assurance Revolving Fund from \$15,000,000 to \$7,000,000.
67. 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.

Department of Financial Institutions

68. As session law, continue to allow the Department of Financial Institutions to use the Financial Services Fund for general operating expenditures of the department.
69. ~~As session law, extend the permission for the agency to spend up to \$850,000 from the Receivership Revolving Fund in FY 2016 for information technology upgrades into FY 2016. This permission was originally extended from FY 2014 into FY 2015.~~

Department of Health Services

70. 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.
71. 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.
72. 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.
73. ~~As session law, place "hard cap" limiting capitation rate increases to 1.5% and FY 2017 in FY 2018. See AHCCCS.~~
74. ~~As session law, authorize agency to reduce provider rates by a cumulative total of up to (5%); would exclude nursing facility, developmental disability, and home and community based services rates. Permit agency to reduce provider rate reduction if capitation rate increase in FY 2016 is less than 3.0%. See AHCCCS.~~
75. ~~As session law, require the department to report to JLBC and OSPB Directors on efforts to increase third-party liability payments for behavioral health services. See AHCCCS.~~
76. * As session law, retain the Interagency Service Agreement (ISA) for Behavioral Health Services Fund in DHS until June 30, 2017. Prohibit DHS from spending the monies for any purpose except to pay for behavioral health services claims incurred June 30, 2016 or earlier. Any monies remaining in the fund after June 30, 2017 would revert to the General Fund.
77. * As permanent law, transfer the Intergovernmental Agreement (IGA) for County Behavioral Health Services Fund to AHCCCS following the behavioral health services transfer.

Department of Insurance

78. As session law, continue to suspend the requirement that fees collected by the department be between 95% and 110% of the department's appropriation.
79. * As session law, allow the department to increase the fraud investigation assessment to the \$1,050 limit set by A.R.S. § 20-466J in FY 2016 and FY 2017, retroactive to July 1, 2015.

Judiciary

80. 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 counties to report on reductions in county funding as a result of the elimination of the non-supplanting provisions.

Department of Juvenile Corrections

81. 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 \$12,000,000.

State Land Department

82. * Modify session law in the FY 2016 Environment Budget Reconciliation Bill to no longer repeal the Trust Land Management Fund in order to preserve the department's ability to deposit and use fee monies, and, as permanent law, rename the Trust Land Management Fund as the Land Fee Fund.

- 83. * Modify permanent law to establish the Trust Land Administration Fund as a separate, rather than replacement, provision of law from the Trust Land Management Fund.
- 84. * As session law, allow Land Fee Fund monies to be used for non-trust land administration purposes in FY 2017.
- 85. * As permanent law, limit the Trust Land Administration Fund and the Land Fee Fund fiscal year-end balances each to 50% of the department's operating appropriation for the next fiscal year, rather than 200%.
- 86. * As session law, modify SCR 1018 to clarify that the Land Department Self-Funding plan will allow the department to proportionately withdraw from the permanent funds up to 10% of the permanent receipts total of the second prior fiscal year.

Department of Liquor Licenses and Control

- 87. As session law, extend the permission for the agency to spend its \$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.

Arizona State Lottery Commission

- 88. * 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.

Arizona Medical Board

- 89. * 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.

Arizona Navigable Stream Adjudication Commission

- 90. As session law, continue to allow use of Water Banking Fund for the commission's unpaid legal obligations.

Arizona State Parks Board

- 91. As session law, continue to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs.

Department of Public Safety

- 92. 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.
- 93. As session law, continue to suspend the schedule established by A.R.S. § 28-6537 governing the level of Highway User Revenue Fund (HURF) revenues available to fund DPS' Highway Patrol costs.
- 94. As session law, continue to allow use of the State Aid to Indigent Defense Fund for DPS operating expenses.
- 95. As session law, continue the previously-approved \$30,000,000 shift of Highway Patrol costs from HURF to the General Fund in FY 2018.

Radiation Regulatory Agency

- 96. 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.

Department of Revenue

- 97. ~~As session law, permit the department to use up to \$2,000,000 of sales tax collected by private contracted collectors to pay for services of the contracted collectors.~~
- 98. ~~As session law, implement a tax amnesty program from September 1, 2015 through October 31, 2015 for unpaid individual income, corporate income, and transaction privilege tax liabilities. This applies to annual taxpayers' tax years ending before January 1, 2014 and February 1, 2015 for all others.~~
- 99. * As permanent law, permanently extend the allocation of luxury tax revenues to the Corrections Fund, retroactive to from and after July 1, 2015.

100. * As permanent law, require the department to report to the Directors of JLBC and the Governor's Office of Strategic Planning and Budgeting on the amount of individual and corporate income tax credits claimed for a given fiscal year within 3 months of the end of a fiscal year.

School Facilities Board

101. ~~As session law, allow the School Facilities Board to refinance existing lease-purchase debt.~~

Potential Other Statutory Changes

102. * As permanent law, the JLBC Staff recommends that the Legislature consider whether to limit locally-funded square footage excluded from School Facilities Board new school construction award calculations.

Department of Transportation

Potential Other Statutory Changes

103. * As permanent law, the JLBC Staff recommends that the Legislature consider whether to require the deposit of any savings generated from the renegotiation of the Service Arizona contract into the State Highway Fund.

Universities

104. 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).
105. * 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.

Potential Other Statutory Changes

106. * The JLBC Staff recommends that the Legislature consider whether to adopt a uniform approach and either appropriate all or none of tuition. If tuition is made non-appropriated, the JLBC Staff recommends the university fund structure be made more transparent and separating tuition and fees out in a separate fund away from other monies with which tuition is currently deposited.

Department of Water Resources

107. 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.
108. 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.

Retirement

Potential Other Statutory Changes

109. * As permanent law, the JLBC Staff recommends that the Legislature consider whether to require the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) to use an industry-recommended template for fees and costs of private equity investments and require ASRS and PSPRS to submit an annual report on aggregate private equity investment costs.

Revenues

110. As session law, continue to notwithstanding the requirements for any deposit to or any withdrawals from the Budget Stabilization Fund through FY 2019.

FY 2017 GENERAL APPROPRIATION ACT PROVISIONS

The Baseline would include the following provisions in the General Appropriation Act. These provisions would be in addition to the individual agency appropriations, but exclude supplemental appropriations, ex-appropriations and fund transfers.

Arizona Department of Administration

111. 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.

Department of Child Safety

112. As session law, continue the \$11,000,000 payment deferral to providers from FY 2017 to FY 2018. Appropriate \$11,000,000 in FY 2018 for these deferred payments.

Arizona Commerce Authority

113. 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.

Counties and Cities & Towns

114. 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.
115. 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.
116. 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).

Department of Economic Security

117. As session law, continue the \$21,000,000 payment deferral to providers from FY 2017 to FY 2018. Appropriate \$21,000,000 in FY 2018 for these deferred payments.

Department of Education

118. 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.
119. 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.

Universities

120. As session law, continue the \$200,000,000 universitywide payment deferral to the universities from FY 2017 to FY 2018. Appropriate \$200,000,000 in FY 2018 for these deferred payments.

Debt Service

121. 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.

Revenues

122. As session law, continue to specify revenue and expenditure estimates for FY 2016, FY 2017, FY 2018, and FY 2019.
123. 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.

Statewide

124. As session law, ex-appropriate \$(7,800,000) 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.
125. As session law, continue to specify FY 2017 individual agency charges totaling \$1,809,500 for general agency counsel provided by the Attorney General.
126. 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.
127. 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.
128. 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.
129. 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.

General

130. As session law, continue to define "*" as designating an appropriation exempt from lapsing.
131. As session law, continue to define "expenditure authority" as continuously appropriated monies included in individual line items of appropriations.
132. 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.

MAJOR FOOTNOTE CHANGES

The Baseline 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

- Adds footnote requiring the department to report to JLBC on information technology and automation project oversight positions in the department by October 1, 2016.

Arizona Department of Administration - Automation Projects Fund

- 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.
- 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.

AHCCCS

- 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.
- 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.

Attorney General - Department of Law

- 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.

Department of Child Safety

- Adds footnote in DES requiring transfers of resources between DCS and DES in both FY 2016 and FY 2017, resulting in no net change in total DCS resources. In exchange for receiving \$6,752,300 from DES' FY 2016 TANF Block Grant appropriation and \$3,971,700 from DES' FY 2017 TANF Block Grant appropriation, DCS will transfer DES a corresponding amount of General Fund.
- Adds footnote requiring all expenditures for Attorney General legal services to be funded only from the Attorney General Legal Services line item.
- Deletes footnote concerning backlog Request for Proposals.

Potential Other Footnotes

- The JLBC Staff recommends that the Legislature consider a footnote requiring JLBC review before any transfer of resources among DCS line items.

Arizona Commerce Authority

- Adds footnote requiring the agency to submit for JLBC review a report on progress made in implementing recommendations in the 2015 Auditor General report.

Arizona Criminal Justice Commission

- Adds footnote requiring the commission to report to JLBC by August 31, 2016 on noncompliance with Anti-Racketeering Revolving Fund statutory reporting requirements.

Department of Economic Security

- Adds footnote requiring transfers of resources between DCS and DES in both FY 2016 and FY 2017, resulting in no net change in total DES resources. In exchange for receiving \$6,752,300 from DES' FY 2016 TANF Block Grant appropriation and \$3,971,700 from DES' FY 2017 TANF Block Grant appropriation, DCS will transfer DES a corresponding amount of General Fund.
- 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.

Arizona Department of Education

- 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.
- Deletes footnote concerning the intended use of monies appropriated to the K-3 Reading line item, as the Baseline would incorporate funding for that line item into other programs.
- 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.

Potential Other Footnotes

- The JLBC Staff recommends the Legislature consider whether to add footnote indicating that the amount appropriated for Basic State Aid from the state General Fund for FY 2017 shall be reduced from the amount shown in the General Appropriation Act if Proposition 123 is not approved by voters (amount of decrease will depend on data available in spring of 2016).

State Land Department

- Adds footnote reducing the department's General Fund appropriation by \$(7,303,600) and appropriating \$7,303,600 from the Trust Land Administration Fund in FY 2017 if SCR 1018 permitting Land Department self-funding is enacted at the November 2016 general election.

Department of Revenue

- Adds footnote requiring JLBC review of any transfers to or from the Income Tax Fraud Prevention line item.
- Adds footnote requiring the department to report the results of private fraud prevention investigation services during FY 2016 to JLBC by November 1, 2016.

School Facilities Board

- 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.

Arizona Department of Transportation

- Adds footnote requiring third-party review of the Motor Vehicle Division (MVD) legacy automation system replacement project.
- Adds footnote requiring the department to report on the cost to link local governments, state agencies, and other users to the new Motor Vehicle Division automation system.
- Adds footnote requiring the department to report the amount of savings generated from the renegotiation of the Service Arizona contract to the JLBC Director.
- Adds footnote requiring all expenditures for Attorney General legal services to be funded only from the Attorney General Legal Services line item.

Universities

- 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.

Potential Other Footnotes

- The Arizona Board of Regents requested FY 2017 state funding based on the number of resident students enrolled at each campus instead of using a performance funding model as required by the FY 2016 General Appropriation Act. The JLBC Staff recommends that the Legislature consider whether to accept this new resident student funding model, reforming the existing performance funding model, or eliminating the performance funding model altogether.

INDIVIDUAL AGENCY ESTIMATES

Arizona State Board of Accountancy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	346,500
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	290,900
Equipment	8,400	24,500	24,500
AGENCY TOTAL	1,400,700	1,939,100	1,939,100

FUND SOURCES

Other Appropriated Funds

Board of Accountancy Fund	1,400,700	1,939,100	1,939,100
SUBTOTAL - Other Appropriated Funds	1,400,700	1,939,100	1,939,100
SUBTOTAL - Appropriated Funds	1,400,700	1,939,100	1,939,100
TOTAL - ALL SOURCES	1,400,700	1,939,100	1,939,100

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 Baseline includes \$1,939,100 and 13 FTE Positions from the Board of Accountancy Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Accountancy Fund (ABA2001/A.R.S. § 32-705)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of public accountants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate certified public accountants and public accountants, and for board administration.		
Funds Expended	1,400,700	1,939,100
Year-End Fund Balance	2,286,000	2,245,300

Acupuncture Board of Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	13,000
Travel - In State	1,000	1,500	1,500
Other Operating Expenditures	30,200	31,200	31,200
Equipment	800	1,300	1,300
AGENCY TOTAL	149,200	159,100	156,100

FUND SOURCES

Other Appropriated Funds

Acupuncture Board of Examiners Fund	149,200	159,100	156,100
SUBTOTAL - Other Appropriated Funds	149,200	159,100	156,100
SUBTOTAL - Appropriated Funds	149,200	159,100	156,100
TOTAL - ALL SOURCES	149,200	159,100	156,100

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

FORMAT — Lump Sum by Agency

The Baseline includes \$156,100 and 1 FTE Position from the Acupuncture Board of Examiners Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF FY 2017 \$(3,000)

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

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Acupuncture Board of Examiners Fund (ANA2412/A.R.S. § 32-3905)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of acupuncturists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate acupuncturists, and for board administration.		
Funds Expended	149,200	159,100
Year-End Fund Balance	144,100	147,600

Arizona Department of Administration

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	504.1	532.1	532.1
Personal Services	28,487,200	29,667,600	29,667,600
Employee Related Expenditures	10,986,600	11,719,000	11,719,000
Professional and Outside Services	8,964,500	8,635,300	8,635,300
Travel - In State	205,500	225,600	225,600
Travel - Out of State	14,600	29,000	29,000
Other Operating Expenditures	30,606,500	36,755,500	36,755,500
Equipment	2,404,100	3,704,400	3,704,400
OPERATING SUBTOTAL	81,669,000	90,736,400	90,736,400
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	7,567,800
County Attorney Immigration Enforcement	231,400	0	0
Named Claimants	184,600	0	0
Information Technology Services			
Statewide Information Security and Privacy Office	735,600	872,200	872,200
Risk Management			
Federal Transfer Payment	10,462,100	0	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	44,362,200
Workers' Compensation Losses and Premiums	25,604,300	31,159,200	31,159,200
Support Services			
Government Transformation Office	0	1,000,000	1,000,000
State Surplus Property Sales Proceeds	1,761,700	1,260,000	1,810,000
Other			
Southwest Defense Contracts	25,000	25,000	25,000
AGENCY TOTAL	162,826,500	194,005,600	194,555,600
FUND SOURCES			
General Fund	11,307,200	10,377,300	10,377,300
<u>Other Appropriated Funds</u>			
Air Quality Fund	578,600	927,300	927,300
Arizona Financial Information System Collections Fund	0	7,567,800	7,567,800
Automation Operations Fund	21,251,400	23,964,100	23,964,100
Capital Outlay Stabilization Fund	15,902,900	18,082,800	18,082,800
Corrections Fund	352,600	571,200	571,200
Federal Surplus Materials Revolving Fund	51,200	464,600	464,600
Information Technology Fund	2,791,600	2,942,100	2,942,100
Motor Vehicle Pool Revolving Fund	7,123,100	10,148,800	10,148,800
Personnel Division Fund	12,878,300	12,885,100	12,885,100
Risk Management Revolving Fund	78,016,900	92,022,900	92,022,900
Special Employee Health Insurance Trust Fund	4,094,800	5,262,300	5,262,300
State Surplus Materials Revolving Fund	2,770,500	2,397,900	2,947,900
State Web Portal Fund	3,940,800	4,543,000	4,543,000
Telecommunications Fund	1,766,600	1,848,400	1,848,400
SUBTOTAL - Other Appropriated Funds	151,519,300	183,628,300	184,178,300
SUBTOTAL - Appropriated Funds	162,826,500	194,005,600	194,555,600

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
Other Non-Appropriated Funds	990,263,500	984,697,800	1,012,936,900
Federal Funds	3,710,900	8,766,100	7,666,600
TOTAL - ALL SOURCES	1,156,800,900	1,187,469,500	1,215,159,100

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 Baseline includes \$90,736,400 and 501.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$8,726,600
Air Quality Fund	927,300
Automation Operations Fund	23,964,100
Capital Outlay Stabilization Fund (COSF)	10,432,900
Corrections Fund	571,200
Federal Surplus Materials Revolving Fund	464,600
Information Technology Fund	2,069,900
Motor Vehicle Pool Revolving Fund	10,148,800
Personnel Division Fund	12,885,100
Risk Management Revolving Fund	7,754,300
Special Employee Health Insurance Trust Fund	5,262,300
State Surplus Materials Revolving Fund	1,137,900
State Web Portal Fund	4,543,000
Telecommunications Fund	1,848,400

These amounts are unchanged from FY 2016.

Facilities Management

Utilities

The Baseline 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 Baseline includes \$7,567,800 and 28 FTE Positions in FY 2017 from the Arizona Financial Information System Collections Fund for the Arizona Financial Information System (AFIS). These amounts are unchanged from FY 2016.

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

Information Technology Services

Statewide Information Security and Privacy Office

The Baseline includes \$872,200 and 3 FTE Positions from the Information Technology Fund in FY 2017 for the Statewide Information Security and Privacy Office (SISPO). These amounts are unchanged from FY 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 Baseline includes no funding from the Risk Management Revolving Fund in FY 2017 for one-time payments to the federal government. This amount is unchanged from FY 2016.

Laws 2015, Chapter 8, Section 112 included an FY 2015 supplemental appropriation of \$10,462,100 from the Risk Management Revolving Fund. This amount consisted 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 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 2014.

Laws 2015, Chapter 8 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 Baseline 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 Baseline includes \$44,362,200 from the Risk Management Revolving Fund in FY 2017 for Risk Management Losses and Premiums. This amount is unchanged from FY 2016.

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 Baseline 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 Baseline includes \$1,000,000 from the General Fund in FY 2017 for the Government Transformation Office (GTO). This amount is unchanged from FY 2016.

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. Prior to the FY 2016 budget, ADOA had a 17-person staff in the GTO funded by an Interagency Service Agreement with the Governor's Office.

State Surplus Property Sales Proceeds

The Baseline includes \$1,810,000 from the State Surplus Materials Revolving Fund in FY 2017 for State Surplus Property Sales Proceeds. FY 2017 adjustments would be as follows:

Expenditure Alignment	OF	550,000
The Baseline 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 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 Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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 are reviewed by the Joint Legislative Budget Committee.

All State Surplus Materials Revolving Fund monies received by the Department of Administration in excess of the \$2,947,900 in FY 2017 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund monies in excess of \$2,947,900 in FY 2017, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee.

The amount appropriated for Southwest Defense Contracts shall be distributed to a nonprofit organization that advocates for the preservation and enhancement of critical defense missions and assets in the southwest United States.

The amounts appropriated for the State Employee Public 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.

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 monies credited to the Automation Operations Fund for automation operation center projects. Before the expenditure of any Automation Operations Fund monies in excess of \$23,964,100 in FY 2017, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee.

It is the intent of the Legislature that the department not replace vehicles until they have an average of 120,000 miles or more.

New Footnotes

The Department of Administration shall report by October 1, 2016 on the structure, allocation and fund sources of all Information Technology and Automation Project oversight FTE Positions within the department. *(Since Information Technology FTE Positions are distributed in the operating budget and the SISPO, AFIS, and APF line items, the report would assist in efforts to coordinate and consolidate ADOA IT operations for the FY 2018 budget cycle.)*

STATUTORY CHANGES

The Baseline would, as permanent law, add a requirement that ADOA 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.

Other Issues

This section includes information on the following topics:

- Automation Projects
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayment
- Arizona Financial Information System
- Public Safety Communications
- Auditor General Recommendation
- October 2015 Special Session and Proposition 123

Automation Projects

The Baseline includes \$1,500,000 transferred from the Automation Operations Fund to the Automation Projects Fund in FY 2017 for automation and information technology projects at ADOA. This amount consists of:

AFIS Replacement

The Baseline 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.

ASET Initiatives

The Baseline includes \$1,500,000 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 \$339,800,800. 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) requires a \$100,000,000 transfer from the HITF balance to the General Fund in FY 2017.

In addition to one-time fund transfers, an ongoing method to reduce the HITF balance is to adjust the

Table 1

**Health Insurance Trust Fund
Balance Sheet**
(\$ in millions)

	Estimated FY 2016	Estimated FY 2017
Beginning Balance	\$339.8	\$377.0
Receipts	\$834.6	\$798.3
Expenses	\$787.2	\$807.0
FFP Repayment ^{1/}	6.1	11.3
Transfer	4.1	100.0
Net Expenses	\$797.4	\$918.3
HITF Ending Balance	\$377.0	\$257.0

^{1/} FY 2016 and FY 2017 amounts represent estimated payments not yet authorized by the Legislature for the transfer of monies made in FY 2015 and 2017.

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

However, some adjustments to the Universities' reductions are necessary to align the reductions with actual enrollment and fund sourcing. The FY 2017 Baseline would restore 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 Baseline would transfer \$4,076,000 from HITF to the General Fund. The changes to the University reduction would also affect the budgeted savings in FY 2017 when the HITF rate changes become effective for a full year. The HITF rate reduction will generate only \$(24,000,000) 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 2015, Chapter 8 included a FY 2015 supplemental appropriation of \$8,302,800 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 2014. While not yet authorized by the Legislature, the FY 2016 FFP repayment for the FY 2015 HITF transfers of \$53,900,000 is estimated to be \$6,173,500. 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 \$257.0 million at the end of FY 2017. ADOA's reserve strategy consists of maintaining a balance of 30% of annual expenses, or approximately \$240 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 \$87.6 million in FY 2015 and \$97.3 million in FY 2016.

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

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	82,349.5
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	183,495.0
Expenditures			
ADOA	67,554.8	92,022.9	92,022.9
Federal Repayment ^{1/}	<u>10,462.1</u>	<u>3,723.7</u>	-
ADOA Subtotal	78,016.9	95,746.6	92,022.9
Other Agencies	10,045.2	10,655.0	10,655.0
Admin Adjustment	<u>937.4</u>	-	-
Total Expenditures	88,999.5	106,401.6	102,677.9
Ending Balance	87,605.6	82,349.5	80,817.1
Spending Adjustment ^{2/}	-	(15,000.0)	(15,000.0)
Adjusted Expenditures		91,401.6	87,677.9
Revised Balance	87,605.6	97,349.5	110,817.1

^{1/} FY 2016 Federal Repayment not yet authorized by the Legislature.
^{2/} Would reduce projected expenditures closer to historical spending levels which would increase the revised ending balance.

planning, DPS-Capitol Police salaries, and Arizona Navigable Streams Adjudication Commission litigation costs. The latter no longer receives a Risk Management appropriation.

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government in FY 2014 and FY 2015. (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

Based on prior experiences of federal repayment and estimates provided by ADOA, the federal government is likely to charge the state approximately \$3,723,700 for restricted use of Federal Funds, as follows:

- \$3,451,300 related to FY 2015 fund transfers from the Risk Management Fund and Automation Operations Fund.
- \$219,400 for disallowed costs related to statewide IT charges in FY 2015.
- \$53,000 for excess retained earnings in the IT Fund in FY 2015.

This amount does not include excess retained earnings or fund transfers from HITF. *(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.

ADOA’s FY 2015 AFIS operating budget totaled \$3.8 million including \$2.0 million from the General Fund and \$1.7 million from the non-appropriated AFIS II Fund *(see Table 3)*. In FY 2015, the budget funded 25 FTE Positions responsible for managing AFIS including 22 FTE Positions responsible for functional support such as help desk support, training, and software application management, and statewide reporting. The remaining 3 FTE Positions were ASET staff responsible for application management.

	AFIS Resources		
	FY 2015	FY 2016	FY 2017
<i>Fund Source</i>			
General Fund	\$2,039,700	\$1,463,700	\$1,463,700
AFIS II	1,725,100	NA	NA
AFIS Collections Fund	NA	7,567,800	8,457,800
Total Revenues	\$3,764,800	\$9,031,500	\$9,921,500
<i>FTE Positions</i>			
<i>Operating Budget</i>			
AFIS Functional Support (GAO)	22	22	22
AFIS Technical Support (ASET)	3	3	3
Total Operating Budget FTE Positions	25	25	25
<i>AFIS Line Item</i>			
AFIS II	0	NA	NA
AFIS Functional Support (GAO)	NA	15	15
AFIS Technical Support (ASET)	NA	13	13
Total AFIS Line Item FTE Positions	0	28	28
Total FTE Positions	25	53	53

NA = Not Applicable

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. The AFIS II Fund is no longer active. 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. Of the new FTE Positions, 15 FTE Positions are for GAO functional support and 13 FTE Positions are for ASET technical support. Additional duties include support for increased usage of the system, overseeing the contracted IT services, and further in-house development of AFIS. In addition to funding staff, the AFIS line item includes \$990,000 for Professional and Outside Services, \$1,200,000 for software licensing, and \$544,000 for third-party hosted mainframe charges in FY 2016.

ADOA reports that the AFIS FY 2017 operating costs will increase by \$890,000 for increased vendor support. In FY 2016, the vendor support was funded through the FY 2016 APF BREAZ development appropriation. The Baseline does not include additional funding for this issue.

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 requires 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. Additionally, the footnote allows JLBC to require ADOA to submit more frequent reports as necessary for further review. Through September 2015, ADOA reported spending \$1,065,300 of the \$2,900,000 grant.

Auditor General Recommendation

The Auditor General completed an audit of the State Procurement Office Cooperative Purchasing program in 2014. The program allows members, including political subdivisions and nonprofits, to purchase goods and services from statewide contracts. To cover ADOA’s cost of administering the program, statewide contract vendors are required to remit to the department a 1% fee on the dollar value of sales to cooperative members.

In the audit, the Auditor General found that the revenue collected by ADOA exceeded the program’s operating costs. Excess funds were used for other purposes such as salaries for State Procurement Office employees not associated with the Cooperative Purchasing program. The Auditor General recommended the department evaluate its program costs and fees.

October 2015 Special Session and Proposition 123

As a beneficiary of the Arizona State Land Trust, ADOA 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 FY 2015, ADOA received \$185,200 in monies distributed from its permanent fund.

Conditional upon voter approval in May 2016, Proposition 123 would increase the 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 would receive \$361,500 in additional funding beyond what it otherwise would in FY 2016 if the ballot proposition is approved. *(Please see the Department of Education – Endowment Earnings section for more information.)*

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Administration - AFIS II Collections Fund (ADA4203/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Financial transaction processing fees.		
Purpose of Fund: To operate the Arizona Financial Information System (AFIS) II.		
Funds Expended	2,138,500	1,554,300
Year-End Fund Balance	1,554,300	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Air Quality Fund (ADA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: Annual air quality and emissions fees assessed on motor vehicle registrations, as well as legislative appropriations.		
Purpose of Fund: To administer a travel reduction program, as defined by A.R.S. § 49-588, including bus ride subsidies for state employees.		
Funds Expended	578,600	927,300
Year-End Fund Balance	0	0
Arizona Financial Information System Collections Fund (ADA1234/A.R.S. § 41-740.01)		Appropriated
Source of Revenue: Revenues are collected from state agencies to recover pro rata costs of operating AFIS. Pro rata charges are determined by ADOA and allocated to each agency based on AFIS usage.		
Purpose of Fund: Supplements the cost of operating AFIS.		
Funds Expended	0	7,567,800
Year-End Fund Balance	0	0
Automation Operations Fund (ADA4230/A.R.S. § 41-711)		Appropriated
Source of Revenue: Charges to agencies and other political entities for information technology products and services. The fund has continuously appropriated sub-accounts for agreements made with other states and the Arizona Health Care Cost Containment System.		
Purpose of Fund: To provide agencies and other political entities data processing and information technology consulting services and to maintain the integrity and security of state information. Balances reflect a transfer into the Automation Projects Fund of \$9,057,000 in FY 2015 and \$5,700,000 in FY 2016. (See the Automation Projects Fund page for more details.)		
Funds Expended	21,251,400	23,964,100
Transfer to Automation Operations Fund	9,057,300	5,700,000
Year-End Fund Balance	11,402,600	10,484,500
Capital Outlay Stabilization Fund (ADA1600/A.R.S. § 41-792.01)		Appropriated
Source of Revenue: Rental and tenant improvement charges to agencies occupying ADOA owned buildings.		
Purpose of Fund: To pay maintenance, utilities, construction, and administrative costs for state-owned buildings.		
Funds Expended	15,902,900	18,082,800
Year-End Fund Balance	17,363,600	13,251,000
Certificate of Participation Fund (ADA5005/A.R.S. § 41-791.02)		Non-Appropriated
Source of Revenue: Rental and tenant improvement charges to agencies occupying buildings under Certificate of Participation (COP) lease-purchase agreements.		
Purpose of Fund: To make COP lease-purchase payments on buildings under such agreements.		
Funds Expended	111,653,400	115,223,100
Year-End Fund Balance	1,233,700	6,821,100
Construction Insurance Fund (ADA4219/A.R.S. § 41-622)		Non-Appropriated
Source of Revenue: Risk management charges to agencies for state construction projects. The construction and design insurance rate is set by ADOA and reviewed by the Joint Committee on Capital Review.		
Purpose of Fund: To self-insure state construction projects against tort losses from design and construction defects.		
Funds Expended	8,926,300	3,447,400
Year-End Fund Balance	5,961,300	5,513,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Co-Op State Purchasing Agreement Fund (ADA4213/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Annual subscription fees paid by local governments for state purchasing records, fees paid by individuals for copies of public records, and fees paid by vendors participating in the State Contract Show.		
Purpose of Fund: To provide microfiche of state purchasing information to local governments, as well as to reproduce public records for local governments and the public.		
Funds Expended	4,484,900	3,196,100
Year-End Fund Balance	2,594,100	2,598,000
Corrections Fund (ADA2088/A.R.S. § 41-1641)		Appropriated
Source of Revenue: Luxury taxes on alcohol and tobacco products.		
Purpose of Fund: To pay for construction, major maintenance, lease, purchase, renovation, or conversion of Arizona Department of Corrections (ADC) and Department of Juvenile Corrections (DJC) facilities. ADOA uses these monies to oversee construction projects benefiting ADC or DJC.		
Funds Expended	352,600	571,200
Year-End Fund Balance	0	0
Emergency Telecommunication Services Revolving Fund (ADA2176/A.R.S. § 41-704)		Non-Appropriated
Source of Revenue: The telecommunication services excise tax, currently 20¢ per wire or wireless account, levied on monthly telephone bills and remitted by telephone companies, as authorized by A.R.S. § 42-5252. In addition, a tax equal to 0.8% of the gross income derived from the retail sale of prepaid wireless telecommunication services, as authorized by A.R.S. § 42-5402.		
Purpose of Fund: To aid the political subdivisions of the state in implementing and operating emergency telecommunication services (911); to purchase necessary equipment and consulting services (up to 5% of revenue); to pay monthly recurring costs for capital, maintenance, and operations; and to reimburse wireless carriers for the costs of compliance.		
Funds Expended	18,926,400	20,490,000
Year-End Fund Balance	2,969,600	979,600
Employee Related Expenditures/Benefits Administration Fund (ITA3035/A.R.S. § 38-651.05)		Non-Appropriated
Source of Revenue: State employer and state employee premium contributions for vision, flexible spending, disability, life, and accident insurance.		
Purpose of Fund: To administer state employee benefit plans and pay non-health insurance premiums.		
Funds Expended	35,793,000	32,573,000
Year-End Fund Balance	3,698,700	3,722,800
Federal Grants (ADA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants, including pass through grants from the several agencies.		
Purpose of Fund: To pay for security related equipment and programs, as well as to administer monies as sub-grantee for federal projects.		
Funds Expended	2,778,800	7,666,600
Year-End Fund Balance	310,200	300
Federal Grants - American Recovery and Reinvestment Act (ARRA) (ADA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used for the installation of solar panels in the Phoenix and Tucson complexes, the implementation of the statewide Health Information Exchange (HIE), and broadband development.		
Funds Expended	932,100	1,099,500
Year-End Fund Balance	1,099,500	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Surplus Materials Revolving Fund (ADA4215/A.R.S. § 41-2606)		Appropriated
Source of Revenue: Federal surplus property service and handling fees.		
Purpose of Fund: To collect, store, and administer the sale of federal surplus property. Federal regulations concerning the disposition of federal surplus property cap the year-end balance of this fund at \$50,000. When the fund exceeds this cap, the department must discount its service and handling charges for federal surplus materials transferred to agencies in the following fiscal year.		
Funds Expended	51,200	464,600
Year-End Fund Balance*	102,700	(296,100)
IGA and ISA Fund (ADA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: To execute various intergovernmental and interagency service agreements.		
Funds Expended	8,423,100	8,170,700
Year-End Fund Balance	5,771,100	3,774,400
Information Technology Fund (ADA2152/A.R.S. § 41-3505)		Appropriated
Source of Revenue: A pro rata share of 0.2% of total payroll, charged to all budget units subject to oversight of information technology projects by ADOA's Arizona Strategic Enterprise Technology (ASET) Office or by the Information Technology Authorization Committee (ITAC).		
Purpose of Fund: Provides personnel funding for statewide information technology planning, coordinating, oversight, and consulting. The Statewide Strategic Information Technology Plan is prepared annually by Information Technology (IT) Fund personnel with input from state agency Chief Information Officers. Additionally, monies from the IT Fund also support the operation of the Statewide Information Security and Privacy Office (SISPO).		
Funds Expended	2,791,600	2,942,100
Year-End Fund Balance	1,633,200	2,159,600
Legislative, Executive, and Public Buildings Land Fund (ADA3127/A.R.S. § 37-525)		Appropriated
Source of Revenue: State trust land lease revenues.		
Purpose of Fund: To support state Legislative, Executive, and Judicial buildings. In FY 2005, to construct a new Library and Archives Building.		
Funds Expended	0	0
Year-End Fund Balance	2,452,900	2,452,900
Monument and Memorial Repair Fund (ADA2338/A.R.S. § 41-1365)		Appropriated
Source of Revenue: Monies derived from fundraising activities, monies that are collected by the proponents of a monument or memorial, grants, donations, and legislative appropriations.		
Purpose of Fund: For the maintenance, repair, reconditioning, or relocation of monuments or memorials and for supporting mechanical equipment in the Governmental Mall.		
Funds Expended	0	0
Year-End Fund Balance	219,500	219,500
Motor Vehicle Pool Revolving Fund (ADA4204/A.R.S. § 41-804)		Appropriated
Source of Revenue: Charges to agencies for the use of motor pool vehicles.		
Purpose of Fund: To operate the motor vehicle pool.		
Funds Expended	7,123,100	10,148,800
Year-End Fund Balance	2,406,200	1,781,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Oil Overcharge Fund (GVA3171/A.R.S. § 41-1509)		Non-Appropriated
Source of Revenue: Federal court settlements by oil companies who overcharged consumers during the petroleum price controls of the 1970's, and interest earnings. In FY 2016, \$731,600 was transferred from the Governor's Office to ADOA.		
Purpose of Fund: To provide restitution to the citizens of Arizona. Restitution is to be made through energy programs administered by the state.		
Funds Expended	0	104,200
Year-End Fund Balance	0	627,200
Payroll Administration Fund (ADA9200/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Collects and pays out all monies associated with the statewide payroll functions. Fund 9200 incorporates several payroll funds (ADA9220, ADA9230, NAU9202, UAA9203, and ASU9221). Fund 9230 collects a one-time \$50 charge for setting up a garnishment, which is granted by the court, a \$5 employee fee for each non-exempt statement that is generated per payday, and a \$1 administrative fee for child and spousal support orders.		
Purpose of Fund: Generally, revenues and expenditures are not used for normal payroll activities. The only balance that accumulates in this fund is for Unemployment Tax. For Fund 9230, monies are used for administrative costs related to garnishments and child support.		
Funds Expended	158,800	143,100
Year-End Fund Balance	5,449,200	5,449,200
Personnel Division Fund (ADA1107/A.R.S. § 41-750)		Appropriated
Source of Revenue: A 0.83% (permanent law) charge on the total payroll of each agency within the ADOA personnel system. This charge was lowered from 1.07% in the FY 2014 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2013, 1 st Special Session, Chapter 6).		
Purpose of Fund: To operate the ADOA Human Resources Division.		
Funds Expended	12,878,300	12,885,100
Year-End Fund Balance	471,500	500,000
Privatized Lease-To-Own Fund (ADA2495/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges to agencies occupying privatized lease-to-own (PLTO) buildings.		
Purpose of Fund: To operate, maintain, and make annual rent payments on PLTO buildings.		
Funds Expended	9,915,600	1,738,300
Year-End Fund Balance	1,738,300	0
Retiree Accumulated Sick Leave Fund (ADA3200/A.R.S. § 38-616)		Non-Appropriated
Source of Revenue: A 0.40% charge on the total benefit-eligible payroll of each agency within the ADOA personnel system. By statute, the rate may not exceed 0.55% and is set by ADOA with Joint Legislative Budget Committee review.		
Purpose of Fund: To compensate eligible retiring state employees for accumulated sick leave, to pay insurance premiums, and to administer the program. Payments are calculated as a percentage, tiered according to accrual level of hourly salary. Payments to 1 individual shall not exceed \$30,000.		
Funds Expended	12,266,500	13,753,400
Year-End Fund Balance	4,204,800	3,451,400
Risk Management Revolving Fund (ADA4216/A.R.S. § 41-622)		Appropriated
Source of Revenue: Actuarial charges assessed to state agencies, boards, and commissions insured under the state's risk management system, as well as recoveries by the state through litigation.		
Purpose of Fund: To pay claim costs, administrative program costs, and to purchase insurance for coverage for losses not covered under the self-insured limits.		
Funds Expended	78,016,900	92,022,900
Year-End Fund Balance	93,373,500	92,034,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Special Employee Health Insurance Trust Fund (ADA3015/A.R.S. § 38-654)		Partially-Appropriated
Source of Revenue: Employer and employee medical and dental insurance contributions.		
Purpose of Fund: To administer and pay premiums and claims for state employee health insurance plans, as well as to operate the Wellness and Communications program. Only administrative expenditures from this fund are subject to legislative appropriation.		
Appropriated Funds Expended	4,094,800	5,262,300
Non-Appropriated Funds Expended	775,847,200	781,986,500
Year-End Fund Balance	339,800,800	381,085,500
Special Events Fund (ADA2503/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Set-up fees for special events on state property.		
Purpose of Fund: To set up special events on state property.		
Funds Expended	24,600	24,400
Year-End Fund Balance	29,200	19,800
Special Services Revolving Fund (ADA4208/A.R.S. § 35-193)		Non-Appropriated
Source of Revenue: Payments by agencies using various centralized printing, copying, and repair services offered by ADOA.		
Purpose of Fund: To provide supplies, printing, copying, repair, and other office services for state agencies.		
Funds Expended	891,500	881,100
Year-End Fund Balance	67,100	41,000
State Employee Travel Reduction Fund (ADA2261/A.R.S. § 41-101.03)		Non-Appropriated
Source of Revenue: Grants by the Maricopa Association of Governments, the State Travel Reduction Planning Office, and the Arizona Department of Environmental Quality.		
Purpose of Fund: To operate and administer a ride-sharing program for the transportation of state employees between home and work.		
Funds Expended	481,200	535,000
Year-End Fund Balance	572,100	572,100
State Surplus Materials Revolving Fund (ADA4214/A.R.S. § 41-2606)		Appropriated
Source of Revenue: State surplus property sales revenues.		
Purpose of Fund: To collect, store, and administer the sale of state surplus property. The majority of revenues are returned to donor agencies. The department retains a service and handling fee.		
Funds Expended	2,770,500	2,397,900
Year-End Fund Balance	545,000	100,000
State Web Portal Fund (ADA2531/A.R.S. § 41-3506)		Partially-Appropriated
Source of Revenue: Grants, donations, and web portal revenues, including any fees collected from the sale of certain types of motor vehicle records to commercial customers, less revenues deposited into the Highway User Revenue Fund, as stipulated in A.R.S. § 41-3506.		
Purpose of Fund: To maintain and upgrade the state's common web portal, including enhancement of existing products and the development of new applications. Monies received from private grants or donations, as well as federal grants, are non-appropriated. Expenditures include a transfer into the Automation Projects Fund of 3,775,000 in FY 2016. (See the Automation Projects Fund page for more details.)		
Appropriated Funds Expended	3,940,800	4,543,000
Non-Appropriated Funds Expended	0	0
Transfer to Automation Projects Fund	0	3,775,000
Year-End Fund Balance	4,660,600	4,521,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Statewide ARRA Administration SWCAP Fund (GVA2950/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Indirect federal cost recoveries associated with the statewide cost allocation plan (SWCAP). These funds were transferred to ADOA from the Governor's Office in FY 2012.		
Purpose of Fund: To defray administrative expenses of implementing the federal American Recovery and Reinvestment Act.		
Funds Expended	301,700	20,000
Year-End Fund Balance	587,000	567,000
Statewide Donations Fund (ADA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Employee donations and other miscellaneous deposits. In FY 2016, \$779,300 was collected from local utility companies to support a weatherization project in the ADOA Grants and Federal Resources Office.		
Purpose of Fund: Employee donations are used to recognize outstanding employees.		
Funds Expended	30,800	857,200
Year-End Fund Balance	159,300	86,400
Statewide E-Rate Program Fund (ADA2584/A.R.S. § 41-3508)		Non-Appropriated
Source of Revenue: The fund has 3 revenue sources: 1) monies received pursuant to the E-Rate Program under the Telecommunications Act of 1996 or other grants to assist this state in improving broadband internet and telecommunications access for public schools and libraries in this state, 2) monies received as a result of an intergovernmental agreements between ADOA's ASET Office and other political subdivisions of this state, and 3) monies received from private grants and donations if designated for the fund by the grantor or donor.		
Purpose of Fund: To assist public school districts, charter schools, and libraries in submitting applications for funding from the Universal Service Administrative Company (USAC). ADOA may enter into contracts with private organizations and intergovernmental agreements with other state agencies and political subdivisions of this state to administer the Statewide E-Rate Program.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Telecommunications Fund (ADA4231/A.R.S. § 41-713)		Appropriated
Source of Revenue: Administrative surcharges on telecommunications services for agencies and other political entities.		
Purpose of Fund: To operate the Telecommunications Program Office, which manages and oversees statewide contracts for telecommunications products and services. The state's contractors operate and equip telecommunications voice, data, video, and graphics systems, allowing the collection, storage, interchange, retrieval, and transmission of information.		
Funds Expended	1,766,600	1,848,400
Year-End Fund Balance	671,400	583,200

*As reported by the agency. Actual ending balance will not be negative.

Arizona Department of Administration - Automation Projects Fund

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
GENERAL FUND TRANSFERS ^{1/}			
AFIS Replacement	18,400,000	2,383,000	0
General Fund Transfer (ADE)	10,400,000	5,400,000	0
General Fund Transfer (DOR)	1,700,000	0	0
General Fund Transfer (DCS)	5,000,000	0	5,000,000
TOTAL - ALL PROJECTS	35,500,000	7,783,000	5,000,000
FUND SOURCES			
General Fund	35,500,000	7,783,000	5,000,000
SUBTOTAL - Appropriated Funds	35,500,000	7,783,000	5,000,000
TOTAL - ALL SOURCES	35,500,000	7,783,000	5,000,000
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
ASET Initiatives			
State Data Center	3,108,600	2,625,000	0
Security, Privacy, and Risk	2,849,000	3,125,000	0
Enterprise Architecture	230,000	500,000	0
Project Management	1,570,900	2,150,000	1,500,000
E-Government	325,000	1,075,000	0
Web-Portal Transition Costs	171,300	0	0
ASET Initiatives Subtotal	8,254,800	9,475,000	1,500,000
Department of Administration Subtotal	25,038,400	11,858,000	1,500,000
Department of Corrections			
AIMS Replacement	8,000,000	0	8,000,000
Department of Economic Security			
Information Technology Security	0	936,400	0
Department of Environmental Quality			
E-Licensing	5,446,600	5,000,000	0
Department of Education			
Education Learning and Accountability System	11,661,900	7,000,000	1,600,000
Department of Child Safety			
CHILDS Replacement	0	0	5,000,000
Department of Revenue			
Data Security and Encryption	5,024,300		
Tax Analysis Improvements	566,700	0	0
Tobacco Tax System	1,000,000	0	0
Department of Revenue Subtotal	6,591,000	0	0
TOTAL - ALL PROJECTS	56,737,900	24,794,400	16,100,000

^{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 column includes expenditures from FY 2014 appropriations in FY 2015.

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	56,737,900	24,794,400	16,100,000
SUBTOTAL - Other Appropriated Funds	56,737,900	24,794,400	16,100,000
SUBTOTAL - Appropriated Funds	56,737,900	24,794,400	16,100,000
Other Non-Appropriated Funds	0	0	0
TOTAL - ALL SOURCES	56,737,900	24,794,400	16,100,000

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.

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 2016 General Appropriation Act (Laws 2015, Chapter 8) 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.

Department of Administration

AFIS Replacement

The Baseline includes no funding and 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). FY 2017 adjustments would be as follows:

		<u>FY 2017</u>
Expenditure Alignment	GF	\$(2,383,000)
	OF	(2,383,000)

The Baseline 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 General Accounting Office 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. ADOA has not yet anticipated a need for the contingency. In addition, actual project expenditures have been less than expected, and ADOA will transfer approximately \$4,197,800 of the unspent FY 2014 appropriation to the General Fund in FY 2016.

ASET Initiatives

The Baseline includes \$1,500,000 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. FY 2017 adjustments would be as follows:

ASET Alignment OF (7,975,000)

The Baseline includes a decrease of \$(7,975,000) from the APF in FY 2017 to align expenditures with ongoing IT projects by the ASET Office in ADOA.

The FY 2017 \$1,500,000 appropriation will be financed by a transfer from the ADOA Automation Operations Fund to the APF.

The \$1,500,000 APF appropriation will fund 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. This amount would fund the Oversight team that manages APF projects.

Department of Corrections

AIMS Replacement

The Baseline includes \$8,000,000 from the APF in FY 2017 for the third year of a \$24.0 million project to replace the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC). FY 2017 adjustments would be as follows:

Expenditure Alignment OF 8,000,000

The Baseline 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 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 \$8.0 million of the FY 2014 appropriation. In FY 2016, the department plans to spend \$8.0 million using the monies appropriated in FY 2015. Their plans propose spending \$8.0 million 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 2016 General Appropriation Act (Laws 2015, Chapter 8) continues to appropriate any remaining FY 2015 AIMS project balances for use in FY 2016 and provides the authority for the monies appropriated in FY 2014 to be used in FY 2016. ADOA shall report any fiscal year FY 2016 expenditure of remaining balances from FY 2014 from the Automation Projects Fund in the department's quarterly report to the JLBC.

A FY 2015 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

IT Security

The Baseline includes no funding from the APF in FY 2017 for IT Security at the Department of Economic Security (DES). FY 2017 adjustments would be as follows:

Expenditure Alignment OF (936,400)

The Baseline includes a decrease of \$(936,400) from the APF in FY 2017 for IT security projects at DES. 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 financed by a transfer from the DES Special Administration Fund. The department has not yet requested JLBC review for the FY 2016 appropriation.

Department of Environmental Quality

E-Licensing

The Baseline includes no funding from the APF in FY 2017 for E-Licensing. FY 2017 adjustments would be as follows:

Expenditure Alignment OF (5,000,000)

The Baseline 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 Baseline would continue to appropriate any remaining FY 2016 DEQ project balances for use in FY 2017 (see the FY 2016 Appropriations Report for history of this funding).

A FY 2015 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.

DEQ has not requested JLBC review of its FY 2016 funding. As a result, DEQ has not yet begun Phase 3 of the project.

Department of Education

Education Learning and Accountability System

The Baseline includes \$1,600,000 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.)*

FY 2017 adjustments would be as follows:

Expenditure Alignment	GF	(5,400,000)
	OF	(5,400,000)

The Baseline includes a decrease of \$(5,400,000) from the General Fund and a corresponding decrease of \$(5,400,000) from the APF in FY 2017 as specified in the Legislature’s 3-year spending plan that is associated with the enacted FY 2016 budget. The remaining appropriation is intended to continue replacement of the Student Accountability Information System (SAIS) component of ELAS.

The FY 2017 \$1,600,000 appropriation will be financed from the following fund source:

- \$1,600,000 transfer from the ELAS Fund.
- In addition, the Baseline would continue to appropriate any remaining FY 2016 ELAS Fund balances for use in FY 2017.

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 of \$6 per Full-Time Student Equivalent (FTSE) 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 to 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 plans to use 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.

Section 126 of the FY 2016 General Appropriation Act specifies that it is the Legislature’s intent that FY 2016 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 2016 expenditures, as required by A.R.S. § 41-714, which occurred in June 2015.

Section 126 also makes FY 2016 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 2016 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. In its December 2014 performance review, the vendor noted that ADE’s information technology team has “matured” into a group that is nationally recognized as a leader in student data systems. While acknowledging that progress continues on several components of ELAS, the vendor concludes that given the overall magnitude of this project, there is still much to be completed in the technical, instructional, and administrative areas.

Delays in vendor certification and the development process have led ADE to pursue a “dual system,” in which the new school payment system runs parallel to the existing SAIS platform, which will continue to make school payments in FY 2016.

The October 2015 ELAS third-party quarterly performance review notes 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 June 2015 third-party review noted that “the return on investment in the original business case for AELAS is now questionable because the opt-in systems are being delayed or cancelled for other systems beyond the SIS, such as the Learning Managements System (LMS).” The October 2015 review states that “AELAS funding for FY 16 has been reduced to include only 4 major efforts: Program Support and Production Services, School Finance (SAIS), AzEDS, and Opt-in SSIS. This is a scaled-back scope from the original business case.”

Department of Child Safety

CHILDS Replacement

The Baseline includes \$5,000,000 from the APF in FY 2017 to replace the Children’s Information Library and Data Source (CHILDS) system operated by the Department of Child Safety (DCS). The name of the new replacement system is Guardian. FY 2017 adjustments would be as follows:

Phase 2 Funding	GF	5,000,000
	OF	5,000,000

The Baseline includes an increase of \$5,000,000 from the General Fund and a corresponding increase of \$5,000,000 in the APF in FY 2017 to fund Phase 2 of the project.

The Baseline would appropriate any remaining FY 2015 DCS project balances for use in FY 2017.

In addition to the \$5,000,000 of FY 2017 funding, DCS also has \$4,687,000 remaining from FY 2015 for total General Fund Phase 2 resources of \$9,687,000.

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 \$89,000,000, which includes the cost of state staff. DCS believes that the project will qualify for a 50% federal match rate.

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 a consultant 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. The Phase 1 consultant was scheduled to issue its report in October 2015, but that report has not been shared with JLBC.

During Phase 2, DCS will publish the RFP and select a vendor to implement the chosen solution in accordance with certain standards. DCS plans to have the Phase 2 RFP ready for release in early 2016 with Phase 2 implementation actually beginning in FY 2017. It is anticipated that after the RFP is awarded, Phase 2 of the project will last through FY 2021.

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. ADOA and DCS are to provide ITAC and JLBC with a list of performance measures to be tracked by the new

CHILDS system and a recent report from the third-party consultant when seeking review of the CHILDS replacement funding.

Although DCS has hired the third-party consultant using monies from non-APF sources, the third-party consultant has yet to report to JLBC.

* * *

FORMAT — Lump Sum by Project

FOOTNOTES

Standard Footnotes

ADE-ELAS Project

In addition to the \$1,600,000, any remaining balances on June 30, 2016 from fees collected from universities and community college districts 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 A.R.S. § 15-249.

It is the intent of the Legislature that the appropriations made by this subsection 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 \$1,600,000 FY 2017 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714.

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 Joint Legislative Budget Committee before seeking review of the \$1,600,000 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.

Other

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.

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.

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.

New Footnotes

DCS-CHILDS Project

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.

Deletion of Prior Year Footnotes

The Baseline would delete a footnote concerning State Department of Corrections replacement of the Adult Inmate Management System project which allowed the department to use monies appropriated from the APF in FY 2014 to be used through the end of FY 2016.

Other Issues

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 \$(2,783,000) in FY 2017 below FY 2016 and remain unchanged in FY 2018. These estimates are based on:

AFIS Replacement

The long-term estimates assume funding for AFIS replacement will decrease by \$(2,383,000) in FY 2017 to zero funding, as the project is completed. There would be no funding in FY 2018.

Educational Learning and Accountability System

The long-term estimates assume the General Fund deposit for ELAS will decrease by \$(5,400,000) in FY 2017 to zero. The estimates assume there would be no General Fund funding for the project in FY 2018.

CHILDS Replacement

The long-term estimates assume funding for CHILDS Replacement will increase by \$5,000,000 in FY 2017, as DCS begins Phase 2 of the project. The estimates assume funding would remain at the \$5,000,000 level in FY 2018 and 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.

Because large IT projects often take multiple years to develop and implement, APF appropriations made in one fiscal year lapse at the end the next fiscal year. *Table 3* delineates APF appropriations and expenditures by fiscal year.

Table 2

Automation Projects Fund
(\$ in thousands)

	<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 (ADE)	10,400.0	5,400.0	
General Fund Transfer (DOR)	1,700.0		
General Fund Transfer (DCS)	5,000.0		5,000.0
Automation Charges			
ADE Education Learning and Accountability Fund	1,600.0	1,600.0	1,600.0
ADOA Automation Operations Fund	9,057.3	5,700.0	1,500.0
ADOA State Web Portal Fund		3,775.0	
ADOA Information Technology Fund			
ADC Inmate Store Proceeds Fund			1,000.0
ADC Special Services Fund			4,000.0
ADC Prison Construction and Operation Fund	5,500.0		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	
DEQ Emissions Inspection Fund	6,800.0	5,000.0	
Total Funds Available	<u>102,800.7</u>	<u>70,857.2</u>	<u>22,649.1</u>
Total Expenditure (Current FY Appropriation)	30,521.0	24,794.4	16,100.0
Total Expenditure (Previous FY Appropriation)	26,216.9	39,513.7	0
Total Expenditures	<u>56,737.9</u>	<u>64,308.1</u>	<u>16,100.0</u>
Ending Balance	46,062.8	6,549.1 ^{1/}	6,549.1

^{1/} The FY 2016 ending balance includes \$4,197,800 of unspent AFIS replacement project funds.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Automation Projects Fund (ADA2566/A.R.S. § 41-714)		Appropriated
Source of Revenue: Monies appropriated by the Legislature.		
Purpose of Fund: To implement, upgrade, or maintain automation and information technology projects for any state agency.		
Appropriated Funds Expended	30,521,000	24,794,400
Prior Year Appropriation Expended	26,216,900	39,513,700
Year-End Fund Balance	46,062,800	6,549,100

Automation Project Fund Expenditure by Appropriation Year and Expenditure Year

	FY 2014 Appropriation			FY 2015 Appropriation			FY 2016 Appropriation			Total Expenditures	
	Appropriation	FY 2014 Expenditures	Balance Lapsed	FY 15 Appropriation	FY 15 Expenditures	FY 2016 Expenditures Estimate	FY 2016 Appropriation	FY 2016 Expenditures Estimate	FY 15 Total Expenditures	FY 16 Total Expenditures	
					Appropriation	Expenditures	Expenditures Estimate	Appropriation	Expenditures Estimate		
AFIS Replacement (BREA2)	28,638,000	15,999,200	4,197,800	26,533,000	8,342,600	18,190,400	2,383,000	2,383,000	16,783,600	20,573,400	
ADDA-ASET											
State Data Center	2,675,000	1,167,100	860,200	2,900,000	2,460,900	439,100	2,625,000	2,625,000	3,108,600	3,064,100	
Security, Privacy, and Risk	3,075,000	1,140,200	22,900	3,125,000	937,100	2,187,900	3,125,000	3,125,000	2,849,000	5,312,900	
Enterprise Architecture	1,000,000	677,800	161,400	500,000	69,200	430,800	500,000	500,000	230,000	930,800	
Project Management	2,450,000	1,174,000	248,400	2,151,700	543,300	1,608,400	2,150,000	2,150,000	1,570,900	3,758,400	
E-Government	325,000	-	-	325,000	5,900	319,100	1,075,000	1,075,000	330,900	1,394,100	
Web-Portal Transition	1,975,000	1,364,600	445,000	-	-	-	-	-	165,400	-	
ASET Total	11,500,000	5,523,700	1,737,900	9,001,700	4,016,400	4,985,300	9,475,000	9,475,000	8,254,800	14,460,300	
DCS CHILDS Replacement											
DOC AIMS	8,000,000	-	-	5,000,000	-	5,000,000	-	-	8,000,000	8,000,000	
DEQ E-licensing	5,000,000	4,466,400	20,400	6,800,000	4,933,400	1,866,600	5,000,000	5,000,000	5,446,600	6,866,600	
DES IT Security	-	-	-	-	-	-	936,400	936,400	-	936,400	
ADE ELAS	7,000,000	7,000,000	-	12,000,000	11,661,900	338,100	7,000,000	7,000,000	11,661,900	7,338,100	
DOR											
Data Security and Encryption	6,600,000	1,556,200	19,500	1,700,000	566,700	1,133,300	-	-	5,024,300	-	
Tax Analysis Improvements	-	-	-	1,000,000	1,000,000	-	-	-	566,700	1,133,300	
Tobacco Tax System	-	-	-	-	-	-	-	-	1,000,000	-	
DOR Total	6,600,000	1,556,200	19,500	2,700,000	1,566,700	1,133,300	-	-	6,591,000	1,133,300	
Total	66,738,000	34,545,500	5,975,600	70,034,700	30,521,000	39,513,700	24,794,400	24,794,400	56,737,900	64,308,100	

Table 3

Arizona Department of Administration - Department of Child Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	0.0	0.0	0.0
Lump Sum Appropriation	15,096,100	0	0
AGENCY TOTAL	15,096,100	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 Baseline 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.

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. In its FY 2017 budget request, however, DCS asks for 187 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 will be turned over to ADOA to use as flexible space. DCS' net new cost to lease the 3003 North Central Avenue space is \$1,100,000 annually, which is accounted for in DCS' operating budget.

As shown in *Table 1*, \$4,403,900 from the transition appropriation remains unallocated as of December 2015.

A footnote in the FY 2016 General Appropriation Act requires 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	<u>1,593,400</u>
Subtotal - Other	\$ 8,593,400
Unallocated as of December 2015	<u>4,403,900</u>
Total	\$19,500,000

Office of Administrative Hearings

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	206,400
Other Operating Expenditures	91,500	103,000	90,700
AGENCY TOTAL	862,500	874,000	861,700
FUND SOURCES			
General Fund	862,500	861,700	861,700
<u>Other Appropriated Funds</u>			
Healthcare Group Fund	0	12,300	0
SUBTOTAL - Other Appropriated Funds	0	12,300	0
SUBTOTAL - Appropriated Funds	862,500	874,000	861,700
Other Non-Appropriated Funds	885,700	749,500	749,500
TOTAL - ALL SOURCES	1,748,200	1,623,500	1,611,200

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$861,700 and 12 FTE Positions from the General Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

Remove Healthcare Group Funding	OF	<u>FY 2017</u> \$(12,300)
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The Baseline includes a decrease of \$(12,300) from the Healthcare Group Fund in FY 2017 to remove the repealed source of funding. The Healthcare Group program was repealed on January 1, 2014, and the Healthcare Group Fund was repealed on January 1, 2015.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Healthcare Group Fund (HCA3197/A.R.S. § 36-2912.01 [repealed])		Appropriated
Source of Revenue: Interagency Agreement with AHCCCS.		
Purpose of Fund: To reimburse the Office of Administrative Hearings (OAH) for hearings and associated personnel cost for grievances related to Healthcare Group, which is AHCCCS' health insurance plan for small businesses. The Healthcare Group program was repealed on January 1, 2014, and the Healthcare Group Fund was repealed on January 1, 2015.		
Funds Expended	0	12,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
IGA and ISA Fund (HGA2500/A.R.S. § 41-1092.01)		Non-Appropriated
Source of Revenue: Monies received by OAH for contractual, administrative law judge services provided to state agencies.		
Purpose of Fund: To cover actual expenses of providing personnel and services to state agencies on a contractual basis.		
Funds Expended	885,700	749,500
Year-End Fund Balance	0	0

Arizona Commission of African-American Affairs

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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

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 Baseline 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.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Commission of African-American Affairs Fund (AMA2397/A.R.S. § 41-533)		Non-Appropriated
Source of Revenue: Gifts, grants, and fees from the Arizona African-American town hall.		
Purpose of Fund: To pay for the operating costs of the Arizona Commission of African-American Affairs. Laws 2015, Chapter 12 transferred the administration of the Arizona Commission of African-American Affairs Fund from the State Treasurer to the commission.		
Funds Expended	0	0
Year-End Fund Balance	0	0

Arizona Department of Agriculture

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	162.9	162.9	196.3
Personal Services	4,071,600	4,307,900	5,324,400
Employee Related Expenditures	1,885,500	1,947,800	2,437,000
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	1,460,300
Equipment	202,700	8,500	61,300
OPERATING SUBTOTAL	7,815,900	7,849,000	10,221,000
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
Nuclear Emergency Management Fund	191,600	198,400	198,400
Red Imported Fire Ant Control	23,200	23,200	23,200
AGENCY TOTAL	8,247,000	8,287,400	10,659,400
FUND SOURCES			
General Fund	8,247,000	8,287,400	9,219,600
<u>Other Appropriated Funds</u>			
Air Quality Fund	0	0	1,439,800
SUBTOTAL - Other Appropriated Funds	0	0	1,439,800
SUBTOTAL - Appropriated Funds	8,247,000	8,287,400	10,659,400
Other Non-Appropriated Funds	10,159,200	12,741,200	12,140,500
Federal Funds	4,151,200	4,381,600	4,381,600
TOTAL - ALL SOURCES	22,557,400	25,410,200	27,181,500

AGENCY DESCRIPTION — The Arizona Department of Agriculture (ADA) 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 are transferred to ADA. The new duties include the inspection, testing and licensing of commercial weighing and measuring devices.

Operating Budget

The Baseline includes \$10,221,000 and 194.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$8,781,200
Air Quality Fund	1,439,800

FY 2017 adjustments would be as follows:

Agency Consolidation

GF 1,262,800
OF 1,439,800

The Baseline includes an increase of \$2,702,600 and 33.4 FTE Positions in FY 2017 for the Weights and Measures agency consolidation. These amounts consist of:

General Fund	1,262,800
Air Quality Fund	1,439,800

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

Consolidation Savings **GF** **(330,600)**

The Baseline includes a decrease of \$(330,600) from the General Fund in FY 2017 for consolidation savings. The Executive currently estimates operating savings from the Weights and Measures agency consolidation to total \$(330,600) from the General Fund. (See *Other Issues* section for additional information on the Weights and Measures agency consolidation.)

Agricultural Consulting and Training

The Baseline 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 Baseline 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 Baseline 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.

Nuclear Emergency Management Fund

The Baseline 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 1.9 FTE Positions from the General Fund in FY 2016 and FY 2017. As a result, these monies do not appear in the 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

STATUTORY CHANGES

The Baseline would, as session law, permit the Director, upon recommendation from the Agricultural Advisory Council, to continue to allow 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.

- 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).

The Director of ADOA will submit a succession plan to the Joint Legislative Budget Committee for review by March 1, 2016. *(Please see the Department of Weights and Measures and the Arizona Department of Transportation for more information.)*

Other Issues

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 new Division within ADA, except that:

As of October 2015, the Department of Weights and Measures has completed the agency consolidation 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Administrative Support Fund (AHA2436/A.R.S. § 3-108)		Non-Appropriated
<i>Source of Revenue:</i> Monies are collected from each commodity council based on annually negotiated interagency agreements.		
<i>Purpose of Fund:</i> For costs incurred by the department in providing administrative support.		
Funds Expended	37,400	39,200
Year-End Fund Balance	56,100	57,200
Agricultural Consulting and Training Trust Fund (AHA1239/A.R.S. § 5-113)		Partially-Appropriated
<i>Source of Revenue:</i> Legislative appropriations.		
<i>Purpose of Fund:</i> To fund the Agricultural Consulting and Training Program established by A.R.S. § 3-109.01. Appropriated expenditures are not displayed in FY 2015 and FY 2016 to avoid double counting of the General Fund.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	1,700
Year-End Fund Balance	31,700	30,000
Agricultural Products Marketing Fund (AHA2368/A.R.S. § 3-419)		Non-Appropriated
<i>Source of Revenue:</i> Assessments on the Arizona Leafy Green Products Shipper Marketing Agreement commodities.		
<i>Purpose of Fund:</i> To fund the Arizona Leafy Green Products Shipper Marketing Committee and to ensure compliance with the accepted food safety practices through mandatory government audits.		
Funds Expended	454,600	569,400
Year-End Fund Balance	467,400	247,800
Air Quality Fund (AHA2226/A.R.S. § 49-551)		Appropriated
<i>Source of Revenue:</i> Monies received from the \$1.50 fee assessed on motor vehicle registration, as well as gifts, grants, donations, and legislative appropriations.		
<i>Purpose of Fund:</i> To pay the costs of air quality research, experiments, education, and programs conducted by or for the department.		
Funds Expended	0	0
Year-End Fund Balance	1,068,300	1,068,300

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Aquaculture Trust Fund (AHA2297/A.R.S. § 3-2913)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from the regulation of aquaculture.		
Purpose of Fund: To administer and enforce the provisions of A.R.S. Title 3, Chapter 16, relating to aquaculture. Aquaculture is the controlled growth and harvest of aquatic plants and animals such as fish, shellfish, and algae.		
Funds Expended	0	6,200
Year-End Fund Balance	22,700	21,400
Beef Council (Livestock Board Collection and Administration) Fund (AHA2083/A.R.S. § 3-1236)		Non-Appropriated
Source of Revenue: \$1 per head surcharge collected on behalf of the Arizona Beef Council when animals are inspected by the department for sale. The department retains 5 cents per dollar, while 95 cents per dollar is forwarded to this fund.		
Purpose of Fund: For collection and administration costs.		
Funds Expended	258,100	258,000
Year-End Fund Balance	60,500	0
Citrus, Fruit and Vegetable Trust Fund (AHA2260/A.R.S. § 3-447)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from the assessments and civil penalties relating to the standardization of citrus, other fruits, and vegetables.		
Purpose of Fund: To enable producers and shippers to develop uniform grades and standards for citrus, fresh fruit, and vegetables and to allow field and shed inspections of commodities produced in the state.		
Funds Expended	326,800	370,400
Year-End Fund Balance	148,200	121,400
Citrus Trust Fund (AHA2299/A.R.S. § 3-468.04, 3-468.06)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from the assessment on citrus produced in the state, other charges, and interest.		
Purpose of Fund: To support research, development, and survey programs concerning varietal development, eradication of citrus pests, and other programs deemed appropriate to production, harvesting, handling, and hauling from field to market.		
Funds Expended	14,800	66,800
Year-End Fund Balance	67,600	30,800
Commercial Feed Trust Fund (AHA2012/A.R.S. § 3-2607)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from licensing fees and fees collected for the inspection of animal and bird feed.		
Purpose of Fund: To regulate animal and bird feeds.		
Funds Expended	247,500	252,300
Year-End Fund Balance	279,400	279,400
Commodity Promotion Fund (AHA2458/A.R.S. § 3-109.02)		Non-Appropriated
Source of Revenue: Proceeds of a fee collected for a Certificate of Free Sale and any sales of merchandise with the Arizona Grown trademark. A Certificate of Free Sale is a document authenticating that a commodity is generally and freely sold in domestic channels of trade. Many countries require this documentation before allowing a shipment of consumable products to enter their borders and markets.		
Purpose of Fund: To provide for programs to promote the production and consumption of Arizona agricultural products domestically and abroad.		
Funds Expended	8,000	8,000
Year-End Fund Balance	2,800	1,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Cotton Research and Protection Council Fund (AHA2013/A.R.S. § 3-1085)		Non-Appropriated
Source of Revenue: Assessments on each bale of cotton produced in the state, as well as fines and interest earnings.		
Purpose of Fund: To support research programs related to cotton production or protection and to provide a program to refund collected fees as an incentive for boll weevil control.		
Funds Expended	2,671,400	3,093,000
Year-End Fund Balance	3,041,300	2,443,300
Dangerous Plants, Pests and Diseases Trust Fund (AHA2054/A.R.S § 3-214.01)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fee resulting from certification fees and reimbursements for the destruction of dangerous plants, pests, and diseases.		
Purpose of Fund: To prevent the introduction and propagation of, and to control and destroy, dangerous plants, pests, and diseases.		
Funds Expended	62,600	97,500
Year-End Fund Balance	77,500	66,000
Designated Fund (AHA3011/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Fees for laboratory services and phytosanitary certifications (certifying produce that is sent overseas), industry contributions for the Arizona Grown Program, 5% of Beef Council surcharges, a Risk Management grant from the Arizona Department of Administration, and other grants and contributions.		
Purpose of Fund: To administer the purpose for which the fee, grant, or contribution is intended.		
Funds Expended	482,100	781,700
Year-End Fund Balance	738,600	563,000
Egg Inspection Trust Fund (AHA2022/A.R.S. § 3-717)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from the regulation of eggs and egg products.		
Purpose of Fund: To administer the Egg Inspection Program.		
Funds Expended	1,300,100	1,408,300
Year-End Fund Balance	652,100	505,100
Equine Inspection Fund (AHA2489/A.R.S. § 3-1345.01)		Non-Appropriated
Source of Revenue: Inspection fees for processing ownership and transportation of horses.		
Purpose of Fund: To fund the issuance of horse ownership and transportation certificates.		
Funds Expended	0	0
Year-End Fund Balance	700	1,000
Federal Funds (AHA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: As determined by federal law with regard to exotic pest control (e.g., fire ant, gypsy moth, medfly), agricultural chemicals regulation, farm mediation, endangered species, and meat, poultry, and egg inspection. (The meat and poultry inspection amounts are a reimbursement to the General Fund and, therefore, pass through this fund without a net impact on expenditures shown here.)		
Funds Expended	4,126,400	4,152,000
Year-End Fund Balance	384,900	180,200

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal - State Inspection Fund (AHA2113/A.R.S. § 3-499)		Non-Appropriated
Source of Revenue: Fees for inspection of domestic produce imported from Mexico pursuant to a cooperative agreement with the U.S. Department of Agriculture.		
Purpose of Fund: As determined by a cooperative agreement with the U.S. Department of Agriculture. On July 1, 1996, the Arizona Department of Agriculture became the fiduciary of this program, which monitors produce being imported from Mexico at the Nogales Port of Entry.		
Funds Expended	2,823,500	3,013,800
Year-End Fund Balance	971,000	640,600
Fertilizer Materials Trust Fund (AHA2081/A.R.S. § 3-269)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees collected from inspections and a portion of the fertilizer manufacturer's license fee.		
Purpose of Fund: To regulate fertilizers.		
Funds Expended	302,400	340,300
Year-End Fund Balance	373,300	393,200
Grain Trust Fund (AHA2201/A.R.S. § 3-590)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from an assessment on commercial grain sales.		
Purpose of Fund: To support the Grain Research and Promotion Council's promotion and research activities with public or private organizations. Such activities relate to reducing fresh water consumption, developing new varieties, improving production and handling methods, researching and designing new or improved harvesting and handling equipment, and similar programs.		
Funds Expended	116,900	155,100
Year-End Fund Balance	150,200	150,200
Iceberg Lettuce Trust Fund (AHA2259/A.R.S. § 3-526.06)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from an assessment on iceberg lettuce prepared for market.		
Purpose of Fund: To support research, development, and survey programs concerning varietal development, including programs for pest eradication, production harvesting, handling and hauling from field to market, and other activities deemed appropriate.		
Funds Expended	89,200	100,000
Year-End Fund Balance	64,200	64,200
IGA & ISA Fund (AHA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through an interagency agreement with the Office of Pest Management.		
Purpose of Fund: To provide administrative services to the Office of Pest Management including accounting, information technology, human resources, and legal services.		
Funds Expended	104,100	104,100
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (AHA9000/A.R.S. § 3-107)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: For indirect costs associated with administration of federal grants.		
Funds Expended	24,800	229,600
Year-End Fund Balance	614,600	533,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Livestock and Crop Conservation Fund (AHA2378/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: \$2 million annually from the Land Conservation Fund through FY 2011, as established by A.R.S. § 41-511.23.		
Purpose of Fund: Grants to landowners, as well as to grazing and agricultural lessees of state or federal land, who implement conservation measures.		
Funds Expended	415,700	1,274,400
Year-End Fund Balance	1,569,000	307,000
Livestock Compensation Fund (No Fund Number/A.R.S. § 17-493)		Non-Appropriated
Source of Revenue: Consists of federal monies, legislative appropriations and donations.		
Purpose of Fund: To compensate livestock operators, landowners and lessees for wolf depredation on livestock and for participating in a pay-for-presence program.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Livestock Custody Trust Fund (AHA2065/A.R.S. § 3-1377)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with monies resulting from fines assessed for and proceeds resulting from the sale of mistreated or stray livestock.		
Purpose of Fund: To enforce any of the provisions of Title 3, relating to agriculture and dairying.		
Funds Expended	59,200	220,000
Year-End Fund Balance	261,300	131,300
Nuclear Emergency Management Fund (AHA2138/A.R.S. § 26-306.02)		Non-Appropriated
Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station. Laws 2015, Chapter 132 appropriated \$198,434 to the Arizona Department of Agriculture in both FY 2016 and FY 2017.		
Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	18,700	0
Pesticide Trust Fund (AHA2051/A.R.S. § 3-350)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from a portion of pesticide registration fees.		
Purpose of Fund: To regulate pesticides.		
Funds Expended	273,700	445,500
Year-End Fund Balance	452,700	424,200
Protected Native Plant Trust Fund (AHA2298/A.R.S. § 3-913)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from permits issued for the removal or salvage of protected native plants.		
Purpose of Fund: For the protection of native plants.		
Funds Expended	57,500	82,000
Year-End Fund Balance	55,700	45,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Seed Law Trust Fund (AHA2064/A.R.S. § 3-234)		Non-Appropriated
Source of Revenue: A non-appropriated trust fund with fees resulting from seed dealers' and labelers' license fees and penalties.		
Purpose of Fund: To regulate seeds, including all agricultural, vegetable, and ornamental plant seed, transported or offered for sale in this state.		
Funds Expended	53,600	53,500
Year-End Fund Balance	124,500	155,700

Arizona Health Care Cost Containment System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,208.3	2,214.3	2,326.3
Personal Services	36,283,700	36,862,000	45,541,900
Employee Related Expenditures	16,260,800	16,448,500	20,292,700
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	19,413,900
Equipment	912,400	131,800	871,100
OPERATING SUBTOTAL	82,042,300	77,685,400	92,070,600
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	54,874,500	54,874,500	54,874,500
Proposition 204 - Acute Care Administration	7,794,800	6,832,800	6,832,800
Proposition 204 - Behavioral Health Administration	0	0	6,114,000
Proposition 204 - DES Eligibility	28,155,500	38,358,700	38,358,700
Medical Services			
Traditional Medicaid Services	3,455,788,800	3,729,548,600	4,078,154,700
Proposition 204 Services	2,307,122,900	2,417,700,600	2,805,999,700
Adult Expansion Services	214,081,100	197,183,800	462,284,600
Children's Rehabilitative Services	219,112,500	234,866,700	275,375,700
KidsCare Services	7,075,600	6,295,200	1,955,000
ALTCS Services	1,355,349,200	1,386,588,900	1,414,303,900
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	0	979,305,800
Medicaid Behavioral Health - Proposition 204 Services	0	0	617,186,300
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	0	208,027,400
Medicaid Behavioral Health - Adult Expansion Services	0	0	77,702,300
Non-Medicaid Seriously Mentally Ill Services	0	0	78,846,900
Supported Housing	0	0	5,324,800
Crisis Services	0	0	16,391,300
Payments to Hospitals			
Disproportionate Share Payments	13,487,100	5,087,100	5,087,100
DSH Payments - Voluntary Match	30,392,000	18,784,700	19,896,000
Rural Hospitals	22,115,700	22,650,000	22,650,000
Graduate Medical Education	156,310,600	186,539,100	162,992,600
Safety Net Care Pool	175,134,500	137,000,000	137,000,000
AGENCY TOTAL	8,128,837,100	8,519,996,100	11,566,734,700
FUND SOURCES			
General Fund	1,158,575,700	1,205,162,300	1,801,131,600
<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	3,672,200
Prescription Drug Rebate Fund - State	79,021,000	83,778,800	113,778,800
Substance Abuse Services Fund	0	0	2,250,200
TPTF Emergency Health Services Account	19,284,300	17,331,400	17,867,200
TTHCF Medically Needy Account	34,178,800	31,180,000	68,128,800
SUBTOTAL - Other Appropriated Funds	141,362,700	143,447,500	209,260,500
SUBTOTAL - Appropriated Funds	1,299,938,400	1,348,609,800	2,010,392,100

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
<u>Expenditure Authority Funds</u>			
County Funds	295,518,400	299,114,300	298,550,600
Federal Medicaid Authority	5,739,824,100	6,165,751,200	8,416,152,600
Hospital Assessment Fund	260,916,800	215,558,800	260,462,700
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	222,458,100	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	36,396,000	37,521,000
SUBTOTAL - Expenditure Authority Funds	6,828,898,700	7,171,386,300	9,556,342,600
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,128,837,100	8,519,996,100	11,566,734,700
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	8,679,077,500	11,824,904,800

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, behavioral health services, and long-term care services.

Summary

AHCCCS' FY 2017 General Fund spending would increase by \$595,969,300, or a 49.5% increase from FY 2016. This amount includes:

- \$516,697,200 for the transfer of behavioral health services from the Department of Health Services (DHS) to AHCCCS.
- \$98,175,900 in formula adjustments.
- \$(18,903,800) in other adjustments.

Net of the behavioral health transfer, AHCCCS' General Fund spending would increase by \$79,272,100, or a 6.6% increase. Of the \$79,272,100, \$50,431,400 is for formula adjustments and other changes in acute care, and \$28,840,700 is for formula adjustments and other changes in behavioral health.

AHCCCS' FY 2017 Hospital Assessment spending would increase by \$44,903,900, or a 20.8% increase from FY 2016. 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 Baseline'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.)

Table 1

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

Behavioral Health Services Transfer

BHS Shift	\$ 517
BHS Admin Savings	(1)
<i>Subtotal</i>	\$ 516

Formula Adjustments ^{1/2/}

FY 2017 Caseload Growth	\$ 113
FY 2017 1.5% Capitation Rate Increase	21
FY 2017 Federal Match Rate Increase	(33)
Tobacco Tax Increase	(2)
<i>Subtotal ^{1/}</i>	\$ 98

Other Adjustments

Reversal of FY 2016 (5)% Provider Rate Reduction	\$ (12)
Cost Sharing Provisions	(1)
Third Party Liability Recoveries for Behavioral Health Services	(5)
<i>Subtotal ^{1/}</i>	\$ (19)

Non-BHS Transfer Changes	\$ 79
Total Spending Change ^{1/}	596

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

^{2/} Formula adjustments include Mandatory ACA changes and Optional ACA changes. (See *Mandatory Affordable Care Act Changes and the Optional Affordable Care Act Changes* sections for more information.)

Below is an overview of the behavioral health transfer, FY 2017 formula adjustments, and other adjustments. *Table 1* summarizes these changes. The overview also includes a status update on the mandatory and optional policy changes and caseload impacts since the implementation of the 2010 Federal health care legislation, known as the Affordable Care Act (ACA), that began on January 1, 2014.

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 Baseline includes a reduction of \$(517,304,700) from the General Fund, \$(1,239,020,700) from Federal Medicaid Authority, and \$(141,057,100) from other funds in DHS in FY 2017 for the transfer, and includes a corresponding increase from each of these fund sources in AHCCCS.

The transfer could also generate administrative savings in behavioral health services. One of the goals of the transfer was to simplify the administration of behavioral health services by having 1 state agency retain responsibility for these services instead of 2 separate agencies. AHCCCS reported \$(2,192,000) in administrative savings resulting from the transfer in FY 2017, which consists of \$(607,500) in General Fund savings and \$(1,584,500) in Federal Medicaid Authority savings. As a starting point for discussions on the appropriate level of administrative resources, the Baseline includes these savings. The JLBC Staff will continue to evaluate this issue. The Baseline adds administrative costs for behavioral health services to AHCCCS' operating budget, and to the Proposition 204 - Behavioral Health Administration line item transferred from DHS.

Table 2 shows the total resources that the Baseline transfers to AHCCCS for behavioral health services, net of the administrative savings. AHCCCS would have an increase of \$1,895,190,500 in total fund spending, including \$516,697,200 from the General Fund, \$1,237,436,200 from Federal Medicaid Authority, and \$141,057,100 from other funds.

As a result of the administrative savings, the Baseline includes a net decrease of (28.2) FTE Positions across AHCCCS and DHS. 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. The increase of 112 FTE Positions in AHCCCS is

based on a report issued jointly by AHCCCS and DHS indicating AHCCCS currently only intends to transfer 112 behavioral health services employees from DHS to AHCCCS.

Table 2	
Behavioral Health Transfer	
General Fund	\$516,697,200
TTHCF Medically Needy Account	34,767,000
Substance Abuse Services Fund	2,250,200
Federal Medicaid Authority	<u>1,237,436,200</u>
<i>Subtotal</i>	<i>\$1,791,150,600</i>
Non-Appropriated Funds	<u>104,039,900</u>
Total Funds	\$1,895,190,500

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. Mercy Maricopa Integrated Care, a partnership between Mercy Care and Maricopa Integrated Health System, was awarded the contract to provide these services. The Baseline 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 RBHA is Health Choice Integrated Care, a partnership between Northern Arizona RBHA and Health Choice Arizona. 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 Baseline 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 Baseline includes \$98,175,900 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 Baseline assumes the same caseload growth rates in acute care services and behavioral health services for these 4 populations. These adjustments also include 3% caseload growth in Children's Rehabilitative Services (CRS) and a (20)% decline in the KidsCare population. For behavioral

health services, CMDP enrollment is assumed to grow by 6%, and integrated SMI enrollment is assumed to grow by 5%. FY 2017 caseload changes are expected to result in a General Fund increase of \$112,527,200 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 Baseline assumes the 1.5% capitation rate increase will result in an increase of \$20,739,400 from the General Fund in FY 2017 relative to the FY 2016 budget. The 1.5% capitation rate adjustment was assumed pursuant to Section 26 of the FY 2016 Health Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 14), which limited the capitation rate increase in FY 2017 and FY 2018 to 1.5%.

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 Mandatory Affordable Care Act Changes section for additional information.)
- Adult Expansion rate will decrease to 97.5% from 100%.

The formula adjustments include a decrease of \$(32,908,900) in General Fund spending to reflect savings from the regular federal rate increase.

Tobacco Tax Increase

The Baseline includes an increase of \$2,181,800 from tobacco tax revenues and a corresponding \$(2,181,800) 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 \$2,181,800 in FY 2017.

Other Adjustments

The Baseline includes a net savings of \$(18,903,800) from the General Fund in FY 2017 for 3 other adjustments. These adjustments include the reversal of a FY 2016 (5)%

Population ^{2/3/}	June 2015	June 2016	June 2017	'16-'17% Change
Traditional	977,236	1,084,312	1,111,420	2.5%
Prop 204 Childless Adults	279,077	313,777	321,621	2.5
Other Proposition 204	186,660	202,747	207,816	2.5
Adult Expansion ^{4/}	61,544	90,000	92,250	2.5
KidsCare	1,051	736	589	(20.0)
ALTCS - Elderly & Physically Disabled ^{5/}	29,075	29,802	30,547	2.5
CMDP	15,680	16,677	17,678	6.0
Emergency Services	103,729	115,090	117,967	2.5
Total Member Months^{6/}	1,654,052	1,853,141	1,899,888	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/ The ALTCS program funded in AHCCCS.
6/ In addition, approximately 28,600 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of December 1, 2015.

provider rate reduction, cost sharing provisions, and increased third party liability recoveries.

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 decreased capitation rates will offset \$(15,000,000).

The Baseline 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 offsets 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

Section 19 of the FY 2016 Health BRB requires the state to request the federal government for authority to impose several cost-sharing provisions on Medicaid enrollees, beginning January 1, 2016. The provisions of section 19 are similar to mandatory and optional cost-sharing authority granted to Indiana that became effective February 1, 2015. Pending federal approval, the state would:

- Collect a premium equal to 2% of income from adult Medicaid enrollees with incomes between 100%-133% of FPL. This provision is estimated to result in General Fund savings of \$(1,100,000) and \$(1,500,000) in FY 2017 and FY 2018 respectively. Non-General Fund savings are estimated to be \$(5,332,200) in FY 2017 and \$(7,271,200) in FY 2018. These savings are relative to FY 2016. The state share is funded by the hospital assessment for acute care and by the General Fund for behavioral health services.
- Collect co-pays of up to \$25 for non-emergency use of an emergency department by adult enrollees up to 133% of FPL. Adults below 100% of FPL, however, would be charged a co-payment of \$8 for a first incident and \$25 thereafter. This provision is

estimated to result in General Fund savings of \$(300,000) and non-General Fund savings of \$(1,278,700) in FY 2017 and FY 2018, respectively. These savings are relative to FY 2016.

- No longer fund costs of nonemergency medical transportation services for adults with incomes between 100% to 133% FPL. This provision is estimated to result in \$(3,800) in General Fund savings and \$(1,081,500) in non-General Fund savings in FY 2017 and FY 2018. Although suspension of NEMT was included in the FY 2016 Health BRB, the savings from this provision were not estimated for the FY 2016 budget due to data limitations. As a result of the availability of new data, the Baseline includes these savings.

In total, the Baseline includes General Fund savings of \$(1,403,800) in FY 2017 and \$(1,803,800) in FY 2018 for these 3 provisions. Non-General Fund savings are estimated to be \$(7,692,400) and \$(9,631,400) in FY 2017 and FY 2018, respectively. (See the *Other Issues* section on the AHCCCS CARE plan for additional detail.)

Third Party Liability Recovery for Behavioral Health Services

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 Baseline 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. 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. These savings are realized in the Medicaid Behavioral Health - Traditional line item and in the Medicaid Behavioral Health - Proposition 204 line item.

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 discussed above.

Child Expansion

Beginning on January 1, 2014, ACA required the expansion for children under age 19 to 133% of the Federal Poverty Level (FPL) (\$32,300 for a family of 4). 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.

Prior to the ACA, AHCCCS provided coverage for children with incomes up to 200% FPL through 2 programs: KidsCare, also known as Arizona's Children's Health Insurance Program (CHIP), and KidsCare II. Both programs received an approximate 3:1 federal match rate for its recipients.

On January 1, 2014, 26,300 KidsCare recipients with incomes up to 133% FPL were transferred to the Traditional population. The transferred KidsCare and child expansion populations receive a 94.48% federal match rate in FY 2016.

Due to these programmatic changes, the KidsCare II program officially ended on January 31, 2014. Pre-January 2014 KidsCare I recipients with income from 133% to 200% FPL continue to receive coverage in KidsCare. As of December 1, 2015, the KidsCare program had 826 remaining members.

The Baseline assumes a total of 82,100 enrollees in the child expansion program by June 2017. As of December 1, 2015, enrollment was approximately 76,100 members.

Beginning on October 1, 2015, federal legislation increased the state's KidsCare and child expansion match rate to 100%. The Baseline includes a decrease of \$(5,102,100) in FY 2017 from the General Fund for this increase in the federal match rate.

The child expansion population is funded by the Federal CHIP block grant. If expenditures on the child expansion population exceed the block grant allotment, any remaining expenditures would be funded at the regular 69.16% federal match rate in the Traditional Medicaid Services line item.

AHCCCS is currently projecting that the child expansion expenditures will exceed the Federal CHIP block grant allotment in March 2017. The Baseline does not include any additional funding for the potential shortage of the Federal CHIP block grant allotment because the federal government may approve supplemental expenditures for CHIP in federal fiscal year 2017 to address the shortfall. If the block grant allotment is not increased, the JLBC Staff estimates that the shortfall would result in additional

General Fund expenditures of \$4.9 million and Federal Medicaid Authority expenditures of \$11.5 million in FY 2017.

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 Baseline 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 Baseline 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 Budget Reconciliation Bill (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 below, 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 4* summarizes the costs of these changes in FY 2016 and FY 2017.

The Baseline includes an increase of \$1,268,000 from the General Fund and an increase of \$7,530,600 from the

Hospital Assessment Fund in FY 2017 for the Childless Adult population. For the Adult Expansion population, the Baseline includes an increase of \$831,900 from the General Fund and \$6,261,500 from the Hospital Assessment Fund. These costs are included in the formula adjustments discussed above.

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 December 1, 2015, there were approximately 308,600 childless adult

enrollees in the Proposition 204 program. The Baseline assumes a June 2016 enrollment of 313,800 and a June 2017 enrollment of 321,600.

The Baseline includes an increase of \$1,268,000 from the General Fund for behavioral health services for the childless adult population to account for caseload changes and the increased federal match rate.

The Baseline also includes a \$7,530,600 increase in hospital assessment state match for the acute care costs of the childless adult population. Of this amount, \$10,362,200 is due to not implementing the (5)% provider rate reduction, since the PDRF revenues used to offset the cost of foregoing the reduction are allocated to the Traditional Medicaid Services line item. Another \$(2,831,600) is due to the increased federal match rate and other formula adjustments. (See the *Other Adjustments* section for additional details.)

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

Table 4

Costs of Optional Medicaid Expansion and the Proposition 204 Parents
(\$ in millions)

		<u>FY 2016 Appropriation</u>			<u>FY 2017 Baseline</u>		
		<u>GF</u>	<u>HA</u> ^{1/}	<u>FF</u>	<u>GF</u>	<u>HA</u> ^{1/}	<u>FF</u>
Adult Expansion 100-133% FPL ^{2/}	Acute	\$ 0	\$ 0	\$ 197	\$ 0	\$ 6	\$ 456
	BHS	<u>0</u>	<u>0</u>	<u>42</u>	<u>1</u>	<u>0</u>	<u>78</u>
	Total	\$ 0	\$ 0	\$ 239	\$ 1	\$ 6	\$ 534
Proposition 204 – Childless Adults 0-100% FPL ^{2/}	Acute	\$ 0	\$ 171	\$1,540	\$ 0	\$ 178	\$1,831
	BHS	<u>35</u>	<u>0</u>	<u>285</u>	<u>37</u>	<u>0</u>	<u>341</u>
	Total	\$ 35	\$ 171	\$1,825	\$ 37	\$ 178	\$2,172
Proposition 204 – Parents 22-100% FPL ^{3/4/}	Acute	\$ 0	\$ 45	\$ 99	\$ 0	\$ 76	\$ 214
	BHS	<u>66</u>	<u>0</u>	<u>147</u>	<u>74</u>	<u>0</u>	<u>165</u>
	Total	\$ 66	\$ 45	\$ 246	\$ 74	\$ 76	\$ 379
Total Expenditures ^{5/6/}	Total	\$ 101	\$ 216	\$2,310	\$ 112	\$ 260	\$3,085

“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.

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. 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 December 1, 2015, there were approximately 78,700 Adult Expansion enrollees.

The Baseline assumes a June 2016 enrollment of 90,000 and a June 2017 enrollment of 92,200. This caseload growth, coupled with the decrease in the federal match rate for adult expansion from 100% to 97.5%, will increase the General Fund costs of behavioral health services by \$831,900 in FY 2017 relative to the FY 2016 budget.

The Baseline also includes a \$6,261,500 increase in hospital assessment state match for the acute care costs of the adult expansion population. Of this amount, \$11,616,700 is a result of the match rate dropping from 100% to 97.5% in FY 2017, and \$(5,355,200) is the result of cost-sharing provisions.

The FY 2016 budget projected that the total ACA population would reach 376,000 by June 2016. The Baseline assumes that the population will reach 607,500 by June 2016. By June 2017, enrollment is projected to grow to 654,300. *Table 5* 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.

In FY 2017, the Baseline increases Hospital Assessment collection to \$260,462,700 a \$44,903,900 increase above FY 2016. This increase consists of \$50,359,100 in formula adjustments and \$(5,455,200) in savings from proposed cost-sharing.

Table 5
Total Medicaid Population Increase Since January 1, 2014^{1/}

	June 2015	June 2016	June 2017
Childless Adult Restoration	211,300	246,000	253,900
Adult Expansion 100%-133% FPL	61,500	90,000	92,200
Child Expansion 100%-133% FPL	36,000	80,100	82,100
Other Enrollees	<u>99,600</u>	<u>191,400</u>	<u>226,100</u>
Total	408,500	607,500	654,300

^{1/} June 2015 figures are actual amounts while June 2016 and June 2017 are Baseline projections.

Operating Budget

The Baseline includes \$92,070,600 and 1,013.2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$30,061,200
Children's Health Insurance Program (CHIP) Fund	1,717,200
Prescription Drug Rebate Fund (PDRF) - State	198,000
Federal Medicaid Authority (FMA)	60,094,200

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	4,602,400
	EA	10,937,200

The Baseline 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	GF	(515,300)
	EA	(1,344,000)

The Baseline includes a decrease of \$(1,859,300) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(515,300)
Federal Medicaid Authority	(1,344,000)

(See Behavioral Health Transfer section for additional information.)

OIG Shift	GF	217,400
	EA	487,500

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

General Fund	217,400
Federal Medicaid Authority	487,500

Administration

DES Eligibility

The Baseline 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 Baseline includes \$6,832,800 and 128 FTE Positions in FY 2017 for Proposition 204 - Acute Care Administration costs. These amounts consist of:

General Fund	2,307,700
Federal Medicaid Authority	4,525,100

These amounts are unchanged from FY 2016.

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 Baseline includes \$6,114,000 in FY 2017 for Proposition 204 - Behavioral Health Administration costs. This amount consists of:

General Fund	1,918,800
Federal Medicaid Authority	4,195,200

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	2,011,000
	EA	4,435,700

The Baseline 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	GF	(92,200)
	EA	(240,500)

The Baseline includes a decrease of \$(332,700) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(92,200)
Federal Medicaid Authority	(240,500)

(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

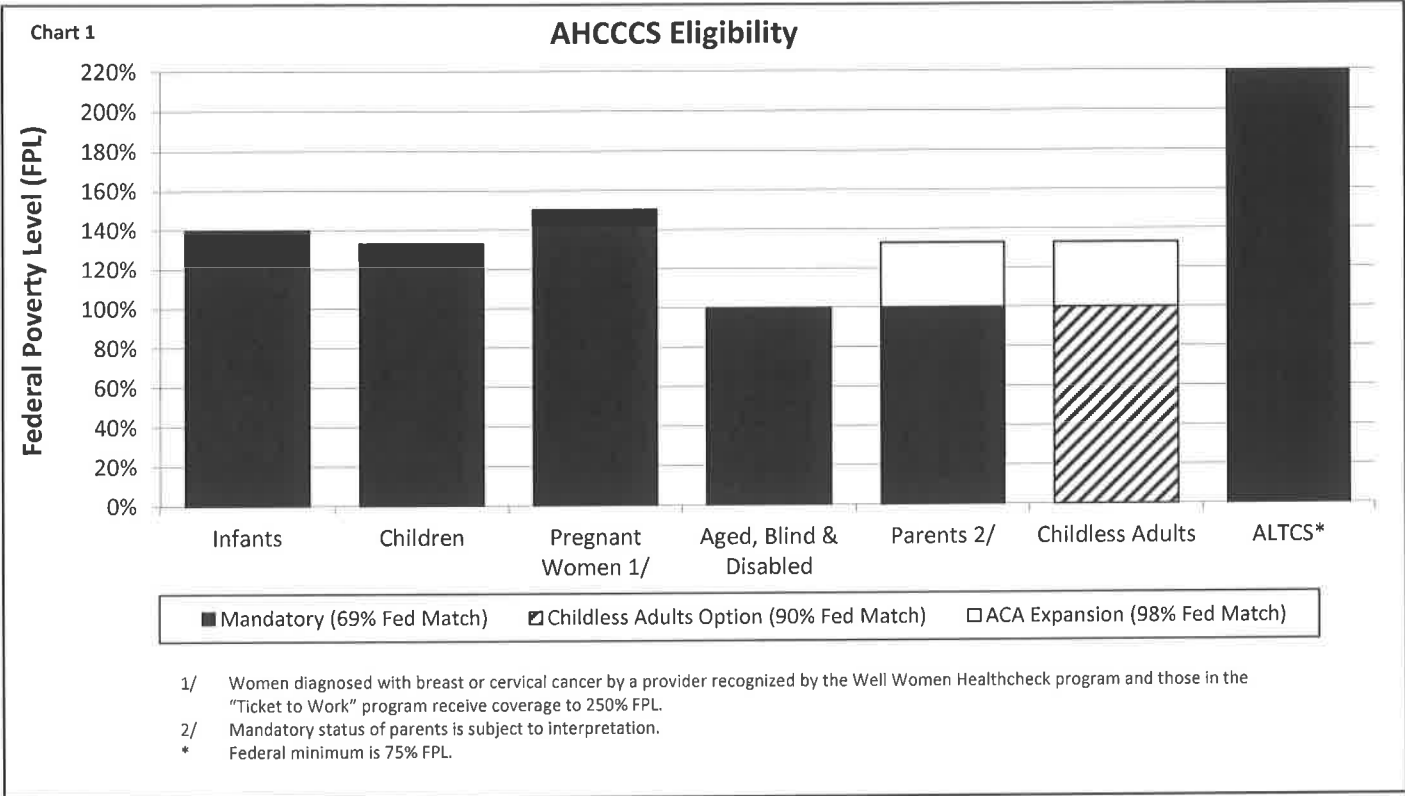
The Baseline includes \$38,358,700 and 300.1 FTE Positions in FY 2017 for Proposition 204 - DES Eligibility costs. These amounts consist of:

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

FY 2017 adjustments would be as follows:

Statutory Adjustments	GF	(80,400)
	OF	80,400

The Baseline 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 a statutorily-required increase of county contributions in FY 2017 (A.R.S. § 11-2920). (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. Overall formula adjustments are below. *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 Baseline includes \$4,078,154,700 in FY 2017 for Traditional Medicaid Services. This amount consists of:

General Fund	926,002,800
County Funds	49,687,700
PDRF - State	106,139,500
TTHCF Medically Needy Account	33,361,800
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,661,625,000
PDRF - Federal	301,143,200

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	63,721,700
	OF	2,181,800
	EA	284,380,200

The Baseline includes an increase of \$350,283,700 in FY 2017 for formula adjustments. This amount consists of:

General Fund	63,721,700
County Funds	(192,000)
TTHCF Medically Needy Account	2,181,800
Federal Medicaid Authority	284,572,200

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.
- \$(192,000) decrease in Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$2,181,800 increase from the TTHCF Medically Needy Account due to higher-than-expected tobacco tax revenues and a corresponding General Fund decrease.

PDRF Increase	GF	(28,034,500)
	OF	28,034,500
	EA	0

The Baseline includes an increase of \$28,034,500 from the state Prescription Drug Rebate Fund and a corresponding decrease from the General Fund in FY 2017. The Baseline also includes a \$93,259,300 increase from the federal Prescription Drug Rebate Fund, and a corresponding decrease from Federal Medicaid Authority. The increase is due to higher-than-expected revenues in the Prescription Drug Rebate Fund. AHCCCS will use these funds to offset part of the cost associated with not implementing a (5)% provider rate cut. These amounts consist of:

General Fund	(28,034,500)
Prescription Drug Rebate Fund - State	28,034,500
Prescription Drug Rebate Fund - Federal	93,259,300
Federal Medicaid Authority	(93,259,300)

(See Reversal of (5)% Provider Rate Reduction section for additional detail.)

Cost Sharing Provisions	GF	(300,000)
	EA	(672,700)

The Baseline 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	GF	(217,400)
	EA	(487,500)

The Baseline includes a decrease of \$(704,900) in FY 2017 to shift funding for 6 existing FTE Positions in the Office of the Inspector General 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 Baseline includes \$2,805,999,700 in FY 2017 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	254,201,200
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	37,521,000
TPTF Emergency Health Services Account	17,867,200
Federal Medicaid Authority	2,396,410,300

FY 2017 adjustments would be as follows:

Formula Adjustments	OF	535,800
	EA	388,369,300

The Baseline includes an increase of \$388,905,100 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	38,742,400
TPTF Proposition 204 Protection Account	1,125,000
TPTF Emergency Health Services Account	535,800
Federal Medicaid Authority	348,501,900

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.
- \$1,125,000 increase from the TPTF Proposition 204 Protection Account due to higher-than-expected tobacco tax revenues and a corresponding \$(1,125,000) Hospital Assessment Fund decrease.
- \$535,800 increase from the Emergency Health Services Account due to higher-than-expected tobacco tax revenues and a corresponding \$(535,800) Hospital Assessment Fund decrease.

Cost Sharing Provisions	EA	(606,000)
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The Baseline 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 Baseline includes \$462,284,600 for Adult Expansion Services in FY 2017. This amount consists of:

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

FY 2017 adjustments would be as follows:

Formula Adjustments EA 271,366,300

The Baseline includes an increase of \$271,366,300 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	11,616,700
Federal Medicaid Authority	259,749,600

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 EA (5,332,200)

The Baseline 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 EA (933,300)

The Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

**Formula Adjustments GF 11,936,900
EA 28,572,100**

The Baseline includes an increase of \$40,509,000 in FY 2017 for formula adjustments. This amount consists of:

General Fund	11,936,900
Federal Medicaid Authority	28,572,100

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.

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

KidsCare Services

The Baseline includes \$1,955,000 from the CHIP Fund in FY 2017 for KidsCare Services. FY 2017 adjustments would be as follows:

**Formula Adjustments GF (338,000)
CHIP (4,002,200)**

The Baseline 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. *(See Mandatory Affordable Care Act Changes section for additional information about this program.)*

ALTCS Services

The Baseline includes \$1,414,303,900 in FY 2017 for ALTCS services. This amount consists of:

General Fund	166,481,800
County Funds	248,862,900
PDRF - State	7,441,300
Federal Medicaid Authority	947,728,200
PDRF - Federal	21,600,300
Nursing Facility Provider Assessment Fund	22,189,400

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	4,679,800
	EA	23,035,200

The Baseline includes an increase of \$27,715,000 in FY 2017 for formula adjustments. This amount consists of:

General Fund	4,679,800
County Funds	515,000
Nursing Facility Provider Assessment	(1,177,500)
Federal Medicaid Authority	23,697,700

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.

PDRF Increase	GF	(1,078,800)
	OF	1,965,500
	EA	(886,700)

The Baseline includes a net increase of \$0 to reflect an increase in the State and Federal Prescription Drug Rebate Fund in FY 2017. 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	(1,078,800)
County Funds	(886,700)
Prescription Drug Rebate Fund - State	1,965,500
Federal Medicaid Authority	(7,026,100)
Prescription Drug Rebate Fund - Federal	7,026,100

(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 Baseline includes \$979,305,800 in FY 2017 for Medicaid Behavioral Health - Traditional Services. This amount consists of:

General Fund	266,039,300
TTHCF Medically Needy Account	34,767,000
Federal Medicaid Authority	678,499,500

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	253,451,400
	OF	34,767,000
	EA	617,666,200

The Baseline includes an increase of \$905,884,600 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	34,767,000
Federal Medicaid Authority	617,666,200

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

Formula Adjustments	GF	16,587,900
	EA	69,803,200

The Baseline includes an increase of \$86,391,100 in FY 2017 for Medicaid Behavioral Health - Traditional Services formula adjustments. This amount consists of:

General Fund	16,587,900
Federal Medicaid Authority	69,803,200

These adjustments include:

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

Third Party Liability Recoveries	GF	(4,000,000)
	EA	(8,969,900)

The Baseline 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 Other Adjustments 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 1,106,344 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 83,542 individuals, or approximately 7.6% 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 Baseline includes \$617,186,300 in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services. This amount consists of:

General Fund	110,577,500
Federal Medicaid Authority	506,608,800

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	103,461,000
	EA	441,255,500

The Baseline includes an increase of \$544,716,500 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
Federal Medicaid Authority	441,255,500

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

Formula Adjustments	GF	8,316,500
	EA	70,158,800

The Baseline includes an increase of \$78,475,300 in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services formula adjustments. This amount consists of:

General Fund	8,316,500
Federal Medicaid Authority	70,158,800

The adjustments include:

- 2.5% caseload growth.
- 1.5% capitation rate increase.
- 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%.

Third Party Liability Recoveries	GF	(1,200,000)
	EA	(4,805,500)

The Baseline 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 Other Adjustments 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 514,725 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 53,886 individuals, or approximately 10.5% 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 Baseline 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

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	55,466,100
	EA	122,419,700

The Baseline includes an increase of \$177,885,800 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
Federal Medicaid Authority	122,419,700

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

Formula Adjustments	GF	8,304,400
	EA	21,837,200

The Baseline includes an increase of \$30,141,600 in FY 2017 for formula adjustments. This amount consists of:

General Fund	8,304,400
Federal Medicaid Authority	21,837,200

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.

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. DCS currently administers the acute care services for this population.

The Baseline 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 11,853 individuals, or 67.1% 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 the Department of Child Safety 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 Baseline 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

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	EA	42,306,400
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The Baseline includes an increase of \$42,306,400 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	GF	1,935,700
	EA	34,712,200

The Baseline includes an increase of \$36,647,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	1,935,700
Federal Medicaid Authority	34,712,200

These adjustments include:

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

Cost-Sharing Provisions	GF	(1,100,000)
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The Baseline 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	GF	(3,800)
	EA	(148,200)

The Baseline 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 Baseline 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 9,571 individuals, or approximately 10.5%, 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 Baseline includes \$78,846,900 from the General Fund in FY 2017 for Non-Medicaid Seriously Mentally Ill (SMI) Services. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	78,846,900
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The Baseline 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 Baseline includes \$5,324,800 from the General Fund in FY 2017 for Supported Housing. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	5,324,800
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The Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	14,141,100
	OF	2,250,200

The Baseline 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.

Payments to Hospitals

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 Baseline 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 6*. 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 Baseline 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 Baseline 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 publically operated hospitals are Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH).

Section 10 of the FY 2016 Health BRB set the eligible funding for MIHS at \$113,818,500 in FY 2016. The Baseline continues this amount, and assumes the state will retain \$74,605,600 in Federal Funds in FY 2017 for deposit to the General Fund. The Baseline 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 would 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	(2,800)
	EA	2,800

The Baseline 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 Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

DSH Allotment Increase	EA	1,111,300
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The Baseline includes an increase of \$1,111,300 in FY 2017 for a federal increase in the total amount of 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. The Baseline continues provisions from the FY 2016 Health BRB that give priority to eligible rural hospitals when allocating voluntary match DSH payments and that 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.

Table 6

Disproportionate Share Payments

	<u>FY 2016</u>	<u>FY 2017</u>
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		
General Fund		
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
Other Entities		
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 Baseline continues a footnote that appropriates any additional payments in excess of \$19,896,000 for DSH Voluntary Payments in FY 2017

Rural Hospitals

The Baseline 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

FY 2017 adjustments would be as follows:

Formula Adjustment	GF	(72,500)
	EA	72,500

The Baseline 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.

Subject to federal approval, section 4 of the FY 2016 Health BRB permits political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding for Critical Access Hospitals (CAHs). Section 18 of the Health BRB requires AHCCCS to report any voluntary payments paid to CAHs in FY 2016. The Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

Decreased Funding EA (23,546,500)

The Baseline 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 Baseline 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 Baseline does not adjust GME for these potential increases, but a long-standing footnote appropriates additional monies with JLBC review.

Safety Net Care Pool

The Baseline 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

FY 2017 adjustments would be as follows:

Formula Adjustments EA 0

The Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

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.

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.

Medical Services and Behavioral Health Services

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.

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 change in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any changes 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.

The non-appropriated 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.

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.

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.

The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before December 31, 2016, and June 30, 2017 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 as follows: 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 the amounts, by fund source, it plans to use to pay for expanded services. *(Transferred from DHS.)*

It is the intent of the Legislature that the percent attributable to administration/profit for the Regional Behavioral Health Authority in Maricopa County AUTHORITIES is 9% of the overall capitation rate. *(Transferred from DHS, and modified to include all RBHAs instead of just the Maricopa RBHAs because the Greater Arizona RBHAs are now providing integrated SMI services.)*

Long-Term Care

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.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2017 nonfederal costs of providing long-term care services is \$248,862,900. This amount is included in the Expenditure Authority fund source.

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. ~~If the nursing facility provider assessment is not extended past September 30, 2015, the AHCCCS Administration shall revert \$56,384,400 of expenditure authority for FY 2016, including \$38,859,200 of Federal Medicaid Authority and \$17,525,200 of Nursing Facility Provider Assessment Funding. (Laws 2015, Chapter 39 extended the Nursing Facility Assessment through September 30, 2023.)~~

Payments to Hospitals

The \$5,087,100 appropriation for Disproportionate Share Payments 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.

Any monies received for disproportionate share 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.

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 March and Safety Net Care Pool line items are included in the Expenditure Authority fund source.

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.

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.

Other

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.

New Footnotes

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 seriously mentally ill patients at the Arizona State Hospital. *(DHS has used excess non-Medicaid SMI monies to pay for the prescription medications of some patients at ASH.)*

Other

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 or before December 1, 2016 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. *(Removes requirement for AHCCCS to have separate JLBC reviews for the impact of the health insurer fee on capitation rates.)*

Deletion of Prior Year Footnotes

The Baseline would delete a one-time footnote regarding a supplemental appropriation from AHCCCS to DHS for behavioral health services in FY 2015.

The Baseline would delete a footnote requiring AHCCCS to report quarterly on its progress in implementing automation interaction with the ACA health insurance exchange. This report is no longer necessary, as AHCCCS has fully implemented the automation interaction.

STATUTORY CHANGES

The Baseline would:

Rates and Services

- As session law, continue the FY 2010 risk contingency rate reduction for all managed care organizations. Continue to impose a reduction of funding for all

managed care organizations administrative funding levels.

- As session law, state that it is the intent of the Legislature that AHCCCS not increase capitation rates more than 1.5% in FY 2017 and FY 2018.

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, continue 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 session law, set FY 2017 county Arizona Long Term Care System (ALTCSS) contributions at \$248,862,900.
- 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 238.
- 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.

Hospitals

- As session law, establish FY 2017 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District, the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center.
- As session law, continue to require AHCCCS to give priority to rural hospitals in the Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. Permit local jurisdictions to provide additional local match for Pool 5 distributions.
- As session law, continue to require that AHCCCS report any Critical Access Hospital Payments made by political subdivisions.

Erroneous Payments

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

Reports

- As session law, continue to require AHCCCS to submit a report by December 1, 2016 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

- As session law, continue to require AHCCCS and DHS to submit a joint report by January 1, 2017 on hospital cost and charges.
- As session law, require AHCCCS to submit a report on efforts to increase third-party liability payments for behavioral health services by December 31, 2016.
- As session law, require AHCCCS to report on or before January 2, 2017 on the availability of inpatient psychiatric treatment for children and adolescents enrolled in Arizona's Regional Behavioral Health Authorities. The report would include the following information on treatment for individuals aged 21 or younger: 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; and 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. (*See Inpatient Psychiatric Treatment for Children section in Other Issues for additional information.*)

Substance Abuse Services

- As permanent law, require AHCCCS to establish services for alcohol and drug abuse pursuant to A.R.S. § 36-2001.
- 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.
- 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.
- As permanent law, provide AHCCCS with the authority to administer the Substance Abuse Services Fund pursuant to A.R.S. § 36-2005.

Deleted Provisions

The Baseline would not continue the following one-time provisions:

- Authorization for AHCCCS to reduce provider rates by up to (5)%. AHCCCS is not implementing the reduction.
- A requirement that AHCCCS request cost-sharing measures in the waiver negotiations with the federal government.

Other Issues

This section includes information on the following topics:

- FY 2016 Adjustments
- Long-Term Budget Impacts
- Medicare Part B Premiums
- AHCCCS CARE Proposal
- Inpatient Psychiatric Treatment for Children
- SMI Funding
- Risk Corridor
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2016 Adjustments

The Baseline includes a FY 2016 supplemental increase of \$562,208,700. *Table 7* below shows the supplemental appropriation included in the Baseline by fund source. Of the \$562,208,700, \$26,249,300 is from appropriated funds and \$535,959,400 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	1,744,700
Federal Medicaid Authority	421,394,400
PDRF-Federal	<u>78,318,300</u>
<i>Subtotal</i>	<i>\$535,959,400</i>
Total Funds	\$562,208,700

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 Budget Reconciliation Bill (BRB). The Baseline 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 Baseline includes an additional \$461,790,400 in supplemental funds as a result of higher-than-anticipated caseload growth across most AHCCCS populations.

Table 8 below shows the differences in caseload projections between the FY 2016 enacted budget and the FY 2017 Baseline. The Baseline is projecting additional enrollment of 228,422 relative to the FY 2016 budget.

Although this higher-than-anticipated caseload growth is expected to be associated with \$7.9 million in additional General Fund expenditures, the Baseline does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of General Fund supplemental through cashflow, and any small changes in caseload could eliminate the need for any additional General Fund expenditures.

Table 8

June 1, 2016 AHCCCS Caseload Revisions

	FY 2016 Budget	FY 2017 Baseline	Net Change
Traditional	980,630	1,084,312	103,682
Prop 204 Childless Adults	286,198	313,777	27,579
Other Prop 204	169,942	202,747	32,805
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>115,090</u>	<u>16,666</u>
Total	1,608,042	1,836,464	228,422

Long-Term Budget Impacts

The Baseline estimates that AHCCCS’ statutory caseload and policy changes will require a net additional \$77.2 million in FY 2018 above FY 2017 and a net additional \$97.5 million in FY 2019 above FY 2018.

These estimates are based on:

- Enrollment growth of 2.5% in FY 2018 and FY 2019, respectively.
- 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.

Medicare Part B Premiums

The federal Social Security Administration recently 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, and serves 18,250 individuals as of November 1, 2015. 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. Current beneficiaries can maintain their participation in QI program until at least December 31, 2015.

In November 2015, Congress adopted legislation to reduce the magnitude of the Part B premium increase. The fix lowers the premium increase in 2016 to \$120 instead of \$159.30, and requires Medicare beneficiaries to pay a monthly \$3 premium surcharge over the next 5 years. The \$120 premium, coupled with the \$3 surcharge, amounts to a 17.3% increase compared to calendar year 2015. Relative to the FY 2016 budget, the \$123 premiums increase AHCCCS' General Fund spending by \$3.3 million in FY 2016, and \$7.7 million in FY 2017. The FY 2017 amount has been incorporated into the Baseline.

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 adults.
- 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 across AHCCCS and DHS for savings associated with premiums as well as copays for inappropriate emergency room utilization. The AHCCCS CARE plan would reduce savings associated with premiums and copays to \$(100,000) from the General Fund. Any changes to the AHCCCS Section 1115 Waiver must be approved by the federal government. The FY 2017 Baseline 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 for Children

Behavioral health providers in Arizona have recently raised concerns about the availability of inpatient psychiatric beds for children and adolescents with severe behavioral health issues. Providers have alleged that some children with severe behavioral health issues wait in hospital emergency departments for more than 24 hours to be transferred to a psychiatric facility due to a shortage of inpatient psychiatric beds. DHS has also reported that some child enrollees in the RBHAs are sent out of state to receive inpatient psychiatric treatment due to the shortage of beds or the lack of availability of appropriate treatment. To address this potential shortage, DHS has issued a Request for Information (RFI) to assess interest among providers in expanding inpatient psychiatric care options for children. The Baseline includes a session law provision that requires AHCCCS to submit a report that examines the potential shortage in inpatient psychiatric beds for children.

SMI Funding

Table 9 shows the total Medicaid funding in FY 2017 for behavioral health services for the integrated SMI population is \$686.6 million for 42,358 recipients. State and federal funding for behavioral health services for this population is located in the Traditional, Proposition 204,

Table 9
JLBC Projected FY 2017 Medicaid Behavioral Health Funding for Integrated SMI

	<u>State Match</u>	<u>Federal Match</u>	<u>Total Funds</u>	<u>Enrollees</u>
Integrated SMI Maricopa	\$118,017,300	\$320,524,300	\$438,541,600	21,531
Integrated SMI Greater AZ	<u>64,536,800</u>	<u>183,483,300</u>	<u>248,020,100</u>	<u>20,827</u>
Total ^{1/}	\$182,554,100	\$504,007,600	\$686,561,700	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.

and Adult Expansion line items of the behavioral health services portion of the AHCCCS budget.

In FY 2017, an estimated \$29.5 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, \$5.9 million is state matching funds, and \$23.6 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 Baseline 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.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget’s costs, as summarized in *Table 10*. 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 \$6,454,300 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 \$14,665,900 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.

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	\$622,500
Cochise	214,100	2,214,800	162,700	5,165,500	219,100	2,214,800	162,700	4,967,900
Coconino	211,200	742,900	160,500	1,858,500	216,100	742,900	160,500	1,869,200
Gila	86,700	1,413,200	65,900	2,117,900	88,800	1,413,200	65,900	2,103,400
Graham	61,700	536,200	46,800	1,336,700	63,100	536,200	46,800	1,296,700
Greenlee	15,800	190,700	12,000	79,700	16,200	190,700	12,000	33,000
La Paz	32,800	212,100	24,900	696,300	33,600	212,100	24,900	592,500
Maricopa	0	19,203,200	0	153,303,200	0	19,011,200	0	154,476,500
Mohave	246,600	1,237,700	187,400	8,033,700	252,300	1,237,700	187,400	7,913,600
Navajo	161,600	310,800	122,800	2,562,200	165,300	310,800	122,800	2,576,900
Pima	1,468,800	14,951,800	1,115,900	39,303,600	1,502,600	14,951,800	1,115,900	39,070,400
Pinal	287,400	2,715,600	218,300	15,539,700	294,000	2,715,600	218,300	14,839,300
Santa Cruz	67,900	482,800	51,600	1,942,200	69,500	482,800	51,600	1,922,300
Yavapai	271,500	1,427,800	206,200	8,416,600	277,700	1,427,800	206,200	8,354,200
Yuma	<u>242,000</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,259,900</u>	<u>247,600</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,224,500</u>
Subtotal	\$3,482,900	\$47,233,500	\$2,646,200	\$249,234,600	\$3,563,300	\$47,041,500	\$2,646,200	\$248,862,900
Total				\$302,597,200				\$302,113,900

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 \$9,776,300 in relief.

In FY 2017, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$30,896,500 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 \$342 per member per month (or \$4,104 annually). Of that amount, an average of \$81 is from state match and \$261 from Federal Medicaid Authority. For behavioral health, the average capitation rate is expected to be \$92 per member per month (or \$1,104 annually), with an average of \$23 for state match and \$69 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 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 Baseline requires AHCCCS to continue to transfer \$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:

- \$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 will come 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
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 4,963,800	\$ 9,570,700
Transfer In - Tobacco Tax and Health Care Fund	48,002,100	45,446,500
Transfer In - Tobacco Products Tax Fund	26,171,900	24,519,000
Total Funds Available	\$ 79,137,800	\$ 79,536,200
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	\$ 34,178,800	\$ 31,180,000
Total AHCCCS Allocations	\$ 34,178,800	\$ 31,180,000
<i>DHS</i>		
Behavioral Health GF Offset	\$ 34,767,000	\$ 34,767,000
Folic Acid	396,300	400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000
Total DHS Allocations	35,388,300	35,467,000
Balance Forward	\$ 9,570,700	\$ 12,889,200
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 2,986,600	\$ 3,352,200
Transfer In - Tobacco Products Tax Fund	41,577,200	38,140,700
Total Funds Available	\$ 44,563,800	\$ 41,492,900
<u>Allocations</u>		
AHCCCS State Match Appropriation	38,225,000	36,396,000
Administrative Adjustments	2,986,600	0
Balance Forward	\$ 3,352,200	\$ 5,096,900
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 56,900	\$ 0
Transfer In - Tobacco Products Tax Fund	19,284,300	18,162,200
Total Funds Available	\$ 19,341,200	\$ 18,162,200
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 19,284,300	\$ 17,331,400
Administrative Adjustments	56,900	0
Balance Forward ^{1/}	\$ 0	\$ 830,800
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 10,237,400	\$ 7,607,300
Transfer In - Tobacco Tax and Health Care Fund	15,775,100	16,159,300
Transfer In - Tobacco Products Tax Fund	1,938,700	1,928,300
Total Funds Available	\$ 27,951,200	\$ 25,694,900
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 17,878,200	\$ 17,878,200
Leading Causes of Death - Prevention and Detection	2,465,700	2,465,700
Balance Forward	\$ 7,607,300	\$ 5,351,000
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 4,098,800	\$ 9,035,700
Transfer In - Tobacco Tax and Health Care Fund	3,428,600	3,443,200
Transfer In - Tobacco Products Tax Fund	4,846,700	4,861,400
Total Funds Available	\$ 12,374,100	\$ 17,340,300
<u>Allocations</u>		
Biomedical Research Support ^{2/}	\$ 997,500	\$ 2,000,000
Alzheimer's Disease Research	1,000,000	1,000,000
Biomedical Research Commission	1,340,900	3,274,800
Balance Forward	\$ 9,035,700	\$ 11,065,500

^{1/} Any unencumbered funds in Emergency Health Services Account are transferred to Proposition 204 Protection Account at the end of each year.

^{2/} 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).

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)		Appropriated
Source of Revenue: County contributions.		
Purpose of Fund: To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.		
Funds Expended	2,538,300	3,482,900
Year-End Fund Balance	9,500	11,300
Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)		Appropriated
Source of Revenue: Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage federal monies for KidsCare and are not included in the reported CHIP Fund expenditures.		
Purpose of Fund: To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the KidsCare program has been set at 200% of the Federal Poverty Level (FPL), which is approximately \$47,100 for a family of 4.		
Funds Expended	6,340,300	7,674,400
Year-End Fund Balance	1,615,200	1,615,200
County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Statutorily prescribed county contributions.		
Purpose of Fund: For the provision of acute medical and long term care services to Arizona Health Care Costs Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid dollars.		
Funds Expended	295,518,400	299,114,300
Year-End Fund Balance	0	0
Employee Recognition Fund (HCA2025/A.R.S. § 36-2903)		Non-Appropriated
Source of Revenue: Private donations.		
Purpose of Fund: To be used for the agency's employee recognition program.		
Funds Expended	5,000	3,000
Year-End Fund Balance	1,900	1,400
Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal funding through the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Medicaid eligible. All federal Medicaid monies must flow through AHCCCS, therefore, these monies are obtained by AHCCCS and then passed on to the participating schools.		
Funds Expended	36,504,900	62,068,700
Year-End Fund Balance	0	0
Federal Funds (HCA2000 Acute Care/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal grant monies.		
Purpose of Fund: To provide federal match for non-appropriated state expenditures.		
Funds Expended	498,100	3,860,100
Year-End Fund Balance	56,800	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants - American Recovery and Reinvestment Act (ARRA) (HCA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: Federal Funds to assist Medicaid providers in adopting electronic medical records.		
Funds Expended	48,834,800	58,744,500
Year-End Fund Balance	0	0
Federal Medicaid Authority (HCA2120 Acute Care/HCA2223 Long Term Care/ A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: For AHCCCS' administrative costs and for the provision of acute and long term services to eligible populations. Any monies received in excess of the FY 2016 budgeted appropriations for the Nursing Facility Provider Assessment, Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), or Safety Net Care Pool (SNCP) program by the AHCCCS administration in FY 2016, including any federal matching monies, are appropriated to the Administration in FY 2016. 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 these provisions.		
Funds Expended	5,739,824,100	6,165,751,200
Year-End Fund Balance	39,184,300	0
Healthcare Group Fund (HCA3197/A.R.S. § 36-2912.01 [repealed])		Partially-Appropriated
Source of Revenue: Premiums paid by employers and employees enrolled in Healthcare Group, including monies to fund the administration of the Healthcare Group program.		
Purpose of Fund: The Healthcare Group program was repealed on January 1, 2014, and the Healthcare Group Fund was repealed on January 1, 2015. Healthcare Group was operated by AHCCCS and was a premium based health insurance program available to small businesses and self-employed persons. A portion of this fund was appropriated to fund the administrative costs of Healthcare Group. The rest of the fund was non-appropriated and used to pay medical claims for members of Healthcare Group. When this fund was repealed, the fund's remaining balance of \$7,256,800 was transferred to the General Fund.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	0	0
Hospital Assessment Fund (HCA9692/ A.R.S. § 36-2901.09)		Expenditure Authority
Source of Revenue: An assessment on hospital revenues, discharges, or beds days.		
Purpose of Fund: For funding the non-federal share of Proposition 204 services and the adult population who became eligible for AHCCCS services on January 1, 2014.		
Funds Expended	260,916,800	215,558,800
Year-End Fund Balance	0	0
Hospital Loan Residency Fund (HCA2532/A.R.S. § 36-2921)		Non-Appropriated
Source of Revenue: Received a \$1,000,000 deposit from the General Fund in FY 2007. In future years, will also include any repaid loan money received from the participating hospitals.		
Purpose of Fund: To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.		
Funds Expended	0	0
Year-End Fund Balance	900,000	900,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
IGA for County Behavioral Health Services Fund (HCA4503/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: County funds.		
Purpose of Fund: To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers to treat substance abuse. In FY 2016, the fund will receive \$55.2 million from Maricopa County and \$3.1 million from Pima County. These monies were included in the IGA/County Contributions Fund in FY 2015. This fund will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY15 and FY 16 expenditures for this fund are displayed in the DHS Summary of Funds.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927)		Non-Appropriated
Source of Revenue: Monies collected from the State of Hawaii.		
Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.		
Funds Expended	7,376,400	8,000,000
Year-End Fund Balance	2,671,400	1,972,900
Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53)		Expenditure Authority
Source of Revenue: Assessment on health care items and services provided by some nursing facilities, nursing facility penalties, grants, gifts, and contributions from public or private sources.		
Purpose of Fund: To qualify for federal matching funds for supplemental payments for nursing facility services, to reimburse the Medicaid sharer of the assessment, to provide Medicaid supplemental payments to fund covered nursing facility services for Medicaid beneficiaries, and to pay up to a 1% in administrative expenses incurred by AHCCCS for administering this fund. Any monies received in excess of the FY 2016 budgeted appropriation for the Nursing Facility Provider Assessment program by the AHCCCS administration in FY 2016, including any federal matching monies, are appropriated to the administration in FY 2016. 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.		
Funds Expended	18,448,800	23,366,900
Year-End Fund Balance	6,728,000	1,617,000
Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)		Expenditure Authority
Source of Revenue: Monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.		
Purpose of Fund: To expand funding for hospitals. Any monies received in excess of the FY 2016 budgeted appropriations for the Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), or Safety Net Care Pool (SNCP) program by the AHCCCS administration in FY 2016, including any federal matching monies, are appropriated to the Administration in FY 2016. 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 these provisions.		
Funds Expended	118,828,600	108,546,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Prescription Drug Rebate Fund (HCA2546/A.R.S. § 36-2930)		EA/Appropriated
Source of Revenue: Prescription drug rebate collections, interest from prescription drug rebate late payments and Federal monies made available to this state for the operation of the AHCCCS Prescription Drug Rebate Program.		
Purpose of Fund: To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. Also used to return the federal share of Prescription Drug Rebate collections and interest from late payments to the federal Centers for Medicare and Medicaid Services by offsetting future federal draws. Federal monies in this fund are subject to expenditure authority; all other monies are appropriated.		
State Funds Expended	79,021,000	83,778,800
Federal Funds Expended	257,162,000	222,458,100
Year-End Fund Balance	86,965,000	68,199,500
Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)		Non-Appropriated
Source of Revenue: Gaming monies received from the Arizona Benefits Fund.		
Purpose of Fund: For unrecovered trauma center readiness and emergency services costs.		
Funds Expended	31,004,500	25,057,800
Year-End Fund Balance	6,390,700	6,428,700
Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)		Partially-Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects as well as rental assistance for the seriously mentally ill. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. This fund will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY 2015 and FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	0	0
Substance Abuse Services Fund (HCA2227/A.R.S. § 36-2005)		Appropriated
Source of Revenue: The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
Purpose of Fund: To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers. This fund will be transferred to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY 2015 and FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Third Party Liability and Recovery Fund (HCA3791 Acute Care/HCA3019 Long Term Care/A.R.S. § 36-2913)		EA/Non-Appropriated
Source of Revenue: Collections from third-party payers and revenues from lien and estate recoveries.		
Purpose of Fund: To provide acute medical services to AHCCCS members.		
Expenditure Authority Funds Expended	0	194,700
Non-Appropriated Funds Expended	859,600	1,347,300
Year-End Fund Balance	1,341,900	604,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Tobacco Litigation Settlement Fund (TRA2561/A.R.S. § 36-2901.02) **Expenditure Authority**
Source of Revenue: Monies received from tobacco companies as part of a lawsuit settlement.
Purpose of Fund: Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.

Funds Expended	99,975,000	100,000,000
Year-End Fund Balance	0	0

Tobacco Products Tax Fund - Emergency Health Services Account* **Appropriated**
(HCA1304/A.R.S. § 36-776)
Source of Revenue: This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.
Purpose of Fund: For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.

Tobacco Products Tax Fund - Proposition 204 Protection Account* **Expenditure Authority**
(HCA1303/A.R.S. § 36-778)
Source of Revenue: This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.
Purpose of Fund: To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.

Tobacco Tax and Health Care Fund* (RVA1306/A.R.S. § 36-771) **Non-Appropriated**
Source of Revenue: The fund consists of certain tax monies collected on cigarettes, cigars, smoking tobacco, plug tobacco, snuff and other forms of tobacco, and all interest earned on these monies.
Purpose of Fund: To AHCCCS for the Medically Needy Accounts (70%), the Arizona Department of Health Services (DHS) for the Health Education Account (23%), the Health Research Accounts (5%), and the State Department of Corrections (DOC) for the Corrections Fund Adjustment Account (2%). Under A.R.S. § 36-775, the amount transferred to the Corrections Fund Account is to reflect only the actual amount needed to offset decreases in the Corrections Fund resulting from lower tax revenues. Any unexpected Corrections Fund Adjustment Account amounts are to be transferred out proportionally to the other 3 accounts. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.

Tobacco Tax and Health Care Fund - Medically Needy Account* **Partially-Appropriated**
(HCA1306/A.R.S. § 36-774)
Source of Revenue: The account receives 70¢ of each dollar deposited in the Tobacco Tax and Health Care Fund, administered by the Department of Revenue, and 27¢ of each dollar deposited into the Tobacco Products Tax Fund, also administered by the Department of Revenue. The fund also receives a portion of the monies reverting from the Corrections Fund Adjustment Account and an allocation from the Healthcare Adjustment Account.
Purpose of Fund: For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election. Any monies in this fund used to pay for behavioral health services will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. Of the \$35,467,000 estimated to be expended from this account in DHS in FY 2016, \$34,767,000 will be transferred to AHCCCS for behavioral health services in FY 2017, with \$700,000 remaining in DHS for public health programs.

*See Table 11

State Board of Appraisal

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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 (BRB) (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. Chapter 19, however, does not specify the format of the appropriation. As a result, the *FY 2016 Appropriations Report* reflected the funding for the State Board of Appraisal in the Department of Financial Institutions, displayed as its own line item.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Appraisal Fund (APA2270/A.R.S. § 32-3608)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of real estate appraisers and tax agents. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate and regulate real estate appraisers and property tax agents, and for board administration.		
Funds Expended	616,900	0
Year-End Fund Balance	247,000	0

Arizona Commission on the Arts

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
SPECIAL LINE ITEMS			
Arts Trust Fund Deposit	1,000,000	0	0
AGENCY TOTAL	1,000,000	0	0
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Budget Stabilization Fund	1,000,000	0	0
SUBTOTAL - Other Appropriated Funds	1,000,000	0	0
SUBTOTAL - Appropriated Funds	1,000,000	0	0
Other Non-Appropriated Funds	1,792,600	1,516,500	1,516,500
Federal Funds	752,600	802,100	802,100
TOTAL - ALL SOURCES	3,545,200	2,318,600	2,318,600

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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arts Special Revenues Fund (HUA2116/A.R.S. § 41-983)		Non-Appropriated
Source of Revenue: Public and private grants, donations, exhibit rentals, admissions, charges for services, and amounts transferred in from the Budget Stabilization Fund in FY 2014 and FY 2015.		
Purpose of Fund: To award grants to arts programs in all areas of the state. The applicant organizations must contribute to each grant awarded by the Arts Commission. Amounts transferred in from the Budget Stabilization Fund are not displayed to avoid double counting of appropriations.		
Funds Expended	30,900	176,600
Year-End Fund Balance	109,700	140,500
Arts Trust Fund (HUA3043/A.R.S. § 41-983.01)		Non-Appropriated
Source of Revenue: An annual report filing fee from domestic and foreign for profit corporations.		
Purpose of Fund: To award grants to organizations with the purpose of advancing and fostering the arts in Arizona. A portion of the funds are to be used to provide grants to: 1) organizations representing handicapped persons, 2) racial or ethnic minorities; and 3) organizations representing rural areas.		
Funds Expended	1,759,200	1,337,400
Year-End Fund Balance	130,200	190,800
Budget Stabilization Fund (TRA3034/A.R.S. § 35-144)		Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: The FY 2014 and FY 2015 Revenue Budget Reconciliation Bills (Laws 2013, 1 st Special Session, Chapter 9 and Laws 2014, Chapter 9) both appropriated \$1,000,000 to the Arts Trust Fund from interest income earned on the Budget Stabilization Fund. The Arts Commission transferred these monies into the Arts Special Revenues Fund.		
Funds Expended	1,000,000	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants (HUA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants from the National Endowment for the Arts.		
Purpose of Fund: To award grants to non-profits, schools and government entities in the state. A state funding match is required.		
Funds Expended	752,600	802,100
Year-End Fund Balance	38,300	34,100
State Poet Laureate Fund (HUA2569/A.R.S. § 41-988)		Non-Appropriated
Source of Revenue: Gifts, grants, and donations.		
Purpose of Fund: To pay costs of the State poet laureate.		
Funds Expended	2,500	2,500
Year-End Fund Balance	5,000	5,000

Board of Athletic Training

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	17,100
AGENCY TOTAL	99,700	118,900	118,900

FUND SOURCES

Other Appropriated Funds

Athletic Training Fund	99,700	118,900	118,900
SUBTOTAL - Other Appropriated Funds	99,700	118,900	118,900
SUBTOTAL - Appropriated Funds	99,700	118,900	118,900
TOTAL - ALL SOURCES	99,700	118,900	118,900

AGENCY DESCRIPTION — The board examines and licenses athletic trainers, investigates complaints and holds hearings to enforce standards of practice.

Operating Budget

The Baseline includes \$118,900 and 1.5 FTE Positions from the Athletic Training Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016 .

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Athletic Training Fund (BAA2583/A.R.S. § 32-4105)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of athletic trainers. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate athletic trainers, and for board administration.		
Funds Expended	99,700	118,900
Year-End Fund Balance*	50,100	(47,000)

*As reported by the agency. Actual ending balance will not be negative.

Attorney General - Department of Law

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	570.9	574.7	574.7
Personal Services	30,004,600	30,967,700	30,971,300
Employee Related Expenditures	11,340,000	11,885,700	11,887,100
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	6,625,700
Equipment	618,900	22,500	22,500
OPERATING SUBTOTAL	49,799,400	50,201,900	50,206,900
SPECIAL LINE ITEMS			
Capital Postconviction Prosecution	726,200	799,400	799,400
Child Safety and Family Services	1,000,000	0	0
Internet Crimes Against Children Enforcement	0	0	1,250,000
Federalism Unit	0	1,000,000	1,000,000
Military Airport Planning	86,100	90,000	85,000
National Mortgage Settlement Distribution	17,418,700	0	0
Risk Management ISA	8,685,200	9,426,900	9,426,900
Southern Arizona Law Enforcement	0	1,200,000	1,200,000
State Grand Jury	178,200	180,600	180,600
Tobacco Enforcement	0	819,500	819,500
Victims' Rights	3,752,600	3,759,400	3,759,400
AGENCY TOTAL	81,646,400	67,477,700	68,727,700
FUND SOURCES			
General Fund	23,242,500	23,623,700	23,973,700
<u>Other Appropriated Funds</u>			
Antitrust Enforcement Revolving Fund	148,200	244,800	244,800
Attorney General Legal Services Cost Allocation Fund	1,949,900	2,086,800	2,086,800
Collection Enforcement Revolving Fund	6,455,400	6,869,700	6,869,700
Consumer Protection - Consumer Fraud Revolving Fund	5,195,100	5,094,000	5,094,000
Court-Ordered Trust Fund	17,418,700	0	0
Interagency Service Agreements Fund	14,072,600	15,573,000	15,573,000
Internet Crimes Against Children Enforcement Fund	0	0	900,000
Risk Management Revolving Fund	8,685,200	9,426,900	9,426,900
State Aid to Indigent Defense Fund	726,200	799,400	799,400
Victims' Rights Fund	3,752,600	3,759,400	3,759,400
SUBTOTAL - Other Appropriated Funds	58,403,900	43,854,000	44,754,000
SUBTOTAL - Appropriated Funds	81,646,400	67,477,700	68,727,700
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	119,006,000	120,457,400

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 Baseline includes \$50,206,900 and 440.5 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$22,073,200
Antitrust Enforcement Revolving Fund	244,800
Attorney General Legal Services Cost Allocation Fund	2,086,800
Collection Enforcement Revolving Fund (CERF)	6,869,700
Consumer Protection - Consumer Fraud (CPCF) Revolving Fund	3,359,400
Interagency Service Agreements (ISA) Fund	15,573,000

FY 2017 adjustments would be as follows:

Shift FTE Positions	GF	0
	OF	0

The Baseline 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	GF	5,000
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The Baseline includes an increase of \$5,000 from the General Fund in FY 2017. The Baseline 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.

(In addition, please see the Other Issues section for more information on the ISA Fund.)

Capital Postconviction Prosecution

The Baseline includes \$799,400 and 6 FTE Positions from the State Aid to Indigent Defense Fund in FY 2017 for Capital Postconviction Prosecution. These amounts are unchanged from FY 2016.

This line item funds costs associated with prosecuting capital cases after the initial conviction. *(Please see the Other Issues section for more information.)*

Internet Crimes Against Children Enforcement

The Baseline includes \$1,250,000 in FY 2017 for a new Internet Crimes Against Children (ICAC) Enforcement line item. This amount consists of:

General Fund	350,000
ICAC Enforcement Fund	900,000

FY 2017 adjustments would be as follows:

ICAC Enforcement	OF	900,000
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The Baseline includes an increase of \$900,000 from the ICAC Enforcement Fund in FY 2017 for the creation of a new ICAC Enforcement line item.

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 an error, 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 by the end of FY 2016. The Baseline includes a FY 2016 supplemental of \$1,800,000 that addresses this technical error for FY 2016. *(Please see the FY 2016 Supplemental section and the ICAC section in the Department of Child Safety (DCS) narrative for more information.)*

In addition to fixing the technical error in FY 2016, the Baseline includes the intended appropriation of \$900,000 from the ICAC Enforcement Fund in FY 2017.

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.

Attorney General Realignment	GF	350,000
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The Baseline includes an increase of \$350,000 from the General Fund in FY 2017 to shift funding from DCS's 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.

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. *(Please see the Other Issues section and ICAC in the DCS section for more information.)*

The Baseline 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.
- 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.

(Please see the Footnotes section for more information.)

Federalism Unit

The Baseline includes \$1,000,000 and 7 FTE Positions from the CPCF Revolving Fund in FY 2017 for the Federalism Unit. These amounts are unchanged from FY 2016.

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 Baseline includes \$85,000 and 1 FTE Position from the General Fund in FY 2017 for Military Airport Planning. FY 2017 adjustments would be as follows:

Shift Operating Funds	GF	(5,000)
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The Baseline includes a decrease of \$(5,000) from the General Fund in FY 2017. The Baseline 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 Baseline 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 Baseline includes \$9,426,900 and 93 FTE Positions from the Risk Management Revolving Fund in FY 2017 for the Risk Management ISA. These amounts are unchanged from FY 2016.

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 Drug Enforcement Unit

The Baseline includes \$1,200,000 and 13 FTE Positions from the General Fund in FY 2017 for the Southern Arizona Drug Enforcement Unit. These amounts are unchanged from FY 2016.

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, the Unit was funded in the Attorney General's operating budget. The Unit 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 the Unit; however, the FY 2015 budget included a \$600,000 FY 2014 supplemental appropriation for the Unit and a \$1,200,000 appropriation from the CPCF Revolving Fund for FY 2015.

State Grand Jury

The Baseline includes \$180,600 and 1.6 FTE Positions from the General Fund in FY 2017 for the State Grand Jury. These amounts are unchanged from FY 2016.

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 Baseline includes \$819,500 and 6.6 FTE Positions in FY 2017 for Tobacco Enforcement. These amounts consist of:

General Fund	84,900
CPCF Revolving Fund	734,600

FY 2017 adjustments would be as follows:

Shift FTE Positions	GF	0
	OF	0

The Baseline 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.

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 Baseline requires AHCCCS to transfer \$1,200,000 to the Attorney General for MSA enforcement. As a result, the Baseline includes a total of \$2,019,500 for the Attorney General to enforce the MSA in FY 2017.

Victims' Rights

The Baseline includes \$3,759,400 and 6 FTE Positions from the Victims' Rights Fund in FY 2017 for Victims' Rights. These amounts are unchanged from FY 2016.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

In addition to the \$15,573,000 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.

New Footnotes

On or before June 1, 2016, the department shall submit an expenditure plan for the FY 2017 Internet Crimes Against Children line item to the Joint Legislative Budget Committee for its review.

The \$900,000 appropriation from the Internet Crimes Against Children Enforcement Fund and the \$350,000 appropriation from the 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 lapsing of appropriations, through June 30, 2018.

STATUTORY CHANGES

The Baseline would:

- As permanent law, eliminate Joint Legislative Budget Committee (JLBC) review of funding sources that agencies have selected to pay their Attorney General legal services charges.
- As session law, in the General Appropriation Act, continue the same level of Attorney General legal services charges set by the FY 2016 General Appropriation Act.
- As session law, continue to permit the Attorney General to use \$799,400 from the State Aid to Indigent Defense Fund for Capital Postconviction Prosecution in FY 2017.

(Please see the Other Issues section for more information.)

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- Capital Postconviction Prosecution
- 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 Baseline includes a \$1.8 million supplemental from the Internet Crimes Against Children (ICAC) Enforcement Fund in FY 2016 for 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.

Laws 2015, Chapter 245 established the ICAC Enforcement Fund with the intent to appropriate \$900,000 in FY 2015 and FY 2016. Due to an error, however, no monies were appropriated from this fund. The \$1.8 million FY 2016 supplemental is a combination of FY 2015 and FY 2016 monies. *(Please see the Internet Crimes Against Children Enforcement line item for more information.)*

Capital Postconviction Prosecution

The State Aid to Indigent Defense Fund has been used since FY 2014 to fund the Attorney General's budget for capital postconviction prosecutions for the state. Since FY 2015, this fund has also been used to support the Department of Public Safety's (DPS) operational costs associated with the Arizona Counter Terrorism Information Center (ACTIC).

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, the Arizona Criminal Justice Commission was required to distribute the Indigent Defense monies to each county based on a formula. Since that time, the fund has been used for other purposes.

FY 2015 revenues to the State Aid Indigent Defense Fund totaled \$876,800, representing a (5.0)% decrease year over year, which, when matched against FY 2015 expenditures of \$1.5 million, resulted in a structural deficit of \$(623,200). Carry-forward monies from prior years covered this deficit. Revenues to the fund are projected to decrease by (3.6)% in FY 2016, which will create another structural shortfall of \$(654,600). If available surplus monies are utilized to cover the shortfall, the fund will have no remaining balance at the end of FY 2016. As a result, the fund will not have sufficient monies to cover current operations in FY 2017. If the Legislature decides to continue funding these programs at the same levels, an alternative funding source for at least 1 program will be necessary.

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. By September 1 of each year, statute requires agencies to report to the JLBC on the fund sources they have selected to pay their legal services charges. These reports are then reviewed by the Committee. The Baseline would eliminate the review component and also require the JLBC Staff to determine the amount of charges to be allocated by the Department of Administration to agencies not exempt from paying Attorney General legal services charges. See *Table 1* for a list of agencies and their corresponding Attorney General legal services charge. *(Please see the FY 2015 Appropriations Report for a more detailed history on legal services charges.)*

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
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
Department of Fire, Building, and Life Safety	2,500
State Forester	12,100
Department of Gaming	35,000
Arizona Geological Survey	6,800
Department of Health Services	170,000
Arizona Historical Society	700
Department of Housing	18,100
Department of Insurance	10,500
Department of Juvenile Corrections	9,400
State Land Department	2,100
Department of Liquor, Licenses & 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
Arizona Department of Racing	2,300
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
Department of Weights and Measures	4,200
Total Legal Services Charges	\$1,809,500

Interagency Service Agreements Fund

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 Baseline would increase the FY 2017 ISA Fund appropriation to \$15.6 million and 8.8 FTE Positions with a new reserve of \$800,000 and 11 FTE Positions. The later would become 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 FTE Positions in FY 2017. When including the FY 2017 reserve appropriation of \$800,000 and 11 FTE Positions, the Baseline includes adequate funding and FTE authority for the ISA Fund to meet these requests.

The Legislature may need to evaluate the existing capacity of the Attorney General's ISA Fund, as it relates to individual agreements with agencies, prior to increasing the ISA appropriation.

Consumer Restitution and Remediation Revolving Fund

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 CPCF 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 Summary of Funds section following the Attorney General's narrative 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 plans to spend the remaining \$8.2 million in in FY 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 has 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 and consumer fraud education programs require JLBC review prior to expenditure. Those reviews have not yet occurred.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Anti-Racketeering Revolving Fund (AGA2131/A.R.S. § 13-2314.01)		Non-Appropriated
Source of Revenue: Forfeitures of property and assets to satisfy judgments pursuant to anti-racketeering statutes.		
Purpose of Fund: To investigate and prosecute any offense defined as racketeering pursuant to Arizona statutes.		
Funds Expended	14,745,200	22,544,700
Year-End Fund Balance	39,281,400	30,421,200
Antitrust Enforcement Revolving Fund (AGA2016/A.R.S. § 41-191.02)		Appropriated
Source of Revenue: Monies recovered for the state as a result of antitrust, restraint of trade or price-fixing activity enforcement.		
Purpose of Fund: For antitrust enforcement expenses, excluding attorney compensation.		
Funds Expended	148,200	244,800
Year-End Fund Balance	585,800	541,000
Attorney General Expendable Trust Fund (AGA3102/A.R.S. § 35-149)		Non-Appropriated
Source of Revenue: Restricted donations and gifts from individuals and corporations.		
Purpose of Fund: For purposes specified by donors or grantors.		
Funds Expended	1,064,900	1,486,100
Year-End Fund Balance	572,200	286,100
Attorney General Legal Services Cost Allocation Fund (AGA4240/A.R.S. § 41-191.09)		Appropriated
Source of Revenue: Flat dollar amount from agencies as annually specified by the General Appropriation Act.		
Purpose of Fund: To fund non-contracted Attorney General Legal Services.		
Funds Expended	1,949,900	2,086,800
Year-End Fund Balance	910,000	632,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
CJEF Distribution to County Attorneys Fund (AGA2068/A.R.S. § 41-2401)		Non-Appropriated
Source of Revenue: 9.35% of the Criminal Justice Enhancement Fund (CJEF) monies. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To enhance prosecutorial efforts of county attorneys.		
Funds Expended	2,553,200	4,061,200
Year-End Fund Balance	722,400	361,200
Collection Enforcement Revolving Fund (AGA2132/A.R.S. § 41-191.03)		Appropriated
Source of Revenue: The fund receives 35% of monies recovered by the Attorney General from debts owed to the state.		
Purpose of Fund: For expenses related to debt collection owed to the state, including reimbursement of other accounts within the department. Also can be used for operating expenses, including any costs associated with the Tobacco Master Settlement Agreement arbitration. Monies in the Collection Enforcement Revolving Fund up to \$500,000 are non-lapsing.		
Funds Expended	6,455,400	6,869,700
Year-End Fund Balance	2,811,000	500,000
Colorado River Land Claims Revolving Fund (AGA2430/A.R.S. § 41-191.05)		Non-Appropriated
Source of Revenue: Receives 25% of monies recovered by the state from the settlement of the State of Arizona's sovereign land claims.		
Purpose of Fund: To pay ownership claims near the Colorado River.		
Funds Expended	0	0
Year-End Fund Balance	12,300	12,300
Consumer Protection - Consumer Fraud Revolving Fund (AGA2014/A.R.S. § 44-1531.01)		Appropriated
Source of Revenue: Any monies recovered for the state from investigative or court costs, attorney fees or civil penalties pertaining to consumer protection or consumer fraud.		
Purpose of Fund: For consumer fraud education and for investigative and enforcement operations of the Consumer Protection Division, excluding attorney compensation. Also can be used for operating expenses, including any costs associated with the Tobacco Master Settlement Agreement arbitration.		
Funds Expended	5,195,100	5,094,000
Year-End Fund Balance	11,748,200	12,154,200
Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund (AGA2573/A.R.S. § 44-1531.02)		Non-Appropriated
Source of Revenue: Monies collected by the Attorney General from court orders, compromises or settlements resulting from violations of consumer protection laws.		
Purpose of Fund: Laws 2013, Chapter 143 established the Consumer Restitution and Remediation Revolving Fund, which is separated into 2 subaccounts: the Consumer Restitution Subaccount and the Consumer Remediation Subaccount. The Consumer Restitution Subaccount 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.		
Funds Expended	560,700	1,550,000
Year-End Fund Balance	1,746,800	896,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund (AGA2573/A.R.S. § 44-1531.02)		Partially-Appropriated
Source of Revenue: Monies collected by the Attorney General from court orders, compromises or settlements resulting from violations of consumer protection laws.		
Purpose of Fund: Laws 2013, Chapter 143 established the Consumer Restitution and Remediation Revolving Fund, which is separated into 2 subaccounts: the Consumer Restitution Subaccount and the Consumer Remediation Subaccount. The Consumer Restitution Subaccount 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. The Consumer Remediation Subaccount 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 person. Monies in the Consumer Remediation Subaccount up to \$3,500,000 are continuously appropriated. Any amount of money collected over that amount is subject to legislative appropriation. The FY 2016 budget directed the transfer of \$5,400,000 of these monies to the General Fund by the end of FY 2016.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	3,500,000
Year-End Fund Balance	5,816,800	3,216,800
Court-Ordered Trust Fund (AGA3180/A.R.S. § 35-142)		Partially-Appropriated
Source of Revenue: Court-ordered deposits held in trust for parties to lawsuits. Includes funds from a 2012 nationwide settlement between numerous states and mortgage loan services. Arizona residents received a total of \$1.6 billion from the settlement, of which \$32 million was allocated to the Attorney General.		
Purpose of Fund: To assure funds are available to pay judgments. Future payments are dependent on case settlements. Laws 2013, Chapter 118 appropriated an estimated \$48,900,000 of the National Mortgage Settlement proceeds to the Attorney General in FY 2013 as a non-lapsing appropriation. The FY 2016 budget, however, directed the transfer of \$15,000,000 of these monies to the General Fund by the end of FY 2015, leaving the Attorney General with an estimated \$33,900,000 from the National Mortgage Settlement proceeds. Prior to the fund transfer, the Attorney General expended \$612,500 in FY 2013 and \$7,610,600 in FY 2014 to provide assistance to homeowners affected by fraudulent mortgage servicing and foreclosure practices. The AG spent \$17,418,700 in FY 2015 for similar purposes. In FY 2016, the Attorney General plans to expend \$8,234,800 of the non-lapsing appropriation. To avoid double counting, the FY 2016 expenditure is not displayed below. The non-appropriated expenditures in FY 2015 and FY 2016 reflect court-ordered settlements other than the National Mortgage Settlement.		
Appropriated Funds Expended	17,418,700	0
Non-Appropriated Funds Expended	2,239,400	1,380,000
Year-End Fund Balance	40,819,900	9,955,100
Criminal Case Processing Fund (AGA2461/A.R.S. § 41-2421)		Non-Appropriated
Source of Revenue: A portion of redirected court collections and 0.35% of the surcharge on criminal, motor vehicle, and game and fish statute violations.		
Purpose of Fund: For the processing of criminal cases.		
Funds Expended	5,000	81,800
Year-End Fund Balance	288,300	115,500
Federal Grants (AGA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants awarded by various federal agencies and state agencies which pass through federal monies.		
Purpose of Fund: To be used in accordance with the terms of the individual grants.		
Funds Expended	4,748,700	5,485,900
Year-End Fund Balance	1,287,200	1,469,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Indirect Cost Recovery Fund (AGA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grant monies and other appropriated and non-appropriated funds.		
Purpose of Fund: To pay administrative costs not directly attributable to any single agency program.		
Funds Expended	2,244,100	3,799,300
Year-End Fund Balance	1,891,100	1,391,800
Interagency Service Agreements Fund (AGA2657/A.R.S. § 41-192)		Appropriated
Source of Revenue: Any monies received by the Attorney General from charges to state agencies for legal services related to interagency service agreements.		
Purpose of Fund: To provide contracted legal services to state agencies and political subdivisions. The FY 2016 budget included a reserve of appropriation from the ISA Fund of \$800,000 and 11 FTE Positions. In October 2015, the Attorney General notified the JLBC that it planned to use the entire \$800,000 and 8.75 FTE Positions in FY 2016. The FY 2016 expenditure amount below reflects usage of the ISA Fund reserve appropriation.		
Funds Expended	14,072,600	15,573,000
Year-End Fund Balance	1,135,900	0
Intergovernmental Agreements Fund (AGA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Any monies received from state agencies for specialized projects.		
Purpose of Fund: For costs associated with approved projects.		
Funds Expended	3,932,000	6,326,000
Year-End Fund Balance	4,448,100	2,226,000
Internet Crimes Against Children Enforcement Fund (No Fund Number/A.R.S. § 41-199)		Appropriated
Source of Revenue: Pursuant to A.R.S. § 5-554, the fund receives \$900,000 from the proceeds of lottery games that are sold from a vending machine in age-restricted areas. If the lottery games do not produce sufficient funds for the \$900,000 allocation, then unclaimed lottery prize monies will be used to backfill the difference. A.R.S. § 5-554 also directs \$100,000 from the same lottery game revenue to the Victims' Rights Enforcement Fund administered by the Department of Public Safety. <i>(Please see the Department of Public Safety for more detail on the Victims' Rights Enforcement Fund.)</i>		
Purpose of Fund: For the Attorney General to enter into 1 or more intergovernmental agreements to continue the operation of the federally recognized Internet Crimes Against Children Task Force program that coordinates a national network of coordinated task forces that assist federal, state, local, and tribal law enforcement agencies in investigations, forensic examinations, and prosecutions related to technology-facilitated sexual exploitation of children and internet crimes against children.		
Funds Expended	0	0
Year-End Fund Balance	900,000	1,800,000
Motor Carrier Safety Revolving Fund (AGA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: This fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material, substances or waste, as required by A.R.S. Title 28, Chapter 14; and monies received from private grants or donations.		
Purpose of Fund: The Department of Public Safety conducts motor carrier safety investigations, the Motor Vehicle Division of the Department of Transportation administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	1,400	0
Year-End Fund Balance	29,600	33,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Prosecuting Attorneys' Advisory Council Training Fund (AGA2057/A.R.S. § 41-1830.03)		Non-Appropriated
Source of Revenue: 3.03% of Criminal Justice Enhancement Fund (CJEF) monies. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For costs of training, technical assistance for prosecuting attorneys of the state and any political subdivision, and expenses for the operation of the council.		
Funds Expended	1,068,000	1,256,000
Year-End Fund Balance	6,800	0
Risk Management Revolving Fund (AGA4216/A.R.S. § 41-622)		Appropriated
Source of Revenue: Actuarial charges assessed to agencies insured under the state's risk management system, as well as recoveries by the state through litigation.		
Purpose of Fund: To pay for the legal services ISA contract between the Attorney General and ADOA.		
Funds Expended	8,685,200	9,426,900
Year-End Fund Balance	761,000	13,600
State Aid to Indigent Defense Fund (AGA2445/A.R.S. § 11-588)		Appropriated
Source of Revenue: Legislative appropriations, 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 20.53% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: See <i>Arizona Criminal Justice Commission</i> . The FY 2014 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2013, 1 st Special Session, Chapter 5) permitted the Attorney General to use State Aid to Indigent Defense Fund monies in FY 2014 for capital postconviction prosecution. The FY 2015 (Laws 2014, Chapter 12) and FY 2016 (Laws 2015, Chapter 17) Criminal Justice BRBs continued this practice.		
Funds Expended	726,200	799,400
Year-End Fund Balance	85,800	0
Victim Witness Assistance Fund (AGA2228/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants from the Victim Compensation and Assistance Fund and the Victims of Crime Act Fund.		
Purpose of Fund: To assist crime victims and surviving family members who are involved in felony cases and appellate matters.		
Funds Expended	58,500	57,300
Year-End Fund Balance	0	0
Victims' Rights Fund (AGA3215/A.R.S. § 41-191.08)		Appropriated
Source of Revenue: 7.68% of Criminal Justice Enhancement Fund monies and an assessment on parents of juvenile offenders. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For states and local entities that provide victims' rights services and assistance.		
Funds Expended	3,752,600	3,759,400
Year-End Fund Balance	2,996,700	2,597,300

Automobile Theft Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	128,800
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	148,500
Equipment	18,700	30,000	30,000
OPERATING SUBTOTAL	481,200	639,800	639,800
SPECIAL LINE ITEMS			
Automobile Theft Authority Grants	4,579,800	4,607,700	4,607,700
Reimbursable Programs	5,000	50,000	50,000
AGENCY TOTAL	5,066,000	5,297,500	5,297,500
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Automobile Theft Authority Fund	5,066,000	5,297,500	5,297,500
SUBTOTAL - Other Appropriated Funds	5,066,000	5,297,500	5,297,500
SUBTOTAL - Appropriated Funds	5,066,000	5,297,500	5,297,500
Other Non-Appropriated Funds	0	66,500	66,500
TOTAL - ALL SOURCES	5,066,000	5,364,000	5,364,000

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 Baseline includes \$639,800 and 6 FTE Positions from the ATA Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Automobile Theft Authority Grants

The Baseline 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 2016, 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 \$831,700 is expected to be 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 Baseline 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.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

The Automobile Theft Authority shall submit a report to the Joint Legislative Budget Committee for review 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.

Other Issues

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 2015 and FY 2016 by recipient and category.

Table 1

ATA Grant Recipients

<u>Recipient</u>	<u>FY 2015</u>	<u>FY 2016</u>
Arizona Vehicle Theft Task Force (DPS)	\$ 3,943,000	\$ 3,650,000
Vertical Prosecution Grants		
Maricopa County Attorney	\$ 255,000	\$ 283,600
Pima County Attorney	83,000	108,100
Pinal County Attorney	152,500	201,600
La Paz County Attorney	0	119,800
Mohave County Attorney	0	90,700
Santa Cruz County Attorney	35,800	27,900
Subtotal	\$ 526,300	\$ 831,700
Law Enforcement Grants		
Casa Grande Police Department	\$ 23,700	\$ -
Florence Police Department	8,900	-
Gilbert Police Department	0	-
Maricopa County Sheriff	11,400	-
Maricopa Police Department	0	-
Phoenix Police Department	11,400	-
Quartzsite Police Department	23,200	-
Subtotal	\$ 78,600	\$ 103,600^{1/}
Professional Training Grants		
Arizona Department of Public Safety	\$ 2,400	\$ -
Arizona Department of Transportation	1,000	-
Chandler Police Department	600	-
Douglas Police Department	3,200	-
La Paz County Attorney	900	-
Maricopa County Attorney	2,700	-
Maricopa County Sheriff	1,400	-
Peoria Police Department	1,000	-
Pima County Attorney	2,800	-
Pima County Sheriff	2,400	-
Pinal County Attorney	300	-
Prescott Police Department	900	-
Prescott Valley Police Department	1,100	-
Tempe Police Department	1,000	-
Yuma Police Department	1,200	-
Subtotal^{2/}	\$ 22,800	\$ 9,500^{1/}
Public Awareness Grants		
Arizona Department of Public Safety	\$ 7,600	\$ 0
Prescott Valley Police Department	1,400	0
Subtotal	\$ 9,000	\$ 0
Discretionary Grants	\$ 0	\$ 12,900
TOTAL^{2/}	\$4,579,800	\$4,607,700

^{1/} Represents total allocations approved by the Automobile Theft Authority Board. Specific awards are yet to be determined.

^{2/} Numbers do not sum due to rounding.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Automobile Theft Authority Fund (ATA2060/A.R.S. § 41-3451)		Appropriated
Source of Revenue: A semi-annual fee of \$0.50 per vehicle insured under a motor vehicle liability insurance policy for vehicles with a gross weight under 26,000 pounds.		
Purpose of Fund: To allocate monies to public agencies for the purpose of establishing, maintaining and supporting programs that are designed to prevent motor vehicle theft, and to cover the costs of administration not to exceed 10% of the fund.		
Funds Expended	5,066,000	5,297,500
Year-End Fund Balance	2,645,000	3,096,800
Settlement Fund (ATA1991/A.R.S. § 41-3451)		Non-Appropriated
Source of Revenue: Revenues from settlements issued by the courts.		
Purpose of Fund: To provide grants to law enforcement agencies for metal management training.		
Funds Expended	0	66,500
Year-End Fund Balance	125,000	66,500

Board of Barbers

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	5,000
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	37,300
AGENCY TOTAL	306,200	335,400	335,400

FUND SOURCES

Other Appropriated Funds

Board of Barbers Fund	306,200	335,400	335,400
SUBTOTAL - Other Appropriated Funds	306,200	335,400	335,400
SUBTOTAL - Appropriated Funds	306,200	335,400	335,400
TOTAL - ALL SOURCES	306,200	335,400	335,400

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

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$335,400 and 4 FTE Positions from the Board of Barbers Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Barbers Fund (BBA2007/A.R.S. § 32-305)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of barbers, barber schools, and barbering establishments. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate barbers, barber schools, and barbering establishments, and for board administration.		
Funds Expended	306,200	335,400
Year-End Fund Balance	493,800	566,400

Board of Behavioral Health Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	330,800
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	208,100
Equipment	3,100	10,000	10,000
AGENCY TOTAL	1,562,500	1,760,500	1,760,500

FUND SOURCES

Other Appropriated Funds

Board of Behavioral Health Examiners Fund	1,562,500	1,760,500	1,760,500
SUBTOTAL - Other Appropriated Funds	1,562,500	1,760,500	1,760,500
SUBTOTAL - Appropriated Funds	1,562,500	1,760,500	1,760,500
TOTAL - ALL SOURCES	1,562,500	1,760,500	1,760,500

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 Baseline includes \$1,760,500 and 17 FTE Positions from the Board of Behavioral Health Examiners Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Behavioral Health Examiners Fund (BHA2256/A.R.S. § 32-3254)		Appropriated
Source of Revenue: Monies collected by the board from the certification and regulation of behavioral health professionals in the fields of social work, counseling, marriage and family therapy, and substance abuse counseling. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, certify, investigate, and regulate behavioral health professionals, and for board administration.		
Funds Expended	1,562,500	1,760,500
Year-End Fund Balance	1,398,000	1,271,200

State Board for Charter Schools

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	272,500
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	208,600
Equipment	13,800	11,500	4,700
AGENCY TOTAL	896,400	1,200,900	1,194,100
FUND SOURCES			
General Fund	896,400	1,200,900	1,194,100
SUBTOTAL - Appropriated Funds	896,400	1,200,900	1,194,100
Other Non-Appropriated Funds	99,400	48,500	48,500
TOTAL - ALL SOURCES	995,800	1,249,400	1,242,600

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 557 charter schools.

Operating Budget

The Baseline includes \$1,194,100 and 14 FTE Positions from the General Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

One-Time Equipment

GF

\$(6,800)

The Baseline includes a decrease of \$(6,800) from the General Fund in FY 2017 for the elimination of one-time equipment.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Charter Arizona Online Instruction Processing Fund (CHA2319/A.R.S. § 15-183W)		Non-Appropriated
Source of Revenue: Consists of fees collected and administered by the State Board for Charter Schools.		
Purpose of Fund: To fund the processing of contract amendments for charter schools participating in Arizona online instruction.		
Funds Expended	3,000	3,000
Year-End Fund Balance	0	0
Implementation Project Fund (CHA2025/A.R.S. § 15-182)		Non-Appropriated
Source of Revenue: Consists of funds from private donations and Governor's Office of Education Innovation		
Purpose of Fund: To fund the creation of the board's Performance Framework, automation of the academic dashboard development, improvements to online modules, conferences, and training.		
Funds Expended	0	0
Year-End Fund Balance	5,500	5,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
New Charter Application Processing Fund (CHA2568/A.R.S. § 15-183.01)		Non-Appropriated
Source of Revenue: Consists of fees collected and administered by the State Board for Charter Schools		
Purpose of Fund: To fund the processing of applications submitted for new charters.		
Funds Expended	96,400	45,500
Year-End Fund Balance	46,600	46,600

Department of Child Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,045.1	3,057.1	3,057.1
Personal Services	102,946,200	117,088,500	117,088,500
Employee Related Expenditures	44,976,800	50,218,900	50,218,900
Professional and Outside Services	10,176,900	9,849,800	9,849,800
Travel - In State	2,907,900	2,997,000	2,997,000
Travel - Out of State	5,400	5,100	5,100
Other Operating Expenditures	32,108,000	27,684,000	27,684,000
Equipment	9,513,100	1,334,000	1,334,000
OPERATING SUBTOTAL	202,634,300	209,177,300	209,177,300
SPECIAL LINE ITEMS			
Additional Operating Resources			
Attorney General Legal Services	19,653,300	19,615,500	19,615,500
General Counsel	80,300	156,100	156,100
Inspections Bureau	702,300	2,486,500	2,486,500
Internet Crimes Against Children	325,000	350,000	0
Office of Child Welfare Investigations	4,324,500	10,706,700	10,706,700
Overtime Pay	13,515,000	8,400,000	8,400,000
Records Retention Staff	569,900	595,600	595,600
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	206,301,000
Emergency and Residential Placement	92,457,500	78,106,300	76,306,300
Foster Care Placement	56,165,900	60,981,300	52,679,000
Grandparent Stipends	841,200	1,000,000	1,000,000
Independent Living Maintenance	4,109,800	3,469,300	3,469,300
Permanent Guardianship Subsidy	11,882,600	12,215,300	12,215,300
Support Services			
DCS Child Care Subsidy	44,761,800	39,753,600	39,753,600
In-Home Preventive Support Services	17,912,500	35,214,400	36,432,300
Intensive Family Services	8,500,000	8,500,000	8,500,000
Out-of-Home Support Services	178,206,800	143,629,900	140,169,900
AGENCY TOTAL	846,238,200	847,515,800	834,821,400
FUND SOURCES			
General Fund	360,980,300	356,448,200	347,690,000
<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	207,900
Federal CCDF Block Grant	27,000,000	27,000,000	27,000,000
Federal TANF Block Grant	132,000,400	132,000,400	132,000,400
SUBTOTAL - Other Appropriated Funds	160,361,400	160,667,600	160,667,600
SUBTOTAL - Appropriated Funds	521,341,700	517,115,800	508,357,600
<u>Expenditure Authority Funds</u>			
Child Safety Expenditure Authority	324,896,500	330,400,000	326,463,800
SUBTOTAL - Expenditure Authority Funds	324,896,500	330,400,000	326,463,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	846,238,200	847,515,800	834,821,400

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
Other Non-Appropriated Funds	1,200	1,100	1,100
TOTAL - ALL SOURCES	846,239,400	847,516,900	834,822,500

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.

Summary

DCS' FY 2017 General Fund Baseline spending would decrease by \$(8,758,200), or (2.5)%. The Baseline includes:

- \$4,000,000 for preventive services.
- \$(12,408,200) to remove one-time FY 2015 funding related to the backlog of 60-day non-active cases.
- \$(350,000) to consolidate Internet Crimes Against Children (ICAC) funding in the Attorney General budget.

With the exception of the ICAC transfer, the Baseline changes are based on the Executive's May 2014 Special Session proposal, which was subsequently incorporated into the Legislature's 3-year FY 2016 spending plan.

Other Funding

The Arizona Department of Administration (ADOA) was originally appropriated \$25,000,000 from the General Fund in FY 2015 for one-time costs associated with the establishment of DCS. The FY 2016 General Appropriation Act subsequently reduced this amount to \$19,500,000, but also made the monies available through the end of FY 2016.

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 Baseline includes an additional \$5,000,000 in FY 2017. *(Please see ADOA - Automation Projects Fund section for details regarding this information technology project.)*

Consistent with the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan, \$5,000,000 was added for CHILDS replacement in FY 2017, but the one-time transition \$19,500,000 was not

continued in FY 2016. *(Please see ADOA - DCS section for further details.)*

Backlog

On June 2, 2014, DCS reported 13,024 backlog cases. Backlog means non-active cases for which documentation has not been entered in the child welfare automated system (CHILDS) for at least 60 days and for which services have not been authorized 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. The Baseline incorporates this estimate.

Relative to the 13,024 June 2 backlog cases, DCS had initially either activated the cases or closed them. In terms of the current activity, the department reported 14,392 backlog cases as of December 14, 2015, including 1,715 June 2 cases that had relapsed back into inactivity.

Operating Budget

The Baseline includes \$209,177,300 and 2,657.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$87,808,700
Children and Family Services Training Program Fund	207,900
Federal TANF Block Grant	46,928,000
Child Safety Expenditure Authority	74,232,700

These amounts are unchanged from FY 2016.

Additional Operating Resources

Attorney General Legal Services

The Baseline includes \$19,615,500 and 234.2 FTE Positions in FY 2017 for Attorney General Legal Services. These amounts consist of:

General Fund	13,696,900
Federal TANF Block Grant	99,400
Child Safety Expenditure Authority	5,819,200

These amounts are unchanged from FY 2016.

Monies in this line item fund the attorneys and support staff in the Attorney General's Protective Services Section. Attorney General staff represents DCS in dependency, guardianship, severance and adoption proceedings throughout the state.

General Counsel

The Baseline includes \$156,100 and 1 FTE Position from the General Fund in FY 2017 for General Counsel. These amounts are unchanged from FY 2016.

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 Baseline includes \$2,486,500 and 31 FTE Positions in FY 2017 for the Inspections Bureau. These amounts consist of:

General Fund	1,335,900
Federal TANF Block Grant	549,700
Child Safety Expenditure Authority	600,900

These amounts are unchanged from FY 2016.

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 Baseline includes no funding from the General Fund in FY 2017 for ICAC. FY 2017 adjustments would be as follows:

Funding Transfer	GF	(350,000)
The Baseline 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.

Laws 2015, Chapter 245 established the Internet Crimes Against Children Fund, consisting of a \$900,000 allocation from state lottery proceeds to the Attorney General, who will distribute the monies to AZICAC. *(Please see the Attorney General and the Arizona State Lottery Commission narratives for more information.)*

Office of Child Welfare Investigations

The Baseline includes \$10,706,700 and 127 FTE Positions in FY 2017 for the Office of Child Welfare Investigations (OCWI). These amounts consist of:

General Fund	9,562,700
Child Safety Expenditure Authority	1,144,000

These amounts are unchanged from FY 2016.

Monies in this line item fund OCWI, which investigates criminal conduct allegations of child abuse in conjunction with local law enforcement. As of November 2015, the department had hired 77 of 127 appropriated FTE Positions.

Overtime Pay

The Baseline includes \$8,400,000 in FY 2017 for Overtime Pay. This amount consists of:

General Fund	2,610,700
Federal TANF Block Grant	3,859,500
Child Safety Expenditure Authority	1,929,800

These amounts are unchanged from FY 2016.

Monies in this line item fund overtime pay for DCS.

General Fund	150,000
Child Safety Expenditure Authority	5,000,000

Records Retention Staff

The Baseline includes \$595,600 and 5 FTE Positions in FY 2017 for Records Retention Staff. These amounts consist of:

General Fund	498,400
Child Safety Expenditure Authority	97,200

These amounts are unchanged from FY 2016.

Monies in this line item fund staff that process information requests about children in the state child welfare system.

Retention Pay

The Baseline 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, effective July 1, 2014. Retention pay is a one-time lump sum payment upon meeting the longevity requirements.

Pursuant to Laws 2014, 2nd Special Session, Chapter 2, DCS reported on the impact of the Retention Pay program through May 2015. DCS provided a 6-month comparison of the caseworker retention rate. During the 6-month period from December 2013 to May 2014 (prior to implementation of the retention stipend), the annualized caseworker retention rate was 77.9%. From December 2014 to May 2015 (after the implementation of the retention stipend), the 6-month caseworker retention rate declined to 70.4%.

DCS paid retention stipends to 333 caseworkers, including 273 caseworkers who reached the 18-month mark and 60 caseworkers who reached the 36-month mark. As of May 2015, of the 333 caseworkers who had received retention stipends, 62 later separated from DCS.

In December 2015, DCS reported a caseworker retention rate of 64.6% for the 6-month period from January 2015 to June 2015.

Training Resources

The Baseline includes \$5,150,000 in FY 2017 for Training Resources. This amount consists of:

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 Baseline includes \$206,301,000 in FY 2017 for Adoption Services. This amount consists of:

General Fund	69,965,800
Federal TANF Block Grant	20,645,700
Child Safety Expenditure Authority	115,689,500

These amounts are unchanged from FY 2016.

Caseload – In FY 2015, a monthly average of 20,894 clients received adoption subsidies; the average monthly subsidy for FY 2015 was \$749. The appropriation funds 22,953 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 Baseline includes \$76,306,300 in FY 2017 for Emergency and Residential Placement. This amount consists of:

General Fund	31,228,000
Federal TANF Block Grant	16,423,000
Child Safety Expenditure Authority	28,655,300

FY 2017 adjustments would be as follows:

Deferral Reallocation GF (1,800,000)

The Baseline includes a decrease of \$(1,800,000) from the General Fund in FY 2017 to consolidate deferral resources in the Out-of-Home Support Services line item, as requested by DCS. There is no net change in agency resources.

Caseload – In FY 2015, a monthly average of 518 children received emergency placement services while 2,093 children received residential (non-foster care) placement services. At an average monthly cost of \$2,623 per emergency placement and \$3,066 per residential placement, funding in this line is sufficient for an average monthly caseload of 412 emergency placements and 1,721 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 Baseline includes \$52,679,000 in FY 2017 for Foster Care Placement. This amount consists of:

General Fund	21,743,600
Federal TANF Block Grant	6,973,100
Child Safety Expenditure Authority	23,962,300

FY 2017 adjustments would be as follows:

Remove One-Time Funding GF (4,543,900) EA (1,858,400)

The Baseline includes a decrease of \$(6,402,300) in FY 2017 to remove the remaining FY 2015 backlog funding. This change is consistent with the Executive’s May 2014 Special Session proposal and the Legislature’s 3-year spending plan. This amount consists of:

General Fund	(4,543,900)
Child Safety Expenditure Authority	(1,858,400)

(Please see the Other Issues section for further discussion of the 3-year spending plan.)

Deferral Reallocation GF (1,900,000)

The Baseline includes a decrease of \$(1,900,000) from the General Fund in FY 2017 to consolidate deferral resources in the Out-of-Home Support Services line item, as requested by DCS. There is no net change in agency resources.

Caseload – In FY 2015, a monthly average of 6,758 clients received licensed foster care services; the average monthly cost for FY 2015 was \$674. Because the Legislature increased the monthly subsidy for clients older than 12 to \$816 starting in FY 2016, the new average subsidy will be higher in FY 2016 and FY 2017. At an average monthly cost of \$710 per foster placement, funding in this line is sufficient for an average monthly caseload of 6,183 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 Baseline 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 would fund 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 Baseline includes \$3,469,300 in FY 2017 for Independent Living Maintenance. This amount consists of:

General Fund	2,719,300
Child Safety Expenditure Authority	750,000

These amounts are unchanged from FY 2016.

Caseload – In FY 2015, a monthly average of 509 clients received independent living maintenance services; the average monthly subsidy for FY 2015 was \$616. The appropriation funds 469 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 Baseline includes \$12,215,300 in FY 2017 for the Permanent Guardianship Subsidy. This amount consists of:

General Fund	10,472,300
Federal TANF Block Grant	1,743,000

These amounts are unchanged from FY 2016.

Caseload – In FY 2015, a monthly average of 2,573 clients received permanent guardianship subsidies; the average monthly subsidy for FY 2015 was \$380. The appropriation funds 2,679 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 Baseline includes \$39,753,600 in FY 2017 for the DCS Child Care Subsidy. This amount consists of:

General Fund	5,000,000
Federal CCDF Block Grant	27,000,000
Child Safety Expenditure Authority	7,753,600

These amounts are unchanged from FY 2016.

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 8,240 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 Baseline includes \$36,432,300 and 1 FTE Position in FY 2017 for In-Home Preventive Support Services. These amounts consist of:

General Fund	17,011,900
Federal TANF Block Grant	5,911,200
Child Abuse Prevention Fund	1,459,300
Child Safety Expenditure Authority	12,049,900

FY 2017 adjustments would be as follows:

Remove One-Time Funding GF (2,782,100)
 The Baseline includes a decrease of \$(2,782,100) from the General Fund in FY 2017 to remove the remaining FY 2015 backlog funding. This change is consistent with the

Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan.

Additional Preventive Services GF 4,000,000

The Baseline includes an increase of \$4,000,000 from the General Fund in FY 2017 to provide additional preventive services, as outlined in the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. This same plan previously added \$4,000,000 in FY 2016. In total, the plan will add \$8,000,000 to preventive services over 2 years.

(Please see the Other Issues section for further discussion of the 3-year spending plan.)

Caseload – For August 2015, the department reported 9,028 in-home cases.

Background – Monies in this line item fund support services for families whose children are at risk of out-of-home placement due to abuse, neglect, or dependency. These support services include parent aide, in-home services, counseling and psychology, lab services, substance abuse treatment, and other miscellaneous services.

Table 1 shows DCS' estimated FY 2017 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.

Intensive Family Services

The Baseline includes \$8,500,000 from the General Fund in FY 2017 for Intensive Family Services. This amount is unchanged from FY 2016.

In FY 2014, the Legislature restored funding for Intensive Family Services. The program provides contracted intensive, time-limited services to families whose children are at risk of out-of-home placement due to abuse, neglect, or dependency. In FY 2015, this program served 2,908 families at an average cost per case of \$2,920. Based on that average case cost, funding is sufficient to provide Intensive Family Services to 5,386 families in FY 2017.

During the 2013 Legislative Session, some proponents of the new funding thought that DES would contract with a specific vendor that would coordinate a package of services to high risk families to keep the children in the home. To distinguish these funds from existing DES

Table 1
In-Home and Out-of-Home Support Services^{1/}
FY 2015 Actual Expenditures by Subcategory

<u>Services</u>	<u>Amount</u>
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.

services, the monies were placed in a new budget line item. Other proponents may have viewed the funding as a supplement to existing funding.

In September 2015, the Joint Legislative Budget Committee favorably reviewed DCS' FY 2016 Intensive Family Services expenditure plan with the provisions that a favorable review expires with federal approval or disapproval of the Title IV-E waiver and the department release a Request for Proposal prior to the final approval of the Title IV-E waiver. *(Please see the Other Issues section for further details on the IV-E waiver.)*

Out-of-Home Support Services

The Baseline includes \$140,169,900 in FY 2017 for Out-of-Home Support Services. This amount consists of:

General Fund	62,522,700
Federal TANF Block Grant	28,867,800
Child Safety Expenditure Authority	48,779,400

FY 2017 adjustments would be as follows:

Remove One-Time Funding **GF** **(5,082,200)**
EA **(2,077,800)**

The Baseline includes a decrease of \$(7,160,000) in FY 2017 to remove the remaining FY 2015 backlog funding. This change is consistent with the Executive’s May 2014 Special Session proposal and the Legislature’s 3-year spending plan. This amount consists of:

General Fund (5,082,200)
 Child Safety Expenditure Authority (2,077,800)

(Please see the Other Issues section for further discussion of the 3-year spending plan.)

Deferral Reallocation **GF** **3,700,000**

The Baseline includes an increase of \$3,700,000 from the General Fund in FY 2017 to consolidate deferral resources in the Out-of-Home Support Services line item, as requested by DCS. There is no net change in agency resources.

Caseload – For August 2015, the department reported 18,579 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.

Table 2

Arizona Families F.I.R.S.T.				
	FY 2014	FY 2015	FY 2016	FY 2017
	<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
<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	<u>\$9,803,300</u>	<u>\$8,922,500</u>	<u>\$8,916,900</u>	<u>\$9,342,200</u>

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.

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 Comprehensive Medical and Dental program (CMDP) provide medical services to children who are not eligible for coverage through the Arizona Health Care Cost Containment System (AHCCCS). The Department of Health Services (DHS) provides behavioral health services for foster children.

The Baseline also includes \$11,000,000 in deferred FY 2016 General Fund payments appropriated in FY 2017 by Laws 2015, Chapter 8 and it defers \$11,000,000 for FY 2017 to FY 2018. As a result, the FY 2017 General Fund amount of \$62,522,700 would consist of \$11,000,000 from Chapter 8 and \$51,522,700 from the FY 2017 General Appropriation Act. *(Please see the Other Issues section for further details on the payment deferral.)*

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes
Operating Resources

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.

It is the intent of the Legislature that the Department of Child Safety use its funding to achieve a 100% investigation rate.

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.

Out-of-Home Placements

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.

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.

Support Services

It is the intent of the Legislature that the amount appropriated for the In-Home Preventive Support Services line item 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.

Before the expenditure of monies from the Intensive Family Services line item in FY 2017, the Department of Child Safety shall submit an expenditure plan for review by the Joint Legislative Budget Committee that includes an estimate of any comparable funding in the In-Home Preventive Support Services line item.

Departmentwide

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 practices. *(The footnote is updated for the most recent audit of risk assessment practices.)*

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.

On or before September 30, 2016, and on or before the last day of every calendar quarter through June 30, 2017, the department shall present a report for review by the Joint Legislative Budget Committee on the progress made in increasing the department's number of filled FTE Positions and in reducing the number of backlog cases. The quarterly benchmark report shall delineate the number of backlog cases where an initial investigation has not been completed and be in the same format as in prior years unless modifications have been approved by the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting.

New Footnotes (FY 2016)

In FY 2016, the Department of Economic Security shall transfer \$6,752,300 of their FY 2016 TANF Block Grant appropriation from the TANF Cash Benefits line to the Department of Child Safety. The Department of Child Safety shall transfer a corresponding \$6,752,300 of their FY 2016 General Fund appropriation to the Department of Economic Security. The Department of Economic Security shall use these funds to draw down FY 2016 capitation for the Division of Developmental Disabilities. The Department of Economic Security shall request Joint Legislative Budget Committee review before expending monies for any other purpose.

New Footnotes (FY 2017)

In FY 2017, the Department of Economic Security shall transfer \$3,971,700 of their FY 2017 TANF Block Grant appropriation from the TANF Cash Benefits line to the Department of Child Safety. The Department of Child Safety shall transfer a corresponding \$3,971,700 of their FY 2017 General Fund appropriation to the Department of Economic Security.

(There would be no net change in DCS resources under these transfer footnotes. Exchanging General Fund for TANF Block Grant would also not affect DCS' ability to draw down Federal Funds. DCS has at least 2 line items (Intensive Family Services and Permanent Guardianship) where the General Fund is not being used as federal match. This footnote would only appear in the DES and DCS sections of the General Appropriation Act.)

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 prior to expenditure. (DCS has been using monies from the operating budget to supplement its Attorney General Legal Services funding. This footnote would consolidate all Attorney General expenditures into the proper line item.)

Deletion of Prior Year Footnotes

The Baseline would delete footnotes concerning ICAC, the backlog Request for Proposals, and phase-out of backlog resources.

STATUTORY CHANGES

The Baseline would:

- As session law, in the General Appropriation Act, continue to defer \$11,000,000 in General Fund payments for FY 2017 until FY 2018. Appropriate \$11,000,000 in FY 2018 for these deferred payments.
- As session law, continue to require the Early Childhood Development and Health Board and DCS to report with DCS on their collaborative efforts to address child welfare issues of common concern.
- As session law, require the Auditor General to evaluate DCS' substance abuse treatment program. Other possible additional Auditor General topics include training, retention, staff utilization, investigative practices, provision of services, behavioral health services, and foster home placement practices. (For more information, please see the Auditor General section in Other Issues.)

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Independent Consultant
- Auditor General Recommendation
- Title IV-E Waiver
- CMDP Reform
- Caseworker Hiring
- Caseworker Workload
- Payment Deferral
- TANF Block Grant
- DCS Reporting Requirements
- DCS Year-End Transfers
- Child Safety Funding

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, DCS General Fund costs are projected to decrease by \$(8,758,200) below FY 2016 and remain flat in FY 2018 and FY 2019

compared to FY 2017. This reduction includes \$(12,408,200) to remove one-time backlog funding, \$(350,000) to transfer ICAC to the Attorney General and \$4,000,000 for preventive services. Table 3 shows the General Fund budget changes by line item. These estimates are based on the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan.

Line Items	FY 2017	FY 2018	FY 2019
Foster Care	\$ 21,743,600	\$ 21,743,600	\$ 21,743,600
Out-of-Home Support Services	62,522,700	62,522,700	62,522,700
In-Home Preventive Support Services	17,011,900	17,011,900	17,011,900
ICAC	0	0	0
Other Line Items	<u>246,411,800</u>	<u>246,411,800</u>	<u>246,411,800</u>
Total General Fund	\$347,690,000	\$347,690,000	\$347,690,000
Change from Prior Year			
Subtotal - Backlog	(12,408,200)	-	-
Subtotal - ICAC	(350,000)	-	-
Subtotal - Preventive	<u>4,000,000</u>	-	-
Total Change	\$ (8,758,200)	-	-

Independent Consultant

Laws 2014, 2nd Special Session, Chapter 1 required the Auditor General to retain an independent consultant with expertise in child welfare system planning and operations to examine the current child safety system and consider best practices to improve the delivery of services in Arizona and provide consultation on the effective establishment of DCS with a focus on certain challenges. The Auditor General chose Chapin Hall at the University of Chicago as the independent consultant.

In its July 2015 report, Chapin Hall presented its findings. The main finding of the report addressed why child maltreatment reports grew by 30% from FY 2012 through FY 2014, when annual maltreatment reports for a number of years prior to FY 2012 had declined or been static. According to the report, "Taken together, a growing number of children, an increase in the number of children living in poverty, and reductions in core services likely combined to unravel the child protection system over a relatively short period of time."

Chapin Hall also found that although Arizona has an average reporting rate and a below average substantiation rate, the state's placement rate is above the average reported for other states. In addition, fewer children in Arizona are reunified with their parents when compared to other states. The report did not provide reasons for the differences.

Chapin Hall's recommendations were as follows: (1) improve the hotline, referral and investigative processes; (2) provide more preventive services; (3) increase the number of child safety attorneys; (4) bring caseworker workloads to pre-2009 levels and reduce entries into the system; (5) improve the quality of data collected; (6) introduce new evidence-based practices; (7) engage stakeholder and other constituents; (8) avoid, when possible, criminalizing parents in need of assistance.

Auditor General Recommendation

The FY 2016 Human Services Budget Reconciliation Bill (Laws 2015, Chapter 18) instructed the Auditor General to submit a report evaluating DCS' risk assessment practices. After receiving a report of child abuse or neglect, the primary responsibility of DCS is to assess whether (a) the child has been maltreated as defined in statute and (b) the child is unsafe and at risk of future maltreatment in their home. DCS' decision about whether to place a child in state care is based on the latter criterion.

Findings

Currently, DCS caseworkers use a risk assessment tool to document child safety and risk when investigating a report of child abuse or neglect. Rather than guiding caseworkers through a structured assessment that lists potential threats and risk factors, DCS' risk assessment tool is narrative-based and requires caseworkers to use a story style of reporting. The Auditor General indicates that the lack of structure in DCS risk assessment tool contributes to subjective caseworker decision-making in their assessment of child safety and risk.

If the investigation indicates that the removal of a child may be merited, DCS uses a Team Decision Making (TDM) process to determine whether to remove a child from their home. During the TDM meeting, caseworkers, family members, and other stakeholders discuss the safety and placement of the child, but the DCS caseworker and supervisor ultimately decide whether the child is to be removed. Some caseworkers, however, make their decision about child removal prior to the TDM meeting. The Auditor General believes that making removal determinations prior to the TDM meeting and the lack of available in-home services for families may be contributing to unnecessary child removals.

Recommendations

The report recommends that DCS (1) review other agencies' efforts to improve safety and risk assessments and determine whether these actions would improve its practices; (2) continue efforts to modify or replace its risk assessment tool to better guide caseworkers in assessing child safety and risk; (3) analyze risk assessment data to

identify trends; (4) reduce waitlists for in-home family services to improve safety planning; and (5) ensure caseworkers and supervisors have adequate training and mentoring.

The FY 2016 Human Services BRB also requires the Auditor General to evaluate the effectiveness of a differential response system by March 31, 2016 and DCS permanency practices by September 30, 2016.

The Baseline proposes the Auditor General evaluate DCS' substance abuse treatment program, Arizona Families F.I.R.S.T., and recommend improvements based on best practices in other states. The Auditor General would also review the effectiveness of the Center for Applied Behavioral Health Policy (CABHP) as the independent evaluator of the program. The FY 2014 CABHP report was a year late, and the FY 2015 report due in November 2015 has yet to be submitted. DCS has also questioned the validity of the report's data.

According to the National Center on Addiction and Substance Abuse at Columbia University, substance abuse is a factor in 70% of child maltreatment cases. A.R.S. § 8-884 requires an annual report on DCS' substance abuse treatment program.

Other possible DCS functions the Auditor General could also review include training, retention, staff utilization, investigative practices, provision of services, behavioral health services, and foster home placement practices.

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. 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 April 2016. HHS and DCS have agreed to the terms and conditions of the IV-E waiver, but HHS has not yet approved the department's specific plan for reducing the

number of children entering congregate care. The department's strategies to reduce the number of children entering congregate care include expanding (1) Team Decision Making (TDM); (2) in-home reunification or placement stabilization services and (3) kinship search practices.

The IV-E waiver effectively establishes a maximum federal funding level. The ceiling is adjusted upward each year for projected caseload growth. The state's federal match rate will also be adjusted for the federal medical assistance percentage (FMAP). *Table 4* shows the level of IV-E funding the waiver allocates to the state each federal fiscal year (FFY).

FFY	Amount
2016	\$179,348,300
2017	\$192,705,400
2018	\$209,119,800
2019	\$226,592,400

In the first year of the waiver in FFY 2016, the cap is \$179.3 million. By FFY 2019, the cap is \$226.6 million assuming a constant federal match rate. The waiver does not cap IV-E funding for (1) foster children between the ages of 18 and 21 participating in the Independent Living Maintenance program and (2) certain administrative costs including the Children's Information Library and Data Source system, training, and pre-placement activities. Since these areas are not capped, their IV-E funding is not included in *Table 4*. DCS spent \$195.6 million of IV-E funding in FY 2015, and it estimates IV-E expenditures of \$252.9 million in FY 2016.

Under the waiver, any IV-E funding DCS does not spend on traditional IV-E purposes, such as foster care or group home payments, can now be spent on in-home services, which are not normally eligible for IV-E funding.

If, however, caseload grows at a rate greater than the capped allocation, the state would be responsible for covering costs that would have otherwise been paid for with IV-E matching funds. DCS reports it could renegotiate the terms of the waiver agreement if caseload were to surpass the growth rate assumptions to help mitigate the risk.

DCS has contracted with ASU to create and design an evaluation plan for the waiver demonstration project.

In the event that the waiver agreement is not realized, DCS would continue to draw down uncapped federal IV-E monies.

CMDP Reform

Pursuant to Laws 2013, Chapter 220, AHCCCS, DCS and DHS have reported on the methods for delivering medical, dental and behavioral health services to foster children who qualify for CMDP.

The agencies recommend that the state transition to an integrated CMDP contracted network model beginning on October 1, 2019. Under this proposal, all aspects of CMDP would be consolidated into DCS, and DCS would contract directly with behavioral and physical health professionals to build its own provider network. This new proposal contrasts with the existing CMDP delivery model where DCS contracts for the physical health portion of CMDP and DHS contracts for the behavioral health component.

Besides integration of CMDP into DCS, the proposed CMDP contracted network model differs from the existing CMDP delivery mechanism in 2 main ways. First, the proposed contracted network model would allow DCS to contract for specialty healthcare services, rather than be limited to the AHCCCS registered healthcare providers and AHCCCS fee-for-service rates. Second, the proposed contracted network model would not contract with a private managed care organization (e.g., a Regional Behavioral Health Authority) to administer or build a provider network for CMDP behavioral health.

Because DCS will essentially operate its own health plan under this proposal, the report estimates the cost for DCS to develop the required infrastructure to be in the tens of millions of dollars.

To implement the integrated CMDP contracted network model, the report recommends the following:

- Change statute to allow CMDP to contract their network to quality providers rather than utilize any AHCCCS registered provider.
- Change statute to provide flexibility on CMDP rate reimbursement structure (i.e., provider rates no longer tied to AHCCCS fee schedule).
- Sufficiently fund the development of CMDP infrastructure to function as a health plan (estimated to be tens of millions of dollars) as CMDP will be overseeing nearly 5 times the services/expenditures that they currently do.

AHCCCS estimates a physical health CMDP caseload of approximately 17,900 children in FY 2016, with a total funds cost of \$55.5 million. The total funds cost includes about \$7.2 million for DCS to administer physical health CMDP.

Caseworker Hiring

The Legislature appropriated an additional 212 new caseworkers (direct line staff) to DCS in 2014. *Table 5* displays DCS progress in hiring these staff.

Table 5

Direct Line Staff Type	Change in Staff Since January 2014		Change Thru Jan. 2014
	Jan. 2014	Dec. 14, 2015	
Case-Carrying Caseworkers	983	947	(36)
Caseworkers in Training	137	257	120
Hotline Staff	70	75	5
Total	1,190	1,279	89

Since 2014, the number of direct line child safety staff (caseworkers, caseworkers in training, and hotline staff) has increased by 89 to 1,279. The number of staff directly working cases, however, has decreased by (36) FTE Positions to 947. About 20% of direct line staff, or 257 positions, are in training.

DCS' highest hiring level occurred in April 2015 with 1,357 direct line staff.

Caseworker Workload

As of June 2015, workload per caseworker remains higher than the revised caseload goals established during the May 2014 Special Session, with investigations at 18 (goal: 13), in-home at 44 (goal: 33), and out-of-home at 30 (goal: 20). *Table 6* 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 June 2015, the latest data available, caseworker workload was 44% above the standard.

Table 6

	Caseworker Workload							
	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	June 2015
Investigations	15	15	15	15	15	16	16	18
In-Home Cases	28	27	30	32	33	47	42	44
Out-of-Home Children	24	23	25	27	36	25	29	30
Percent Above Workload Standard	9%	9%	15%	22%	48%	28%	37%	44%
Total Case-Carrying Caseworkers	818	761	764	781	750	983	1,019	1,025
Caseworkers Required by Standard	890	829	879	955	1,107	1,263	1,397	1,473

Payment Deferral

The Baseline continues the \$11.0 million payment deferral from FY 2017 to FY 2018. DCS plans to defer a total of \$11.0 million in payments from the Out-of-Home Support Services line item. *Table 7* displays the department's allocation of the deferral from FY 2016 through FY 2018.

The \$11.0 million in FY 2017 to pay the amount deferred from FY 2016 to FY 2017 was appropriated in Laws 2015, Chapter 8, so this adjustment does not appear in the General Appropriation Act; however, the amount is included in the General Fund amount for DCS in this section. As a result, the FY 2017 General Fund amount of \$347.7 million consists of \$11.0 million from the deferral appropriation and \$336.7 million from the General Appropriation Act.

Table 7

Line Items	Agency Deferral Allocation by Fiscal Year		
	FY 2016	FY 2017	FY 2018
Emergency and Residential	\$ 1,800,000	-	-
Foster Care	1,900,000	-	-
Out-of-Home Support Services	7,300,000	11,000,000	11,000,000
Total General Fund	\$11,000,000	\$11,000,000	\$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.

TANF Cash Benefits Surplus

TANF Cash Benefits caseloads have been declining over the past several years which is estimated to leave a surplus in FY 2016 and FY 2017 of \$13.4 million and \$17.8 million, respectively. The higher surplus estimate in FY 2017 is primarily due to a provision in Laws 2015, Chapter 18 that reduces the cumulative lifetime limit on regular TANF Cash Benefits from 24 months to 12 months starting on July 1, 2016. The FY 2016 budget assumed that DES would be able to utilize these surplus TANF funds to address a shortfall in the SFLTC line in FY 2016, and to create \$(9.0) million of General Fund savings in FY 2017.

In order to cover the FY 2016 shortfall and to realize General Fund savings in FY 2017, DES would need to allocate the surplus TANF dollars to offset General Fund spending in non-DD areas of DES. However, DES states that all of their General Fund dollars are being used to meet MOE requirements, leverage Federal Funds, or for purposes that do not qualify for TANF spending. Therefore, the SFLTC shortfall and the assumed FY 2017 savings may not be able to be addressed with General Fund dollars from DES.

The JLBC Staff has identified at least \$8.5 million in the DCS Intensive Family Services line and at least \$10.5 million in the DCS Permanent Guardianship line of General Fund dollars that may be eligible to be replaced with TANF surplus dollars instead of using General Fund from DES.

The Baseline includes a new footnote requiring DES to transfer \$6.8 million of the Federal TANF Block Grant to DCS in FY 2016, and for DCS to transfer a corresponding \$6.8 million of General Fund to DES to allow DES to draw down FY 2016 capitation in the Division of Developmental Disabilities. In addition, DES is expected to transfer \$3.5 million of TANF from the Cash Benefits line to their operating budget, leaving an estimated \$3.1 million of surplus, unallocated TANF in FY 2016 (the \$3.5 million is not displayed in the FY 2016 column in the agency Baseline table.) To address the FY 2016 SFLTC shortfall issue, DES would require an additional transfer of \$2.9 million TANF for General Fund between DES and DCS. The Baseline does not address the SFLTC issue.

In FY 2017, the Baseline shifts \$3.5 million of TANF dollars from the Cash Benefits line to the operating budget to align appropriations with actual expenditures. The Baseline also shifts \$4.0 million of TANF dollars from the Cash Benefits line to a new TANF 1-year Cap Savings line, which represents the revised TANF savings associated with lowering the lifetime limit on benefits to 12 months. After these shifts, the TANF Cash Benefits line is expected

to have an additional TANF surplus of \$9.8 million in FY 2017 that may be eligible to use in DCS or DES.

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 Housing Assistance
- Independent Living Report
- FTE Position Report
- Quarterly Benchmark Report - tracks progress in hiring caseworkers and eliminating backlog of non-active cases
- 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
- Report on the Backlog RFI - follows up on a requirement for DCS to issue an RFI asking private vendors to eliminate the backlog.

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

Table 8

**DCS General Fund
FY 2015 Appropriation Transfers**

	FY 2015 GF Appropriation	FY 15 GF Transferred In/(Out)	FY 2015 Total GF Post Transfer	FY 2016 Appropriation
Operating Budget	\$ 77,606,400	\$ 5,513,800	\$ 83,120,200	\$ 87,808,700
Attorney General	12,798,500	1,450,300	14,248,800	13,696,900
OCWI	9,349,900	(5,000,000)	4,349,900	9,562,700
General Council	157,300	(70,000)	87,300	156,100
Inspections Bureau	2,748,400	(994,100)	1,754,300	1,335,900
Retention Pay	1,707,000	(900,000)	807,000	1,707,000
Adoption Services	62,965,800	(3,600,000)	59,365,800	69,965,800
Emergency and Residential Placement	38,128,000	1,690,000	39,818,000	33,028,000
Permanent Guardianship Subsidy	9,472,300	600,000	10,072,300	10,472,300
Independent Living Maintenance	2,719,300	(40,000)	2,679,300	2,719,300
Grandparent Stipends	1,000,000	(150,000)	850,000	1,000,000
In-Home Preventive Support Services	14,375,200	(12,000,000)	2,375,200	15,794,000
Out-of-Home Support Services	72,852,800	12,000,000	84,852,800	63,904,900
Child Care	5,000,000	1,500,000	6,500,000	5,000,000
GF Subtotal	310,880,900	-	310,880,900	316,151,600
All Other Line Items	50,124,500	-	50,124,500	40,296,600
Grand Total	\$ 361,005,400	-	\$ 361,005,400	\$ 356,448,200

reports, measures of child wellbeing, the caseworker 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.

DCS Year-End Transfers

DCS' appropriation delineates specific amounts for programs by line items. Agencies are generally permitted to shift funds among line items without further legislative review. This section details appropriation transfers between programs made by DCS at the end of FY 2015. The DCS budget is based on the FY 2015 appropriation before year-end transfers. The Legislature will need to determine whether to retain FY 2015 year-end transfers in the FY 2017 budget.

Table 8 outlines transfers of \$22.8 million in General Fund monies from one line item to another. The largest transfer was a transfer of \$12.0 million from In-Home Preventive Support Services to Out-of-Home Support Services. DCS also transferred \$5.0 million out of OCWI and \$3.6 million out of Adoption Services. The primary recipients of these transfers were the operating budget, the Attorney General line item, and Emergency and Residential Placement.

Due to scale and number of these transfers between line items, JLBC Staff has concerns that DCS may not be allocating resources in a manner that is consistent with legislative intent and recommends the Legislature consider a footnote requiring JLBC review before any transfer of resources among DCS line items.

Child Safety Funding

Table 9 shows how child welfare funding in Arizona compares to surrounding states. Arizona does appear to place more children in out-of-home care on a percentage basis than surrounding states. Of the population under 18, Arizona has 1.1% 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.

Arizona spends more on child welfare than surrounding states. The FY 2016 appropriation for DCS is \$849.2 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 9* 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 our

funding total. Other states, however, likely exclude child welfare central administrative costs that are born 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 9*, 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 10 shows the growth in state funding for child safety year over year since FY 2013. *Table 11* indicates the specific job titles of the 718 new child safety FTE Positions added since FY 2013, while *Table 12* displays total child safety expenditures since FY 2008.

Table 9

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	18,219	1.1%	\$356.5	\$160.6	\$332.1	\$849.2
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 July 2015 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.

Table 10

Increase in State Child Safety Funding ^{1/}
(\$ in Millions)

Staffing	FY 2013	FY 2014	FY 2015	FY 2015 SS	FY 2016	FY 2016	Total (FY 16 Above FY 12)	
Child Safety Staff (caseworkers & others)	\$4.8	\$12.9	^{2/}	\$15.3	\$6.2	(\$1.2)	^{3/} \$0.0	\$38.0
Child Safety Staff Pay Raise/Retention Stipend	1.0	0.0		0.0	1.7	0.0	0.0	2.7
OCWI Staff	2.3	0.0		1.8	5.3	0.2	0.0	9.6
Records Retention Staff	0.0	0.0		0.5	0.0	0.0	0.0	0.5
Child Safety Legal Staff	0.0	1.5		1.0	0.0	0.0	0.0	2.5
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	0.0	13.0		0.0	0.0	(5.1)	^{4/} 0.0	7.9
Congregate Care Backfill	0.0	0.0	^{5/}	0.0	6.5	0.0	0.0	6.5
Foster Care	0.0	4.8		0.0	0.0	2.7	^{4/} 0.0	7.5
Grandparent Stipends	0.0	1.0		0.0	0.0	0.0	0.0	1.0
Permanent Guardianship	2.4	0.0		0.0	0.0	1.0	0.0	3.4
Adoption Services	17.0	2.9		6.0	0.0	7.0	0.0	32.9
Services								
Intensive Family Services	0.0	5.0		3.5	0.0	0.0	0.0	8.5
Children Support Services	0.0	4.0		5.6	0.0	4.4	^{4/} 4.0	18.0
Child Safety Child Care	0.0	9.0		0.0	0.0	0.0	0.0	9.0
Backlog								
Backlog - Action Determination	0.0	0.0		0.0	0.2	(0.2)	0.0	0.0
Backlog - Investigation	0.0	0.0		0.0	4.2	(4.2)	0.0	0.0
Backlog - Out-of-Home Care Placement	0.0	0.0		0.0	6.8	(2.3)	(4.5)	0.0
Backlog - Out-of-Home Care Services	0.0	0.0		0.0	7.6	(2.5)	(5.1)	0.0
Backlog - In-Home Care Services	0.0	0.0		0.0	4.2	(1.4)	(2.8)	0.0
Other								
Training Resources	0.0	0.0		0.0	0.2	0.0	0.0	0.2
Internet Crimes Against Children	0.0	0.0		0.0	0.4	0.0	(0.4)	0.0
Partial Deferral Payoff	0.0	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	0.0	18.5
Contingency	0.0	10.5		0.0	0.0	0.0	0.0	10.5
Statewide Adjustments	0.0	0.0		0.0	0.0	(0.7)	0.0	(0.7)
Other Agency Funding								
New Agency One-Time Funding (ADOA) ^{6/}	0.0	0.0		20.0	5.0	(25.0)	0.0	0.0
CHILDS Replacement (ADOA)	0.0	0.0		5.0	0.0	(5.0)	5.0	5.0
Auditor General	0.0	0.0		0.0	0.3	(0.3)	0.0	0.0
Total ^{7/}	\$46.1	\$64.7		\$58.6	\$53.8	^{8/} (\$35.8)	(\$3.8)	\$183.6

^{1/} Each year shows the increase over the prior fiscal year. The FY 2015 and FY 2016 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 (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 (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 11

**New Child Safety FTE Positions
(All Funds)**

	<u>FY 2013</u>	<u>Part 1 FY 2014 1/</u>	<u>Part 2 FY 2014 2/</u>	<u>FY 2015</u>	<u>FY 2015 SS 3/</u>	<u>Total Change 4/</u>
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	-	-	-	22
AG Legal Staff (Direct) 6/	-	-	-	12	-	12
In-House Counsel	-	-	-	-	1	1
Inspections Bureau	-	-	-	-	21	21
Support Staff/Other	-	16	12	3	9	40
Subtotal - New	82	172	192	87	185	718
Transferred Staff	-	-	-	-	99 7/	99
Subtotal - New and Transferred	82	172	192	87	284	817
Total Child Safety Staff	N/A	N/A	N/A	N/A	N/A	3,057

- 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 12

**Child Safety Total Fund Expenditures
(\$ in Millions)**

<u>Fiscal Year</u>	<u>Expenditures</u>	<u>Reports of Child Maltreatment</u>
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/	\$849.2	12,796 3/
2017 Baseline	\$834.8	-

- 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 September 2015, which is 1.1% higher than September 2014.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Child Abuse Prevention Fund (CHA2162/A.R.S. § 8-550.01)		Appropriated
Source of Revenue: A portion of monies (1.93%) from statutory filing and copy fees collected by the Superior Court and all funds received through check-off contributions on the Arizona tax form. Monies also may come from a surcharge on certified copies of death certificates when revenues from the surcharge exceed \$100,000 for the year.		
Purpose of Fund: To provide financial assistance to community treatment programs, benefiting abused children and their parents or guardians. An amount of not more than 5% may be expended for administrative expenses related to the fund.		
Funds Expended	1,300,000	1,459,300
Year-End Fund Balance*	0	(479,300)
Child Restraint Fund (CHA2192/A.R.S. § 28-907)		Non-Appropriated
Source of Revenue: Fines or penalties from parents, guardians, or legal custodians who fail to sufficiently restrain in children under the age of 8 in motor vehicles.		
Purpose of Fund: To purchase child passenger restraint systems and provide them to hospitals for loan to indigent persons. Monies in the fund shall not exceed \$20,000. All monies collected over \$20,000 shall be deposited in the Arizona Highway User Revenue Fund.		
Funds Expended	0	0
Year-End Fund Balance	99,800	399,600
Child Safety Expedited Substance Abuse Treatment Fund (CHA2421/A.R.S. § 8-812)		Non-Appropriated
Source of Revenue: Appropriations from the state General Fund.		
Purpose of Fund: To provide expedited drug treatment to guardians and parents when a dependency case plan calls for treatment. Expenditures from this fund are not displayed to avoid double counting General Fund monies.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Child Safety Expenditure Authority (CHA2009/A.R.S. § 41-101.01)		Expenditure Authority
Source of Revenue: All non-appropriated funds and Federal Funds for the Department of Child Safety, excluding the Federal Temporary Assistance for Needy Families Block Grant, the Federal Child Care and Development Fund, the Client Trust Fund, and the Economic Security Donations Fund.		
Purpose of Fund: To fund the Department of Child Safety.		
Funds Expended	324,896,500	330,400,000
Year-End Fund Balance	28,525,500	63,107,600
Children and Family Services Training Program Fund (CHA2173/A.R.S. § 8-503.01)		Appropriated
Source of Revenue: A portion of monies collected from fees charged for copies of child welfare files and assessments against legally responsible parties for the support of a child in the state's custody. The fund receives 90% of the revenues collected. The remaining 10% of revenues are credited to the General Fund.		
Purpose of Fund: To administer training for child safety workers and employees in related programs. The monies cannot be used to pay salaries or expenses of the training staff. Up to 10% of the monies may be used to enhance the collection of monies owed to the agency. Any monies collected from fees for copies of child welfare files may be used only for reimbursing the department for its cost.		
Funds Expended	61,000	207,900
Year-End Fund Balance	188,700	61,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Client Trust Fund (CHA3152/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DCS.		
Purpose of Fund: To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
Funds Expended	0	0
Year-End Fund Balance	4,739,300	5,479,300
Economic Security Donations Fund (CHA3145/A.R.S. § 36-571, 41-1954)		Non-Appropriated
Source of Revenue: Grants, gifts, or bequests.		
Purpose of Fund: To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest.		
Funds Expended	1,200	1,100
Year-End Fund Balance	218,300	14,200
Federal CCDF Block Grant (CHA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To be used for developing child care programs and policies that promote parental choice; providing consumer education to help parents make informed choices on child care; providing child care to welfare recipient parents; and implementing health, safety, licensing, and registration standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. DES has a separate allocation of CCDF.		
Funds Expended	27,000,000	27,000,000
Year-End Fund Balance	0	0
Federal TANF Block Grant (CHA2007/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families. DES has a separate allocation of TANF.		
Funds Expended	132,000,400	132,000,400
Year-End Fund Balance	1,064,200	1,064,200
Joint Substance Abuse Treatment Fund (CHA2429/A.R.S. § 8-881)		Non-Appropriated
Source of Revenue: Legislative appropriations from the General Fund and the Federal Temporary Assistance for Needy Families Block Grant.		
Purpose of Fund: To be jointly administered by DCS and the Department of Health Services for services to families and Federal Temporary Assistance for Needy Families recipients involved with DCS and whose substance abuse is a significant barrier to maintaining, preserving, or reunifying the family. An amount of not more than 5% can be used for program development costs. Up to 10% can be used for evaluating community programs delivering the services. Expenditures from this fund are not displayed to avoid double counting appropriated monies.		
Funds Expended	0	0
Year-End Fund Balance	0	0

*As reported by the agency. Actual ending balance will not be negative.

State Board of Chiropractic Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	66,000
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	89,600
Equipment	27,700	26,000	26,000
AGENCY TOTAL	392,300	451,400	451,400

FUND SOURCES

Other Appropriated Funds

Board of Chiropractic Examiners Fund	392,300	451,400	451,400
SUBTOTAL - Other Appropriated Funds	392,300	451,400	451,400
SUBTOTAL - Appropriated Funds	392,300	451,400	451,400
TOTAL - ALL SOURCES	392,300	451,400	451,400

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 Baseline includes \$451,400 and 5 FTE Positions from the Board of Chiropractic Examiners Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Chiropractic Examiners Fund (CEA2010/A.R.S. § 32-906)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of chiropractors. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate chiropractors, and for board administration.		
Funds Expended	392,300	451,400
Year-End Fund Balance	217,900	172,700

Citizens Clean Elections Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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

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 *Table 1*.

Table 1
Clean Elections Fund Transfers to General Fund

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

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Citizens Clean Elections Fund (ECA2425/A.R.S. § 16-949)		Non-Appropriated
Source of Revenue: Election-related civil penalties; civil and criminal fine and penalty surcharges; "qualifying contributions" on behalf of candidates who seek public campaign funding. Prior to FY 2013, the commission also generated revenues from a check-off box on state income tax forms and tax credits. Laws 2012, Chapter 257 repealed those provisions.		
Purpose of Fund: To fund administrative costs of the Citizens Clean Election Commission, campaigns of candidates who qualify for public campaign funding under A.R.S. § 16-950, and activities pertaining to voter education.		
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	<u>34,200</u>	<u>0</u>
Total Funds Available	31,221,400	30,577,200
Expenditures:		
Operating Funds Expended	6,119,800	8,106,300
Candidate Funding	<u>2,789,400</u>	<u>3,626,300</u>
Total Funds Expended	8,909,200	11,732,600
Transfer Out to General Fund	0	0
Year-End Fund Balance	22,312,200	18,844,600

Arizona Commerce Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET	10,000,000	10,000,000	10,000,000
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	21,500,000	16,500,000	11,500,000
Mexico City Trade Office	300,000	300,000	300,000
AGENCY TOTAL	31,800,000	26,800,000	21,800,000
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	1,755,200
TOTAL - ALL SOURCES	43,490,400	37,478,100	29,229,000

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 Baseline 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 Baseline includes \$11,500,000 from the General Fund in FY 2017 for deposit into the Arizona Competes Fund. FY 2017 adjustments would be as follows:

	FY 2017
Deposit Reduction	GF \$(5,000,000)

The Baseline 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 for a total annual deposit of \$25,000,000. 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 2011, 2nd Special Session, Chapter 1, however, eliminates the Arizona Competes Fund effective July 1, 2016. The Baseline estimates presume the continuation of the fund in FY 2017.

Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona. Of the \$100,000,000 deposited into the Arizona Competes Fund from FY 2012 through FY 2015, ACA has expended \$17,531,500 through June 30, 2015. 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 Baseline 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.

Currently, ACA partners with the City of Phoenix, City of Tucson, the Maricopa Association of Governments, and Visit Phoenix (a non-profit) to administer a trade office in central Mexico City. The other partners provided \$135,000 in FY 2015 to help ACA lease a 2-story building and hire 4 FTE contract workers to run the trade office. Currently, ACA does not fund any other trade offices.

* * *

FOOTNOTES

Standard Footnotes

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.

New Footnotes

By August 31, 2016, the Arizona Commerce Authority shall submit for review by the Joint Legislative Budget Committee a report on progress made in implementing the Auditor General's recommendations included in their September 2015 audit of the authority. (Please see Auditor General Recommendation below for more details.)

Other Issues

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
- 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
- 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. 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 is 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 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. From FY 2012 through FY 2015, the Arizona Competes Fund received \$100.0 million in total revenues and made \$35.3 million in commitments. Of these commitments, \$17.5 million has been expended through June 30, 2015 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 Arizona Commerce Authority 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 Baseline includes a recommendation for a new footnote that would require ACA to come before the Joint Legislative Budget Committee for review of the progress made on implementing the Auditor General's recommendations. *(Please see the Footnotes Section for more information.)*

Table 1	
Arizona Competes Fund Expenditures through June 30, 2015	
<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	13,000
GoDaddy, Inc.	500,000
Hot Chalk	12,500
Maverick Healthcare Services, Inc.	875,000
Northern Trust Corporation	540,000
Silicon Valley Bank Financial Services	3,010,000
Ulthera, Inc.	548,400
United Healthcare Services, Inc.	2,000
Zoc Doc	15,000
Total Competes Fund Grants	\$7,515,900
Arizona Innovation Challenge Grants	
Agave Semiconductor LLC	\$250,000
Amber Alert GPS	175,000
appsFreedom, Inc.	245,000
Athena Wireless Communications, Inc.	250,000
Cancer Prevention Pharmaceuticals, Inc.	229,900
Clear Demand, Inc.	250,000
Contatta, Inc.	220,000
Deliver IT, Inc.	250,000
EndoVantage	224,000
Gingerbread Shed Corporation	250,000
HJ3 Composite Technologies LLC	170,000
Instant Bioscan LLC	250,000
Iris PR Management, Inc.	75,000
Iron Horse Diagnostics, Inc.	75,000
Kutta Radios, Inc.	249,500
LawLytics	225,000
MaxQ Technology LLC	250,000
Nasseo, Inc.	225,000
NuvOx Pharma, LLC	75,000
ParkX, LLC	75,000
Photon Medical Communications LLC	250,000
Picomic	175,000
Post.Bid.Ship., Inc.	232,000
Pure Chat, Inc.	125,000
Recoleta Partners LLC	250,000
ReplyBuy, Inc.	250,000
Serious Integrated, Inc.	250,000
Spotlight Software, LLC	125,000
Stat Health Services, Inc.	250,000
Stimwave Technologies, Inc.	152,500
Strongwatch Corporation	225,000
Triton Microtechnologies	250,000
Viomics, Inc.	250,000
Whole Sale Fund Corporation	250,000
World View Enterprises	250,000
Yolia Health, Inc.	250,000
Total Arizona Innovation Challenge Grants	\$7,547,900
Rural Economic Development Grants	
Casa Grande	\$150,000
Central Arizona Regional Economic Development Foundation	340,000
Flagstaff	195,000
Greater Yuma Economic Development Corporation	432,500
Northern Arizona Business and Technology Incubator	59,600
PineTop-Lakeside	185,000
Prescott	54,000
Prescott Valley	500,000
Verde Valley Wine Consortium, Inc.	255,300
Yuma	296,300
Total	\$2,467,700
Total Arizona Competes Fund Grants	\$17,531,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Application Fees Fund (CAA3005/A.R.S. § 41-1504)		Non-Appropriated
Source of Revenue: A processing fee equal to 1% of the relevant tax credit being refunded per tax credit application.		
Purpose of Fund: To provide funding for staff to determine if taxpayers who qualify for a tax credit for increased research activities qualify for other income tax refunds.		
Funds Expended	532,900	943,800
Year-End Fund Balance	1,015,000	622,100
Arizona Commerce Authority Fund (CAA2547/A.R.S. § 41-1506)		Non-Appropriated
Source of Revenue: An annual deposit of \$10,000,000 in corporate income tax withholding revenues, gifts, grants, and other donations. Expenditures are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$9,779,400 in FY 2015.		
Purpose of Fund: To fund the operating costs of the Authority.		
Funds Expended	0	0
Year-End Fund Balance	382,700	382,700
Arizona Commerce Authority Carryover Fund (CAA1001/A.R.S. § 41-1504)		Non-Appropriated
Source of Revenue: The remaining \$13,991,325 in left-over funds transferred from various funds belonging to the Arizona Department of Commerce and any residual FY 2011 revenue collected in FY 2012.		
Purpose of Fund: To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.		
Funds Expended	2,660,600	2,185,800
Year-End Fund Balance	2,290,700	104,900
Arizona Commerce Authority Local Communities Fund (EPA2498/A.R.S. § 41-1505.12)		Non-Appropriated
Source of Revenue: Tribal contributions from gaming revenue. The Tribal-State Gaming Compact dictates that 12% of revenues received by the state be utilized for government services benefiting the general public. The tribes can grant funds directly to communities or deposit revenues into the CEDC Local Communities Fund. Any monies remaining in this fund at the end of FY 2011 were transferred to the Arizona Commerce Authority Carryover Fund. Beginning in FY 2012, any remaining revenues to this fund were redirected to the Arizona Commerce Authority Carryover Fund.		
Purpose of Fund: To provide grants to cities, towns and counties for government services that benefit the general public including public safety, the mitigation of impacts of gaming or the promotion of commerce and economic development. All grant applications must have a written endorsement of a nearby Indian tribe to receive an award from the commission.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Commerce Development Bond Fund (CAA2196/A.R.S. § 41-1504)		Partially-Appropriated
Source of Revenue: Filing fees and charges for services related to the provision of a registry of bond allocations.		
Purpose of Fund: To pay for the review and approval of all corporate bond financing related to the construction of multi-family apartments, sanitariums, clinics, medical hotels, retirement homes, skilled nursing facilities and life-care centers.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	1,100	5,000
Year-End Fund Balance	211,000	241,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Arizona Competes Fund (CAA2548/A.R.S. § 41-1545.01)	Non-Appropriated	
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Source of Revenue: Receives an annual deposit of \$16,500,000 in income tax withholding revenues, \$3,500,000 in lottery ticket sales revenues, gifts, grants, and other donations. The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12) reduced the FY 2016 income tax withholding deposit from \$21,500,000 to \$16,500,000. The bill also included an additional reduction of \$(5,000,000) to the income tax withholding deposit in FY 2017 and each year thereafter for a total annual deposit of \$15,000,000. Expenditures of the income tax withholding revenues are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$5,226,600 in FY 2015.

Purpose of Fund: To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.

Funds Expended	0	0
Year-End Fund Balance	89,898,800	27,137,800

Corporation for Skilled Workforce Fund (CAA1002/A.R.S. § 41-1502)	Non-Appropriated	
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Source of Revenue: Pass-thru federal funding to the Department of Economic Security.

Purpose of Fund: To fund the Re-inventing Arizona's Human Services System which helps the Arizona Commerce Authority, Department of Education, the Community Colleges, and the Department of Economic Security to coordinate efforts to align Arizona's human capital development efforts with its economic growth and job creation efforts.

Funds Expended	0	0
Year-End Fund Balance	0	0

Donations Fund (CAA3189/A.R.S. § 41-1504)	Non-Appropriated	
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Source of Revenue: Gifts, grants, and donations.

Purpose of Fund: To be expended in accordance with the restrictions placed on the respective gift, grant, or donation.

Funds Expended	0	0
Year-End Fund Balance	164,800	340,800

Federal Funds (CAA2000/A.R.S. § 35-142)	Non-Appropriated	
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Source of Revenue: Federal grants for community development, job training, and home programs.

Purpose of Fund: To be expended as stipulated by federal statutes authorizing the federal grants.

Funds Expended	2,853,300	2,551,500
Year-End Fund Balance*	(1,330,600)	0

Arizona Innovation Accelerator Fund (CAA9507/A.R.S. § 35-142)	Non-Appropriated	
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Source of Revenue: The U.S. Department of Treasury State Small Business Credit Initiative Act of 2010.

Purpose of Fund: To fund state created programs that increase the amount of capital made available by private lenders to small businesses.

Funds Expended	244,000	267,000
Year-End Fund Balance	9,912,500	10,315,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Job Training Fund (CAA1237/A.R.S. § 41-1544)

Non-Appropriated

Source of Revenue: Legislative appropriations, gifts, grants, interest earned on investments and, primarily, proceeds from a 0.1% employers' wage tax. The FY 2015 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) repeals the job training tax effective December 31, 2015 and redirects unencumbered monies in the fund as of December 31, 2016 to the Unemployment Compensation Fund and General Fund. Tax revenues collected and interest earned on the fund in FY 2015 were \$12,637,400 and \$379,600, respectively.

Purpose of Fund: To provide training and retraining for specific employment opportunities with new and expanding businesses or businesses undergoing economic conversion. Training shall be through the community college system, a licensed private postsecondary educational institution, or a community college operated by a tribal government, unless the employer requests another qualified training provider. Of the monies appropriated to the fund, 25% is set aside for small and rural businesses.

Funds Expended	5,398,500	4,725,000
Year-End Fund Balance	62,466,900	36,638,900

**Arizona Twenty-First Century Competitive Initiative Fund
(CAA2524/A.R.S. § 41-1506.01)**

Non-Appropriated

Source of Revenue: Legislative appropriations, earnings from the fund, gifts, and donations.

Purpose of Fund: One-time monies used to build and strengthen medical, scientific, and engineering research programs with an emphasis in bioscience for the purpose of promoting statewide economic development.

Funds Expended	0	0
Year-End Fund Balance	0	0

* As reported by the agency. Actual ending balance will not be negative.

Arizona Community Colleges

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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>	34,476,700	18,180,600	17,208,500
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>	8,156,100	5,049,400	4,819,100
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>	24,179,300	24,721,000	25,655,700
Rural County Allocation	3,195,500	2,523,400	2,523,400
Rural County Reimbursement Subsidy	1,273,800	1,273,800	1,273,800
Tribal Community Colleges	2,625,000	2,625,000	2,625,000
AGENCY TOTAL	71,906,400	54,373,200	54,105,500
FUND SOURCES			
General Fund	71,906,400	54,373,200	54,105,500
SUBTOTAL - Appropriated Funds	71,906,400	54,373,200	54,105,500
Other Non-Appropriated Funds	17,520,900	18,200,300	18,200,300
TOTAL - ALL SOURCES	89,427,300	72,573,500	72,305,800

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 Baseline includes \$17,208,500 from the General Fund in FY 2017 for Operating State Aid. FY 2017 adjustments would be as follows:

	FY 2017
Enrollment Changes	GF \$(972,100)

The Baseline 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 Baseline includes \$4,819,100 from the General Fund in FY 2017 for Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs State Aid (formerly Capital Outlay State Aid). FY 2017 adjustments would be as follows:

Enrollment Changes	GF (230,300)
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The Baseline 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 2016 Higher Education BRB suspended the program’s funding formula in A.R.S. § 15-1464 for FY 2016 and instead funded the amounts

Table 1

Community College Enrollment

<u>District</u>	<u>FY 2014</u> <u>FTSE</u>	<u>FY 2015</u> <u>FTSE</u>	<u>Percentage</u> <u>Change</u>
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	<u>5,451</u>	<u>5,433</u>	<u>(0.3)%</u>
Total	31,668	30,054	(5.1)%

specified in the General Appropriation Act, which totaled \$5,049,400. That amount provides full formula funding for all rural districts in FY 2016 except for Pinal, which is limited to \$96,500 in STEM and Workforce Programs State Aid.

The Baseline 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.

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 Baseline includes \$25,655,700 from the General Fund in FY 2017 for Equalization Aid. FY 2017 adjustments would be as follows:

Property Value Changes	GF 934,700
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The Baseline 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 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.

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 Baseline includes \$2,523,400 from the General Fund in FY 2017 for Rural County Allocation. This amount is unchanged from FY 2016.

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

<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	(1.5)%
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.

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. In May 2015, the JLBC Staff reported the amount to be \$2,523,400 for FY 2016.

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 Baseline 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 Baseline allocates \$699,300 to Apache and \$574,500 to Greenlee.

Tribal Community Colleges

The Baseline 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 \$168,600, which is 10% of the total FY 2014 TPT collections from the reservation.

The Baseline 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.

* * *

FORMAT — District-by-District Special Line Items

FOOTNOTES

Standard Footnotes

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.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to suspend the STEM and Workforce Programs funding formula for FY 2017 and specify the funding in the General Appropriation Act, which for Pinal would equal \$96,500.
- As session law, continue to require each university and community college to deposit \$6 per each full-time student into the Department of Education’s Education Learning and Accountability Fund by December 1, 2016. This assessment is expected to generate \$879,666 from the universities and \$736,000 from the community colleges.

Other Issues

Long-Term Budget Impacts

Beyond FY 2017 Baseline changes, 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 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.)

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.

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 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 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

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 %

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.

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 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*, specifies the county board of supervisors will serve as the governing board to any community college tuition financing district, and established the study committee on community college finance and expenditure limits.

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%

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 provisional community college district. A provisional community college district is required to contract with an existing community college district to provide instruction and services to students. Gila and Santa Cruz currently are the only established provisional districts.

The study committee is directed to examine community college district constitutional expenditure limits, review the impact of expenditure limits on community college districts, establish methods to move closer to actual full time FTSE calculations for funding, study any other relevant topic or issue that may be pertinent to community college finances, and recommend proposed statutory changes. As of this publishing, the study committee has not proposed any statutory changes.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Community College District Collegiate Special Plate Funds (varies by account/A.R.S. § 15-1447)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal of the special plate fees, and interest earnings.		
Purpose of Fund: All monies in the fund shall be used for academic scholarships.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Tribal Assistance Fund (No Fund Number/A.R.S. § 42-5029)		Non-Appropriated
Source of Revenue: A portion of the 0.6% education sales tax. The law directs each qualifying tribal community college to receive distributions in the same manner as the transfers to individual community college district workforce development accounts. A "qualifying Indian tribe" is an Indian tribe that owns, operates, and charters any community college located on its own reservation in this state.		
Purpose of Fund: To fund workforce development and job training activities at a community college owned, operated, or chartered by a qualifying Indian tribe.		
Funds Expended	765,700	775,400
Year-End Fund Balance	0	0
Workforce Development Accounts (varies by account/A.R.S. § 15-1472)		Non-Appropriated
Source of Revenue: Three percent of collections from the 0.6% education sales tax, after debt service on state school facilities revenue bonds has been paid. This funding was authorized by voter approval of Proposition 301 in the November 2000 General Election.		
Purpose of Fund: To fund workforce development and training activities at the community college districts. From FY 2002 to FY 2014, the first \$1,000,000 is to be distributed to bring the state into compliance with the matching capital requirements for new community college campuses prescribed in A.R.S. § 15-1463.		
Funds Expended	16,755,200	17,424,900
Year-End Fund Balance	0	0

Constable Ethics Standards and Training Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Constable Ethics Standards and Training (CNA2346/A.R.S. § 22-137) **Non-Appropriated**

Source of Revenue: Fees collected for every writ served on behalf of a Justice of the Peace.

Purpose of Fund: 80% to fund constable training, equipment and related grants and 20% to fund operating expenses for the board.

Funds Expended	303,200	383,000
Year-End Fund Balance *	163,900	(219,100)

*As reported by the agency. Actual ending balance will not be negative.

Registrar of Contractors

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	2,404,800
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	2,151,400
Equipment	71,300	100,300	100,300
OPERATING SUBTOTAL	7,882,600	11,169,900	11,169,900
SPECIAL LINE ITEMS			
Office of Administrative Hearings Costs	254,400	1,017,600	1,017,600
AGENCY TOTAL	8,137,000	12,187,500	12,187,500
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Registrar of Contractors Fund	8,137,000	12,187,500	12,187,500
SUBTOTAL - Other Appropriated Funds	8,137,000	12,187,500	12,187,500
SUBTOTAL - Appropriated Funds	8,137,000	12,187,500	12,187,500
Other Non-Appropriated Funds	931,900	4,666,800	4,666,800
TOTAL - ALL SOURCES	9,068,900	16,854,300	16,854,300

AGENCY DESCRIPTION — The agency licenses, regulates and conducts examinations of residential and commercial construction contractors.

Operating Budget

The Baseline includes \$11,169,900 and 105.6 FTE Positions from the Registrar of Contractors Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Office of Administrative Hearings Costs

The Baseline 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.

Monies in this line item are transferred from the Registrar of Contractors to OAH for services provided by OAH.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Registrar of Contractors Fund (RGA2406/A.R.S. § 32-1107)		Appropriated
Source of Revenue: Monies collected by the agency from the examination and licensing of contractors. The agency retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate and regulate contractors, and for board administration.		
Funds Expended	8,137,000	12,187,500
Year-End Fund Balance	10,687,500	5,920,700
Residential Contractors' Recovery Fund (RGA3155/A.R.S. § 32-1132)		Non-Appropriated
Source of Revenue: An assessment, not to exceed \$600 per biennial license period, paid by residential contractors and other monies.		
Purpose of Fund: To compensate anyone who is injured by an act, a representation, a transaction, or the conduct of a residential contractor. Compensation for damages to any one individual cannot exceed \$30,000. Up to 14% of prior fiscal year revenue may be used to administer the fund.		
Funds Expended	931,900	4,666,800
Year-End Fund Balance	7,989,800	7,784,900

Corporation Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	300.9	300.9	300.9
Personal Services	15,681,800	16,515,000	16,515,000
Employee Related Expenditures	6,154,900	6,254,200	6,254,200
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	2,708,800
Equipment	370,800	201,500	201,500
OPERATING SUBTOTAL	25,846,500	26,199,800	26,199,800
SPECIAL LINE ITEMS			
Corporation Filings, Same-Day Service	0	398,500	398,500
Named Claimants	600	0	0
Securities Division Database Upgrade	20,000	0	0
Utilities Audits, Studies, Investigations & Hearings	0	380,000	380,000
AGENCY TOTAL	25,867,100	26,978,300	26,978,300
FUND SOURCES			
General Fund	606,100	614,200	614,200
<u>Other Appropriated Funds</u>			
Arizona Arts Trust Fund	50,100	50,100	50,100
Investment Management Regulatory and Enforcement Fund	715,100	712,600	712,600
Public Access Fund	6,174,900	6,541,400	6,541,400
Securities Regulatory and Enforcement Fund	4,718,000	4,898,700	4,898,700
Utility Regulation Revolving Fund	13,602,900	14,161,300	14,161,300
SUBTOTAL - Other Appropriated Funds	25,261,000	26,364,100	26,364,100
SUBTOTAL - Appropriated Funds	25,867,100	26,978,300	26,978,300
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	27,803,300

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.

Operating Budget	Public Access Fund	6,142,900
	Securities Regulatory and Enforcement Fund	4,898,700
	Utility Regulation Revolving Fund	13,781,300
These amounts are unchanged from FY 2016.		
The Baseline includes \$26,199,800 and 298.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:	FY 2017	
	General Fund	\$614,200
	Arizona Arts Trust Fund	50,100
	Investment Management Regulatory and Enforcement Fund	712,600
Corporation Filings, Same-Day Service		
The Baseline includes \$398,500 and 2 FTE Positions from the Public Access Fund in FY 2017 for Corporation Filings,		

Same-Day Service. These amounts are unchanged from FY 2016.

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.

Utilities Audits, Studies, Investigations & Hearings

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The \$398,500 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 section A.R.S. § 10-122.

The \$380,000 appropriation from the Utility Regulation Revolving Fund for the Utilities Audits, Studies, Investigations & Hearings Special Line Item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the appropriation in the FY 2015 budget from the Securities Regulatory and Enforcement Fund for a new Securities Division Database Upgrade. The footnote made this appropriation exempt from lapsing until June 30, 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Arts Trust Fund (CCA3043/A.R.S. § 41-983.01)		Appropriated
<i>Source of Revenue:</i> One-third of the filing fees for the annual report of domestic and foreign corporations.		
<i>Purpose of Fund:</i> For grants under the Arizona arts program and for other expenditures as authorized by the chairman of the Arizona Arts Commission. The Corporation Commission funds 1 FTE Position with these monies to assist in collecting the fee, with the remainder transferred to the Arts Commission.		
Funds Expended	50,100	50,100
Year-End Fund Balance	300	300
Federal Funds (CCA2000/A.R.S. § 40-441)		Non-Appropriated
<i>Source of Revenue:</i> U.S. Department of Transportation grants.		
<i>Purpose of Fund:</i> To pay up to 50% of the costs associated with the inspection of interstate pipelines transporting gas and hazardous liquids, and conduction of a pipeline safety program.		
Funds Expended	812,100	825,000
Year-End Fund Balance	3,278,800	4,153,800
Federal Grants - American Recovery and Reinvestment Act (ARRA) (CCA2999/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
<i>Purpose of Fund:</i> One-time Federal Funds to be used by the commission for the weatherization of homes, energy efficiency and usage reduction, and appliance rebates.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
IGA and ISA Fund (CCA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	1,500	0
Year-End Fund Balance	5,600	5,600
Investment Management Regulatory and Enforcement Fund (CCA2404/A.R.S. § 44-3298)		Appropriated
Source of Revenue: Fees from licensing of investment advisors and investment advisor representatives, and from costs recovered from enforcement actions associated with the licensing.		
Purpose of Fund: For education, regulatory, investigative and enforcement operations in the Securities Division.		
Funds Expended	715,100	712,600
Year-End Fund Balance	1,530,300	1,202,400
Pipeline Safety Revolving Fund (CCA2174/A.R.S. § 40-443)		Appropriated
Source of Revenue: Revenues from civil penalties and fines assessed for the violation of any law, rule, or order pertaining to the safety of the transportation of gas and hazardous liquids, and pipeline facilities.		
Purpose of Fund: For expenses associated with gas and hazardous liquids pipeline facilities safety, including public education, training, purchasing equipment, and inspections.		
Funds Expended	0	0
Year-End Fund Balance	144,200	144,200
Public Access Fund (CCA2333/A.R.S. § 10-122.01)		Appropriated
Source of Revenue: Fees for expedited service for the filing of articles of incorporation and other documents.		
Purpose of Fund: To cover a part of the commission's administrative and legal expenses as well as costs associated with an improved data processing system that allows direct, online access by any person at a remote location to all public records concerning corporations and associations.		
Funds Expended	6,174,900	6,541,400
Year-End Fund Balance	1,125,300	1,809,000
Securities Regulatory and Enforcement Fund (CCA2264/A.R.S. § 44-2039)		Appropriated
Source of Revenue: Registration and transfer of registration fees for securities dealers and salesmen, and from registration fees for securities exchanges established in the state.		
Purpose of Fund: For education, regulatory, investigative, and enforcement operations in the Securities Division.		
Funds Expended	4,718,000	4,898,700
Year-End Fund Balance	2,018,500	1,265,200
Utility Regulation Revolving Fund (CCA2172/A.R.S. § 40-408)		Appropriated
Source of Revenue: Assessments against public utilities regulated by the commission, as defined by A.R.S. § 40-401.		
Purpose of Fund: For all expenses incurred by the Utilities Division, including attorneys and legal staff, auditors, economists and other staff employed by the division.		
Funds Expended	13,602,900	14,161,300
Year-End Fund Balance	14,261,800	326,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Utility Siting Fund (CCA2076/A.R.S. § 40-360.09)		Non-Appropriated
Source of Revenue: Fees paid for applications to the Power Plant and Transmission Line Siting Committee for proposed and expanded power plants and transmission lines.		
Purpose of Fund: For costs incurred by the Power Plant and Transmission Line Siting Committee in connection with the activities of the committee.		
Funds Expended	7,500	0
Year-End Fund Balance	65,600	9,600

Arizona Department of Corrections

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BASELINE			
<i>Full Time Equivalent Positions</i>	9,534.0	9,534.0	9,540.0
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	64,567,300
Personal Services Subtotal	369,007,000	390,376,600	390,664,000
Employee Related Expenditures	188,516,900	210,196,200	211,068,200
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	42,255,000
Other Operating Expenditures	106,274,100	111,378,700	111,386,200
Equipment	4,965,400	3,522,000	3,606,600
Non-Health Care Operating Subtotal	155,903,600	164,125,200	164,217,300
OPERATING SUBTOTAL	760,058,700	782,325,200	783,576,700
SPECIAL LINE ITEMS			
Leap Year	0	929,100	0
Private Prison Per Diem	136,290,200	151,518,600	168,617,100
Inmate Health Care Contracted Services	123,862,200	142,003,900	147,137,100
AGENCY TOTAL	1,020,211,100	1,076,776,800	1,099,330,900
FUND SOURCES			
General Fund	976,257,400	1,029,900,600	1,052,454,700
<u>Other Appropriated Funds</u>			
Alcohol Abuse Treatment Fund	214,300	555,300	555,300
Corrections Fund	27,517,600	27,517,800	27,517,800
Penitentiary Land Fund	979,200	979,200	979,200
Prison Construction and Operations Fund	13,223,100	13,686,000	13,686,000
State Charitable, Penal and Reformatory Institutions Land Fund	338,800	1,861,200	1,861,200
State Education Fund for Correctional Education	458,500	673,400	673,400
Transition Program Fund	1,222,200	1,603,300	1,603,300
SUBTOTAL - Other Appropriated Funds	43,953,700	46,876,200	46,876,200
SUBTOTAL - Appropriated Funds	1,020,211,100	1,076,776,800	1,099,330,900
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	1,137,668,700	1,160,214,800

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.

Operating Budget

The Baseline includes \$783,576,700 and 9,540 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$772,196,700
Alcohol Abuse Treatment Fund	555,300
Corrections Fund	3,000,800
Prison Construction and Operations Fund	3,686,000
State Charitable, Penal and Reformatory Institutions Land Fund	1,861,200
State Education Fund for Correctional Education	673,400
Transition Program Fund	1,603,300

FY 2017 adjustments would be as follows:

CORP Fund Adjustment GF 723,500

The Baseline 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%. The 3-year spending plan in the FY 2016 budget included a projected employer contribution rate increase for FY 2017.

Private Prison Monitoring GF 528,000

The Baseline 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 amount includes \$83,200 for one-time equipment costs.

Leap Year

The Baseline includes no funding in FY 2017 for Leap Year expenses. FY 2017 adjustments would be as follows:

Remove One-Time Funding GF (929,100)

The Baseline 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.

Private Prison Per Diem

The Baseline 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

FY 2017 adjustments would be as follows:

Open 1,000 Male Medium Beds GF 17,098,500

The Baseline includes an increase of \$17,098,500 from the General Fund in FY 2017 for 1,000 new private male medium custody beds to open on September 1, 2016.

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 Budget Reconciliation Bill (Laws 2015, Chapter 17) authorizes the department to issue requests for proposals and to award a contract or contracts for up to 2,000 male medium-security beds at new or existing contracted bed facilities. The department was to award a contract or contracts to open up to 1,000 beds on July 1, 2016. The remaining 1,000 beds could be awarded with specific legislative authorization. Due to procurement delays related to the Kingman incident, ADC expects the contracted beds to open on September 1, 2016. *(Please see Arizona State Prison - Kingman in the Other Issues section.)* The 3-year plan in the FY 2016 budget included \$24.2 million in FY 2017 for the beds. The amount is now spread across 2 years.

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 private prison contracts are included in the department's operating Baseline.

Inmate Health Care Contracted Services

The Baseline includes \$147,137,100 in FY 2017 for Inmate Health Care Contracted Services. This amount consists of:

Before the expenditure of any State Education Fund for Correctional Education monies in excess of \$673,400, the State Department of Corrections shall report the intended use of the monies to the Director of the Joint Legislative Budget Committee.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to require the department to report FY 2016 actual expenditures, FY 2017 estimated expenditures, and FY 2018 requested expenditure amounts for each line item as delineated in the prior year when the department submits its FY 2018 budget request pursuant to A.R.S. § 35-113.
- As session law, continue to permit the department to award contracts only with legislative authorization for the remaining 1,000 beds of the 2,000 bed request for male medium security beds issued by the department in May 2015.
- As session law, allow ADC to transfer funds to the Automation Projects Fund from the Special Services Fund for the funding of the final year of costs for the replacement of the Adult Inmate Management System.

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- Long-Term Budget Impacts
- October 2015 Special Session and Proposition 123
- Arizona Inmate Management System
- Inmate Health Care
- Bed Capacity Issues
 - Inmate Growth Rate
 - Bed Capacity
 - Bed Surplus/Shortfall
- Arizona State Prison - Kingman

FY 2016 Supplemental

The FY 2017 Baseline would include a FY 2016 supplemental appropriation of \$5,200,000 from the General Fund to ADC for the costs of an increase to the inmate health care per diem for medical inflation made in March 2015. The department assumed the costs for FY 2015, this supplemental would fund the FY 2016 costs. The FY 2017 Baseline includes an adjustment for this increase. *(Please see the Inmate Health Care SLI and Inmate Health Care section in Other Issues for more information.)*

Long-Term Budget Impacts

Beyond the FY 2017 Baseline spending, the JLBC Staff assumes the spending of an additional \$7,090,800 in FY 2018 over FY 2017 for the costs of annualizing the 1,000 private medium custody beds to open on September 1, 2016. The FY 2016 Criminal Justice Budget Reconciliation Bill authorized an RFP for up to 2,000 beds, but only authorized the opening of 1,000 beds in FY 2017. The Baseline spending estimates do not assume the opening and funding of the remaining 1,000 beds. The Legislature would need to authorize the awarding of the remaining beds.

October 2015 Special Session and Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona Department of Corrections 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 FY 2015, the Arizona Department of Corrections received \$906,150 in monies distributed from its permanent fund.

Conditional upon voter approval in May 2016, Proposition 123 would increase the 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 Department of Corrections would receive \$1,794,000 in additional funding beyond what it otherwise would in FY 2016 if the ballot proposition is approved. *(Please see the Department of Education – Endowment Earnings section for more information.)*

Arizona Inmate Management System

The Baseline includes the transfer of \$8.0 million from department funds to the Automation Projects Fund in FY 2017 for the replacement of the Adult Inmate Management System. The replacement of the system is estimated to cost a total of \$24.0 million over 3 years. The Automation Projects Fund received a transfer of \$8.0 million in FY 2014 and \$8.0 million in FY 2015 from department funds for the project. In FY 2017, the department is seeking a final \$8.0 million to complete the project. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

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.

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. This increase is included in the Baseline and as a FY 2016 supplemental. ADC funded the FY 2015 costs internally. The May 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.

Bed Capacity Issues

Inmate Growth Rate

The Baseline assumes inmate growth of 75 prisoners per month in FY 2017, or approximately 900 annually (744 male inmates and 156 female inmates). 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. The JLBC Staff will monitor the population growth to assess the need for any changes to the FY 2017 projections.

A breakdown of the projected annual population growth rate by custody and gender for FY 2017 can be seen in *Table 1*.

<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

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 3*. 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 3* 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 3*.

Presuming an annual growth of 900 inmates in FY 2016, the projected rated bed shortfall in FY 2016 is (5,426). With a total of 5,754 temporary beds, this becomes an operational surplus of 328.

By June 30, 2017, the rated bed shortfall is projected at (5,326). The proposed opening of 1,000 beds in September would offset the growth of 900 inmates. The operating capacity is a bed surplus of 428, 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 428 beds in June 2017, that estimate reflects a male surplus of 444 and a female shortfall of (16). Within the 444 male surplus, there are differences by classification. For example, there is a projected male medium custody bed gap of (99), but a male maximum custody surplus of 89 and male close custody surplus of 158 as shown in *Table 2*. The FY 2017 projections included the 1,000 male private medium custody beds shown in the Baseline that are scheduled to open in September 2016 and the department's plans to reclassify 384 medium custody beds to close custody. Without these changes, the medium custody bed shortfall would be (715) and the close custody bed shortfall would be (226).

For FY 2018, *Table 2* assumes a growth rate of 900 with the same growth rate assumptions by gender and custody level as FY 2016 and FY 2017. There would be an overall male custody beds shortfall of (300) beds, with the greatest shortfall of (991) 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. ADC has proposed adding an additional 1,000 male medium beds in FY 2018 (not included in *Table 2*) to alleviate the male medium custody shortfall. With legislative authorization, the department could award a contract for 1,000 beds in FY 2018 from the RFP issued by the department in May 2015.

Beyond the 1,000 private male medium custody beds planned for FY 2017 and the additional 1,000 male medium custody beds proposed in FY 2018, ADC proposes additional authority to contract for 1,000 private male medium custody beds in FY 2019, and to open 500 female custody state beds in FY 2019. (For additional discussion, please see the *Private Prison Per Diem* line item.)

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.

Custody	Projected Operational Capacity			
	June Surplus/(Shortfall) - Male Beds			
	FY 2015	FY 2016	FY 2017	FY 2018
Minimum	440	368	296	224
Medium	119	(223)	(99)	(991)
Close	14	(106)	158	438
Maximum	<u>209</u>	<u>149</u>	<u>89</u>	<u>29</u>
Total	782	188	444	(300)

Arizona State Prison - Kingman

A July 2015 disturbance resulted in the temporary closure of the Hualapai Unit at ASP - Kingman under the direction of a private vendor, Management and Training Corporation. This resulted in the temporary deactivation of (1,272) male medium custody beds. ADC temporarily opened 1,159 emergency beds at county and private facilities. The extra costs associated with these beds and repairs are the responsibility of the vendor. ADC has reassigned the contract with similar terms to a new vendor, GEO Group, effective December 1, 2015, maintaining the same per diem rates. The parties have agreed upon a payment schedule, re-training and staffing terms, for the reloading of the prison and its return to full capacity by March 2015. This schedule is contingent on the previous vendor completing all renovations by January 15, 2016.

Table 3

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 (\$60.10)	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
<i>Proposed Beds</i>							<i>1,000</i>	<i>-</i>	<i>1,000</i>
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	36,031		36,031	36,439		36,439
Female	3,998		3,998	4,154		4,154	4,310		4,310
Male	31,208		31,208	31,877		31,877	32,129		32,129
Private Prison Population							7,972		7,972
Male	7,405		7,405	7,480		7,480			
Total Population 5/	42,611		42,611	43,511		43,511	44,411		44,411
Bed Surplus/(Shortfall)	(4,526)		1,078	(5,426)		328	(5,326)		428
Male	(4,750)		782	(5,494)		188	(5,238)		444
Female	224		296	68		140	(88)		(16)
Bed Surplus / (Shortfall) (% of Beds)	-11%		3%	-12%		1%	-12%		1%
<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 currently has 5,359 temporary beds in use at state facilities as of December 2015.</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. It is the intent of the Legislature to activate 1,000 beds in FY 2017; those 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> <p>5/ For FY 2015 and FY 2016, the chart uses the Official Daily Count that includes prisoners in outside facilities and those awaiting transfer from county jail.</p>									

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Alcohol Abuse Treatment Fund (DCA2204/A.R.S. § 31-255)		Appropriated
Source of Revenue: The lesser of \$0.50 per hour or 67% of wages earned by inmates convicted of driving under the influence (DUI) offenses. The average charge for inmate labor is \$0.56 per hour.		
Purpose of Fund: To provide alcohol abuse treatment and rehabilitation services for DUI inmates. The FY 2016 General Appropriation Act transfers \$250,000 into the General Fund.		
Funds Expended	214,300	555,300
Year-End Fund Balance	1,243,000	894,900
Arizona Correctional Industries Revolving Fund (DCA4002/A.R.S. § 41-1624)		Non-Appropriated
Source of Revenue: Sale of Arizona Correctional Industries (ACI) goods and services and interest earnings.		
Purpose of Fund: To compensate state employees and inmates employed at ACI; purchase materials for the manufacture of goods for resale, equipment, and supplies; maintain and repair ACI's buildings and equipment; and pay other associated ACI operational costs. A.R.S. § 41-1624 authorizes an annual \$1,000,000 transfer into the Department of Corrections Building Renewal Fund. The FY 2016 General Appropriation Act transfers \$500,000 into the General Fund.		
Funds Expended	38,088,700	41,033,500
Year-End Fund Balance	6,959,100	6,361,400
Community Corrections Enhancement Fund (DCA2395/A.R.S. § 31-418)		Non-Appropriated
Source of Revenue: A portion (30%) of a monthly supervision fee of at least \$65 paid by the prisoner. The departments may require payment of a lesser amount. Beginning in FY 2013, revenues also include a monthly drug testing fee pursuant to Laws 2012, Chapter 208. The department has not yet implemented the fee.		
Purpose of Fund: To pay for costs related to community corrections.		
Funds Expended	467,200	427,000
Year-End Fund Balance	279,800	278,400
Corrections Donations Fund (DCA3147/A.R.S. § 41-1605)		Non-Appropriated
Source of Revenue: Private grants and monies received from the disposal of donated properties.		
Purpose of Fund: To be used as specified by the particular donation.		
Funds Expended	25,800	900
Year-End Fund Balance	1,900	1,000
Corrections Fund (DCA2088/A.R.S. § 41-1641)		Appropriated
Source of Revenue: Luxury taxes on alcohol and tobacco products. The fund receives 20% of the monies collected from spirituous liquor and 50% of the monies collected from vinous and malt liquors are deposited in the Corrections Fund per A.R.S. § 42-3106. A.R.S. § 42-3104 designates that the fund receives 50% of all general tax rate collections from the tax on tobacco products.		
Purpose of Fund: For the construction, major maintenance, lease-purchase or lease of correctional or state-operated juvenile facilities. The Legislature may also appropriate monies in this fund for the operation of these facilities. A.R.S. § 41-1641 authorizes an annual transfer of \$2,500,000 from the Corrections Fund to the Department of Corrections Building Renewal Fund. The FY 2015 General Appropriation Act transferred \$2,500,000 into the Automation Projects Fund. The FY 2016 General Appropriation Act transfers \$1,250,000 into the General Fund.		
Funds Expended	27,517,600	27,517,800
Year-End Fund Balance	6,204,600	6,334,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Department of Corrections Building Renewal Fund (DCA2551/A.R.S. § 41-797)		Appropriated
Source of Revenue: Monies transferred annually from the following funds: Inmate Store Proceeds Fund (\$500,000), Special Services Fund (\$500,000), Arizona Correctional Industries Revolving Fund (\$1,000,000), and Corrections Fund (\$2,500,000). Also includes monies from a visitation background check fee and a 1% fee on inmate deposits.		
Purpose of Fund: For capital projects and preventive maintenance (up to 8% of the annual expenditures). The FY 2016 General Appropriation Act transfers \$1,500,000 into the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	7,125,500	120,300
Federal Funds (DCA2000/A.R.S. § 35-142 and A.R.S. § 41-1605)		Non-Appropriated
Source of Revenue: Law enforcement related federal grants.		
Purpose of Fund: For inmate education and school breakfast and lunch programs. The amounts do not include General Fund reimbursements for the incarceration of illegal aliens from the State Criminal Alien Assistance Program.		
Funds Expended	6,712,000	6,755,800
Year-End Fund Balance	204,300	204,300
Indirect Cost Recovery Fund (DCA9000/A.R.S. § 41-1605)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay department-wide administrative and overhead costs.		
Funds Expended	410,300	517,700
Year-End Fund Balance	2,542,800	2,469,500
Inmate Store Proceeds Fund (DCA2505/A.R.S. § 41-1604.02)		Non-Appropriated
Source of Revenue: Profit resulting from the privatization of inmate stores.		
Purpose of Fund: For inmate activities, incentive pay increases for Corrections Officers, equipment to enhance safety for both department personnel and inmates or other official needs as required, at the discretion of the Director of ADC. A.R.S. § 41-1604.02 authorizes an annual \$500,000 transfer into the Department of Corrections Building Renewal Fund. The FY 2016 General Appropriation Act transfers \$2,500,000 into the General Fund.		
Funds Expended	5,126,500	5,152,000
Year-End Fund Balance	4,533,000	3,251,100
Interagency Service Agreement Fund (DCA2500/A.R.S. § 41-1604)		Non-Appropriated
Source of Revenue: Intergovernmental agreements between ADC and other state and local entities.		
Purpose of Fund: To be used as specified in the grant or agreement. Estimated expenditures of \$16,000,000 transferred from the Automation Projects Fund for the Arizona Inmate Management System replacement automation project are not displayed to avoid double counting. The FY 2015 Criminal Justice Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 12) permitted the department to use the non-appropriated Interagency Services Agreement Fund for department operating expenses in FY 2015.		
Funds Expended	58,200	57,700
Year-End Fund Balance	1,615,300	1,615,300

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Penitentiary Land Fund (DCA3140/A.R.S. § 37-525)		Appropriated
Source of Revenue: Interest on the Penitentiary Land Fund, as established through Arizona's Enabling Act, Section 25, and monies derived from the rental of these lands and property.		
Purpose of Fund: To provide a continuous source of monies for the benefit and support of state penitentiaries. The department uses appropriations from this fund for building maintenance.		
Funds Expended	979,200	979,200
Year-End Fund Balance	2,417,300	2,779,400
Prison Construction and Operations Fund (DCA2504/A.R.S. § 41-1651)		Appropriated
Source of Revenue: Assessment (ranging from \$500 to \$1,500) paid by persons convicted of DUI offenses.		
Purpose of Fund: To pay for any costs related to prison overcrowding and department support and maintenance. The FY 2015 General Appropriation Act transfers \$5,500,000 into the Automation Projects Fund.		
Funds Expended	13,223,100	13,686,000
Year-End Fund Balance	1,402,400	1,251,700
Prisoner Spendable Accounts Fund (DCA2428/A.R.S. § 31-230)		Non-Appropriated
Source of Revenue: Monies received by a prisoner and that are not required to be deposited into another account.		
Purpose of Fund: To pay court-ordered restitution pursuant to A.R.S. § 13-603. Each month, a minimum of 20%, or the balance owed on the restitution amount, up to a maximum of 50% of the monies available in the prisoner's spendable account.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Special Services Fund (DCA3187/A.R.S. § 41-1604.03)		Non-Appropriated
Source of Revenue: Profits from canteens, hobby shops, and commissions on telephone service. Current revenues are primarily from the telephone service commission estimated at \$7,000,000 for FY 2017, and \$140,000 from the earned interest from the inmate trust account.		
Purpose of Fund: For the benefit, education, and welfare of committed offenders, and operating expenses of canteens and hobby shops. A major portion of the Special Services Fund is maintained in banks outside the state treasury system, and the transactions are not processed through the Arizona Financial Information System. As a result, the information for this fund is reported on an accrual accounting basis. A.R.S. § 41-1604.03 authorizes an annual \$500,000 transfer into the Department of Corrections Building Renewal Fund. The FY 2016 General Appropriation Act transfers \$2,000,000 into the General Fund.		
Funds Expended	4,001,200	4,995,000
Year-End Fund Balance	11,561,600	11,706,600
State Charitable, Penal and Reformatory Institutions Land Fund (DCA3141/A.R.S. § 37-525)		Appropriated
Source of Revenue: Twenty-five percent of monies received from interest on the State Charitable, Penal, and Reformatory Institutions Land Fund, as established through Arizona's Enabling Act, Section 25; and 25% of monies derived from the rental of these lands and property.		
Purpose of Fund: To provide a continuous source of monies for the benefit and support of state penal institutions.		
Funds Expended	338,800	1,861,200
Year-End Fund Balance	3,617,600	3,102,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
State DOC Revolving Fund (DCA2515/A.R.S. § 42-3106)		Non-Appropriated
Source of Revenue: The fund receives 3% of tax revenue collected on spirituous liquors and 7% of tax revenue collected on vinous and malt liquor.		
Purpose of Fund: To provide rehabilitation programs and counseling for inmates who have a history of substance abuse and are released on parole. The FY 2016 General Appropriation Act transfers \$1,072,000 into the General Fund.		
Funds Expended	2,067,600	1,952,300
Year-End Fund Balance	4,502,600	5,053,600
State Education Fund for Correctional Education (DCA2107/A.R.S. § 15-1372)		Appropriated
Source of Revenue: "Basic State Aid" funding that ADC receives from the Arizona Department of Education based on the number of Average Daily Membership pupils attending ADC education programs pursuant to A.R.S. § 15-1372.		
Purpose of Fund: To provide education to inmates under the age of 18 years and inmates with disabilities who are age 21 or younger.		
Funds Expended	458,500	673,400
Year-End Fund Balance	797,600	614,200
State Employee Recognition Gifts/Donations Fund (DCA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity, or major life event of department employees.		
Funds Expended	0	0
Year-End Fund Balance	200	200
Transition Program Fund (DCA2379/A.R.S. § 31-284 and A.R.S. § 31-254)		Appropriated
Source of Revenue: Revenue from 5% allocation of wages (if available after other obligations) from inmates not convicted of DUI earning under \$2.00 per hour and from the cost savings from the implementation of a transition program as calculated by A.R.S § 31-285. The source of revenue for the cost savings is the State DOC Revolving Fund.		
Purpose of Fund: To pay for costs related to the administration of the Transition Program and for transition program services. The FY 2015 Criminal Justice BRB (Laws 2014, Chapter 12) permitted the department to use the Transition Program Fund for department operating expenses in FY 2015.		
Funds Expended	1,222,200	1,603,300
Year-End Fund Balance	598,400	820,700

Board of Cosmetology

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	334,800
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	360,500
Equipment	27,600	27,600	27,600
AGENCY TOTAL	1,785,000	1,807,700	1,807,700

FUND SOURCES

Other Appropriated Funds

Board of Cosmetology Fund	1,785,000	1,807,700	1,807,700
SUBTOTAL - Other Appropriated Funds	1,785,000	1,807,700	1,807,700
SUBTOTAL - Appropriated Funds	1,785,000	1,807,700	1,807,700
TOTAL - ALL SOURCES	1,785,000	1,807,700	1,807,700

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

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$1,807,700 and 24.5 FTE Positions from the Board of Cosmetology Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Cosmetology Fund (CBA2017/A.R.S. § 32-505)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of cosmetologists, salons, and cosmetology schools. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate cosmetologists, salons, and cosmetology schools, and for board administration.		
Funds Expended	1,785,000	1,807,700
Year-End Fund Balance	2,931,100	5,857,600

County Funding

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
FUND SOURCES			
General Fund	7,650,500	6,000,500	6,000,500
SUBTOTAL - Appropriated Funds	7,650,500	6,000,500	6,000,500
TOTAL - ALL SOURCES	7,650,500	6,000,500	6,000,500

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) distributes these monies to counties for maintenance of county services.

Assistance to Counties

The Baseline includes \$6,000,500 from the General Fund in FY 2017 for assistance to counties. This amount is unchanged from FY 2016.

These monies are appropriated to ADOA and are allocated equally among all counties with a population of less than 200,000 according to the 2010 Decennial Census (*see Table 1*). 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.

Table 1

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

* * *

STATUTORY CHANGES

The Baseline would:

- As session law, continue to allow counties with a population of less than 200,000 according to the 2010 Decennial Census to use any source of county revenue to meet a county fiscal obligation for FY 2017. Require counties using this authority to report to the Director of the Joint Legislative Budget Committee (JLBC) on the intended amount and sources of funds by October 1, 2016. (*Please see Other Issues for prior use of this provision.*)
- As session law, continue to 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 2017. Require counties using this authority to report to the Director of JLBC on the intended amount and sources of funds by October 1, 2016. (*Please see Other Issues for prior use of this provision.*)

Other Issues

County Flexible Revenue Report

The FY 2016 Revenue Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 10) as amended by Laws 2015, Chapter 323 permits counties with a population of fewer than 200,000 to meet any FY 2016 fiscal obligation from any source of county revenue, including countywide special taxing jurisdictions. Counties with a population of more than 200,000 but fewer than 900,000 may use up to \$1.0 million from any source of county revenue, including countywide special taxing jurisdictions, to meet any FY 2016 fiscal obligation. The FY 2016 Revenue BRB requires counties to report on their use either of these provisions.

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: \$634,800 from the Jail District to the General Fund to cover Public Safety Personnel Retirement System costs and 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.

Arizona Criminal Justice Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	9.0	9.0	9.0
Personal Services	408,800	436,800	436,800
Employee Related Expenditures	131,200	133,400	133,400
Professional and Outside Services	71,800	177,400	177,400
Travel - In State	5,000	6,800	6,800
Travel - Out of State	7,200	10,000	10,000
Other Operating Expenditures	58,400	119,600	119,600
Equipment	8,700	3,900	3,900
OPERATING SUBTOTAL	691,100	887,900	887,900
SPECIAL LINE ITEMS			
State Aid to County Attorneys	973,600	973,600	973,600
Victim Compensation and Assistance	3,399,900	4,094,700	4,094,700
AGENCY TOTAL	5,064,600	5,956,200	5,956,200
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	532,500	648,800	648,800
Drug and Gang Prevention Resource Center Fund	158,600	239,100	239,100
State Aid to County Attorneys Fund	973,600	973,600	973,600
Victim Compensation and Assistance Fund	3,399,900	4,094,700	4,094,700
SUBTOTAL - Other Appropriated Funds	5,064,600	5,956,200	5,956,200
SUBTOTAL - Appropriated Funds	5,064,600	5,956,200	5,956,200
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	18,976,600

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 Baseline includes \$887,900 and 9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
CJEF	\$648,800
Drug and Gang Prevention Resource Center Fund	239,100

These amounts are unchanged from FY 2016.

State Aid to County Attorneys

The Baseline includes \$973,600 from the State Aid to County Attorneys Fund in FY 2017 for State Aid to County Attorneys. This amount is unchanged from FY 2016.

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 Baseline includes \$4,094,700 from the Victim Compensation and Assistance Fund in FY 2017 for Victim Compensation and Assistance. This amount is unchanged from FY 2016.

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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

All monies received by the Arizona Criminal Justice Commission in excess of \$973,600 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 \$973,600, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee.

All Victim Compensation and Assistance monies received by the Arizona Criminal Justice Commission in excess of \$4,094,700 in FY 2017 are appropriated to the Crime Victims Program. Before the expenditure of any Victim Compensation and Assistance monies in excess of \$4,094,700 in FY 2017, the Arizona Criminal Justice Commission shall report the intended use of the monies to the Joint Legislative Budget Committee.

New Footnotes

The Arizona Criminal Justice Committee shall report on or before August 31, 2016 to the Joint Legislative Budget Committee regarding noncompliance with Anti-Racketeering Revolving Fund reporting requirements established in A.R.S. § 13-2314.01H and A.R.S. § 13-2314.03H. (Please see *Anti-Racketeering Revolving Fund discussion below.*)

Other Issues

Indigent Defense

The FY 2017 projected revenue for the State Aid to Indigent Defense Fund is not sufficient to fund the appropriations to the Attorney General and the Department of Public Safety (DPS). The FY 2017 Baseline includes \$800,100 from the State Aid to Indigent Defense Fund in the Attorney General budget to fund capital postconviction prosecutions for the state and \$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. These amounts are unchanged from FY 2016.

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). Unlike prior years, there will be no fund balance available to supplement annual revenue. In FY 2017, projected annual revenues are \$818,400, compared to Baseline spending of \$1.5 million.

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 Baseline includes a new footnote requiring ACJC to submit a report by August 31, 2016 on the reasons for their noncompliance with these statutorily-required reports.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Criminal Justice Enhancement Fund (JCA2134/A.R.S. § 41-2401)

Appropriated

Source of Revenue: A 1.57% allocation of the Criminal Justice Enhancement Fund (CJEF). (See below for additional information on statewide CJEF maintained in the Treasurer's Office but shown under ACJC as Arizona Revised Statute requires the commission to annually report on CJEF.) CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.

Purpose of Fund: To cover the operating costs of ACJC.

Funds Expended	532,500	648,800
Year-End Fund Balance	2,398,100	1,524,100

Criminal Justice Enhancement Fund (JCA2134/A.R.S. § 41-2401)

Partially-Appropriated

Source of Revenue: A 47% penalty on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.

Purpose of Fund: CJEF monies are distributed on a percentage basis to various state entities. (See individual agency pages for detailed information on each recipient.)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>% of CJEF</u>	<u>Approp.</u>
Funds Transferred ^{1/ 2/}				
Attorney General				
AZ Prosecuting Attorneys Advisory Council (4)	1,166,100	1,166,100	3.03	no
County Attorneys (7)	3,598,500	3,598,500	9.35	no
Victim's Rights Implementation (13)	2,955,800	2,955,800	7.68	yes ^{3/}
AZ Criminal Justice Commission				
Operation Costs (10)	604,200	604,200	1.57	yes
Victim Compensation (14)	1,770,400	1,770,400	4.60	yes ^{3/}
Department of Public Safety				
Crime Lab Assessment Fund (12)	805,800	805,800	2.30	yes ^{3/}
Crime Lab Operations Fund (11)	3,153,000	3,153,000	9.00	yes ^{3/}
DNA Identification System (6)	448,400	448,400	1.28	yes ^{3/}
Fingerprinting Identification System (1)	2,263,100	2,263,100	6.46	yes
Peace Officers' Training Fund (3)	5,829,500	5,829,500	16.64	no
State/Local Grants (6)	2,550,400	2,550,400	7.28	4/
Department of Juvenile Corrections (2)	564,000	564,000	1.61	yes
State Treasurer				
County Sheriffs (9)	4,500,600	4,500,600	11.70	no
Supreme Court				
Case Processing (8)	2,109,000	2,109,000	6.02	yes
Juvenile Crime (5)	3,275,600	3,275,600	9.35	yes
Community Punishment Program (15)	<u>746,200</u>	<u>746,200</u>	2.13	yes
Total Funds Transferred ^{5/}	36,340,600	36,340,600		

1/ The numbers following the recipient agencies represent the paragraph numbers from A.R.S. § 41-2401 subsection D.

2/ The numbers displayed in the chart represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

3/ These monies represent a continuing appropriation from CJEF, but are appropriated prior to expenditure by the recipient agency.

4/ Monies retained by the Department of Public Safety for operating expenditures are appropriated. Monies passed through to state and local agencies are non-appropriated.

5/ Numbers may not add due to rounding.

Drug and Gang Enforcement Account (JCA2134/A.R.S. § 41-2402)

Non-Appropriated

Source of Revenue: Drug fees and fines (A.R.S. § 13-811), selected Superior Court fees (A.R.S. § 12-284), and local matching funds.

Purpose of Fund: To make grants in amounts not to exceed the percentages shown to enhance efforts to prosecute (50%), adjudicate (30%), and punish (30%) drug offenders and members of criminal street gangs, as well as to enhance investigations and education programs relating to drug and gang activities (50%), and to improve criminal justice records integration (30%).

Funds Expended	6,129,100	6,164,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Drug and Gang Prevention Resource Center Fund (JCA2280/A.R.S. § 41-2402)		Appropriated
Source of Revenue: 1.31% of fee collections and filings in the Superior Court, 1.31% of notary bond fees, and public and private gifts or grants, excluding federal monies.		
Purpose of Fund: To fund the Arizona Youth Survey, a statutorily required survey of 8 th , 10 th , and 12 th grade students in schools across Arizona. The survey measures alcohol and drug use, gang affiliation, and weapons within schools.		
Funds Expended	158,600	239,100
Year-End Fund Balance	1,576,600	1,855,800
Federal Grants (JCA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Revenue from federal grants.		
Purpose of Fund: To improve the criminal justice records system in Arizona; to fund state and local correction and detention agencies' substance abuse programs for incarcerated offenders; and to provide support dealing with criminal justice issues.		
Funds Expended	7,606,900	11,308,500
Year-End Fund Balance	5,746,700	4,413,300
State Aid to County Attorneys Fund (JCA2443/A.R.S. § 11-539)		Appropriated
Source of Revenue: Legislative appropriations, 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 21.61% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: To provide state aid to county attorneys to improve the processing of criminal cases in the Superior and Justice Courts. ACJC administers the fund and distributes the monies to each county based on a composite index formula using felony filings and population.		
Funds Expended	973,600	973,600
Year-End Fund Balance*	55,800	(27,700)
State Aid to Indigent Defense Fund (JCA2445/A.R.S. § 11-588)		Appropriated
Source of Revenue: Legislative appropriations, 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 20.53% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: To provide state aid to county public defenders, legal defenders and contract indigent counsel for the processing of criminal cases. However, the FY 2015 and the FY 2016 Criminal Justice Budget Reconciliation Bills (Laws 2014, Chapter 12 and Laws 2015, Chapter 17) notwithstanding this statute and permit the Attorney General and Department of Public Safety to use the State Aid to Indigent Defense monies to fund capital postconviction prosecution activities and operational costs associated with the Arizona Counter Terrorism Information Center, respectively.		
Funds Expended	0	0
Year-End Fund Balance*	651,200	(4,100)
Victim Compensation and Assistance Fund (JCA2198/A.R.S. § 41-2407)		Appropriated
Source of Revenue: The fund consists of 2 sub-accounts. The Victim Compensation sub-account receives a 4.6% distribution from CJEF, monies collected from a 10% assessment of a working prisoner's gross compensation, and unclaimed restitution. The Victim Assistance sub-account receives revenue derived from community supervision fees and interstate compact fees.		
Purpose of Fund: To establish, maintain and support programs that compensate and assist victims of crime.		
Funds Expended	3,399,900	4,094,700
Year-End Fund Balance	4,075,200	3,410,100

*As reported by the agency. Actual ending balance will not be negative.

Arizona State Schools for the Deaf and the Blind

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
PROGRAM BUDGET			
Administration/Statewide	5,649,600	4,152,100	4,152,100
Phoenix Day School for the Deaf	9,207,000	10,194,700	10,194,700
Preschool/Outreach Programs	3,747,400	4,233,500	4,379,400
Regional Cooperatives	633,500	821,900	821,900
Tucson Campus	14,144,500	13,755,600	13,755,600
AGENCY TOTAL	33,382,000	33,157,800	33,303,700
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	541.2	541.2	541.2
Personal Services	17,150,800	17,845,400	17,845,400
Employee Related Expenditures	8,339,800	8,451,400	8,451,400
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	3,743,600
Equipment	582,800	578,800	578,800
OPERATING SUBTOTAL	32,624,200	32,419,800	32,419,800
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	33,303,700
FUND SOURCES			
General Fund	21,921,300	21,596,400	21,596,400
<u>Other Appropriated Funds</u>			
Schools for the Deaf and the Blind Fund	11,460,700	11,561,400	11,707,300
SUBTOTAL - Other Appropriated Funds	11,460,700	11,561,400	11,707,300
SUBTOTAL - Appropriated Funds	33,382,000	33,157,800	33,303,700
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	54,438,000

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. ASDB serves approximately 2,014 children: 432 students in the K-12 programs (158 in Tucson and 274 in Phoenix), 97 children in preschools, 348 infant/toddlers in regional areas, and 1,137 children through the 5 existing regional cooperatives.

Operating Budget

The Baseline includes \$32,419,800 and 541.2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$20,858,400
Schools for the Deaf and the Blind Fund	11,561,400

These amounts are unchanged from FY 2016.

Assistive Technology Devices GF 0

The Baseline includes no change in funding from the General Fund in FY 2017 for assistive technology devices. The Baseline 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 OF 0

The Baseline 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 Baseline 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 Baseline includes \$145,900 from the ASDB Fund in FY 2017 for a Voucher Fund Adjustment. FY 2017 adjustments would be as follows:

Enrollment Decrease OF (408,200)

The Baseline includes a decrease of \$(408,200) from the ASDB Fund in FY 2017 for an enrollment decrease. ASDB's FY 2016 appropriation assumed an enrollment of 529 students. Based on recent monthly 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 Baseline 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.)

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 special line item to give ASDB flexibility in allocating funding changes among its 4 programs.

Base Level Increase OF 554,100

Conditional upon voter approval of Proposition 123 in May 2016, the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 & 2 and HCR 2001) will increase the per pupil "Base Level" in the Basic State Aid (BSA) formula for FY 2016. That BSA base level also serves as the base level for the ASDB Voucher Fund formula, so Proposition 123 also would increase ASDB's voucher funding. In addition, the Baseline assumes that the base level will increase for inflation by an additional 1.15% in FY 2017 above the revised FY 2016 level that would occur under Proposition 123. The estimated increase for these 2 base level increases combined for FY 2017 is \$554,100. (See the Arizona Department of Education narrative for more information on Proposition 123.)

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FORMAT — Operating Lump Sum with Special Line Items by Program

FOOTNOTES

Standard Footnotes

Before the expenditure of any Schools for the Deaf and the Blind Fund monies in excess of \$11,707,300 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.

Other Issues

October 2015 Special Session and Proposition 123

As a beneficiary of the Arizona State Land Trust, ASDB 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 FY 2015, ASDB received \$116,300 in monies distributed from its permanent fund.

Conditional upon voter approval in May 2016, Proposition 123 would increase the 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 would receive \$230,900 in additional funding beyond what it otherwise would in FY 2016 if the ballot proposition is approved. (Please see the Department of Education – Endowment Earnings section for more information.)

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.

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 Baseline assumes that FY 2017 enrollment levels for ASDB will be unchanged from FY 2016.

	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

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
ASDB Classroom Site Fund (SDA2486/A.R.S. § 15-1305)		Non-Appropriated
Source of Revenue: Monies transferred to the fund pursuant to A.R.S. § 15-1305 from a 0.6% sales tax and growth in the Permanent State School Fund expendable earnings above the FY 2001 level. Funding level is determined by the "Group A" and "Group B" weighted student count, as specified in A.R.S. § 15-943.		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention, and teacher liability insurance premiums (40%).		
Funds Expended	998,600	2,136,400
Year-End Fund Balance	812,500	1,494,600
Enterprise Fund (SDA4222/A.R.S. § 15-1323)		Non-Appropriated
Source of Revenue: Monies received from fees, rentals, and other charges from the non-school use of facilities.		
Purpose of Fund: To defray the costs of operating those facilities (i.e. auditorium).		
Funds Expended	59,900	167,500
Year-End Fund Balance	232,200	186,700
Federal Grants (SDA2000/A.R.S. § 15-1303)		Non-Appropriated
Source of Revenue: Federal grants - Title I aid to schools; vocational rehabilitation; National School Lunch and Breakfast programs; Arizona deaf-blind project; preschool services; and Arizona Early Intervention program.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the federal grants.		
Funds Expended	1,620,300	2,495,300
Year-End Fund Balance	1,170,600	1,134,400
IGA and ISA Fund (SDA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA's) and Intergovernmental Service Agreements (ISA's).		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Instructional Improvement Fund (SDA2492/A.R.S. § 15-979)		Non-Appropriated
Source of Revenue: Shared revenue from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. The Instructional Improvement Fund receives 56% of total shared revenue from Proposition 202. This is distributed among school districts, charter schools and ASDB based on student counts.		
Purpose of Fund: To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
Funds Expended	84,200	1,800
Year-End Fund Balance	1,800	0
Regional Cooperatives Fund (SDA4221/Laws 1987, Chapter 363)		Non-Appropriated
Source of Revenue: Monies in the fund come from special education voucher funds as well as tuition and fees that school districts pay to ASDB in order to reimburse it for costs of providing services to their students.		
Purpose of Fund: The Regional Cooperative Fund is used to support ASDB's Regional Cooperatives program, which provides educational services to sensory impaired pupils who attend school at their local school districts rather than at an ASDB campus.		
Funds Expended	14,781,700	15,708,900
Year-End Fund Balance	1,455,300	1,507,700
Schools for the Deaf and the Blind Fund (SDA2444/A.R.S. § 15-1304)		Appropriated
Source of Revenue: "Special Education Fund" monies that ASDB receives from the Arizona Department of Education under the formula prescribed in A.R.S. § 15-1204. This formula is based on the number of pupils attending ASDB and the various special education "Group B" funding categories that those pupils qualify for under A.R.S. § 15-943(2b). This fund also receives expendable land endowment earnings pursuant to A.R.S. § 15-1304 and over-age and non-resident tuition income pursuant to A.R.S. § 15-1345.		
Purpose of Fund: To cover the cost of educating students receiving special education services at ASDB.		
Funds Expended	11,460,700	11,561,400
Year-End Fund Balance	457,500	1,233,200
State Grants Fund (SDA2011/A.R.S. § 15-1303)		Non-Appropriated
Source of Revenue: "Direct Services Claiming" (DSC) reimbursements and grants by private corporations and other state agencies.		
Purpose of Fund: To reimburse ASDB for DSC-related expenditures and to accomplish specific projects of interest to the donor and ASDB.		
Funds Expended	380,800	486,400
Year-End Fund Balance	37,300	29,200
Trust Fund (SDA3148/A.R.S. § 15-1323)		Non-Appropriated
Source of Revenue: Monies received from private endowment, which are outside the control of the State Treasurer and are held by the ASDB Board.		
Purpose of Fund: Spent at the discretion of ASDB.		
Funds Expended	94,900	138,000
Year-End Fund Balance	100	100

Commission for the Deaf and the Hard of Hearing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	342,200
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	2,456,800
Equipment	181,500	138,400	138,400
AGENCY TOTAL	3,847,300	4,312,800	4,312,800
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Telecommunication Fund for the Deaf	3,847,300	4,312,800	4,312,800
SUBTOTAL - Other Appropriated Funds	3,847,300	4,312,800	4,312,800
SUBTOTAL - Appropriated Funds	3,847,300	4,312,800	4,312,800
TOTAL - ALL SOURCES	3,847,300	4,312,800	4,312,800

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 Baseline includes \$4,312,800 and 15 FTE Positions from the Telecommunication Fund for the Deaf in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Commission for the Deaf and the Hard of Hearing Fund (DFA2423/A.R.S. § 36-1945)		Appropriated
Source of Revenue: Grant funds remaining for Native Americans Phase II grant (6.4) was awarded by the Arizona Community Foundation. Grant funds remaining are from the St. Luke's Mental Health grant.		
Purpose of Fund: Grant funds to be used to study hearing loss and needs of Native Americans in the State of Arizona and for programs related to mental health issues.		
Funds Expended	0	0
Year-End Fund Balance	11,600	11,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Private Grants (DFA3000/A.R.S. § 35-142) Non-Appropriated

Source of Revenue: Grant from St. Luke's Health Initiatives and grant from the Arizona Community Foundation.

Purpose of Fund: The St. Luke's grant is to form and fund a round table for hearing loss. The grant from the Arizona Community Foundation is used to research and review a state model to provide hearing aids to state residents. The grant is also to be used to study the needs of Native Americans who are deaf, hard of hearing, blind, or speech impaired.

Funds Expended	0	0
Year-End Fund Balance	0	0

Telecommunication Fund for the Deaf (DFA2047/A.R.S. § 36-1947) Appropriated

Source of Revenue: Telecommunications Services Excise Tax, which is a 1.1% surcharge on local telephone bills.

Purpose of Fund: To operate the Arizona Relay System; support community outreach and education; purchase, repair, and distribute telecommunication devices for the deaf, hard of hearing, blind, and speech impaired; and operating costs of the commission.

Funds Expended	3,847,300	4,312,800
Year-End Fund Balance	6,770,400	6,686,500

State Board of Dental Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	151,800
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	184,800
Equipment	30,800	23,700	23,700
AGENCY TOTAL	1,116,000	1,215,500	1,215,500
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Dental Board Fund	1,116,000	1,215,500	1,215,500
SUBTOTAL - Other Appropriated Funds	1,116,000	1,215,500	1,215,500
SUBTOTAL - Appropriated Funds	1,116,000	1,215,500	1,215,500
TOTAL - ALL SOURCES	1,116,000	1,215,500	1,215,500

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of dentists, denturists, dental hygienists and dental assistants.

Operating Budget

* * *

The Baseline includes \$1,215,500 and 11 FTE Positions from the Dental Board Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Dental Board Fund (DXA2020/A.R.S. § 32-1212)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of dentists, denturists, dental hygienists, and dental assistants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate dentists, denturists, dental hygienists, and dental assistants, and for board administration.		
Funds Expended	1,116,000	1,215,500
Year-End Fund Balance	4,397,800	4,787,400

Arizona Early Childhood Development and Health Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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

Revenues from the 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 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 low-income working families, while DCS provides child care for child welfare cases. Beyond requiring low-income families to accept a DES subsidy if it is available, there is limited interaction between DES and ECDHB on child care. DES low-income working child care is offered as only a partial subsidy requiring a family copayment that varies based on a family’s income level. ECDHB low-income working child care is offered as a full “scholarship” without a copayment.

Table 1

FY 2015 ECDHB Fund Expenditures by Category (\$ in Millions)

<u>Expenditure Category</u>	<u>Amount</u>	<u>Percent</u>
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.

STATUTORY CHANGES

The Baseline would, as session law, continue to require ECDHB to report with DCS on their collaborative efforts to address child welfare issues of common concern.

	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Early Childhood Development and Health Fund (CDA2542/A.R.S. § 8-1181)		Non-Appropriated
Source of Revenue: A 4¢ tax per cigarette as well as various increases on other tobacco products.		
Purpose of Fund: To fund the administrative and programmatic costs of the Arizona Early Childhood Development and Health Board. Monies from the fund may supplement, but not supplant, existing early childhood development programs. Up to 10% of the funds each year are deposited into the Administrative Costs Account and at least 90% are deposited into the Program Account for early childhood development programs and grants. The fund was created as a result of a voter initiative (Proposition 203) in the 2006 election.		
Funds Available		
Balance Forward	396,898,400	364,128,300
Revenue:		
Administrative Costs Account	12,783,600	12,600,000
Program Account	115,052,800	113,400,000
Other (Donations and Grants)	<u>356,200</u>	<u>(332,100)</u>
Total Funds Available	525,091,000	489,796,200
Expenditures:		
Administrative Expenditures	12,904,200	15,101,700
Programmatic Expenditures	<u>148,058,500</u>	<u>121,171,600</u>
Total Funds Expended	160,962,700	136,273,300
Year-End Fund Balance	364,128,300	353,522,900
Federal Grants (CDA2000/A.R.S. § 8-1182)		Non-Appropriated
Source of Revenue: Federal Funds.		
Purpose of Fund: To fund special maternal and child health projects along with high-quality preschool programs.		
Funds Expended	1,587,800	9,400,400
Year-End Fund Balance	0	0

Department of Economic Security

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,882.6	4,147.7	4,218.0
Personal Services	84,227,700	72,375,500	72,492,300
Employee Related Expenditures	39,427,400	34,121,500	34,176,800
Professional and Outside Services	20,888,900	13,210,600	13,233,200
Travel - In State	923,300	634,200	634,400
Travel - Out of State	65,200	96,300	96,300
Other Operating Expenditures	52,673,400	30,273,000	33,819,300
Equipment	5,268,800	3,241,000	3,248,700
OPERATING SUBTOTAL	203,474,700	153,952,100	157,701,000
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	9,750,600	11,067,600	11,067,600
Aging and Adult Services			
Adult Services	7,924,100	7,924,100	7,924,100
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	12,123,700
Homeless Capital Grant	375,000	0	0
Rural Long Term Care Assisted Living	19,900	0	0
Benefits and Medical Eligibility			
TANF Cash Benefits	38,599,400	44,999,400	41,499,400
TANF Savings	0	0	(3,971,700)
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
Developmental Disabilities			
DDD Operating Lump Sum	0	47,835,800	47,835,800
Case Management - Medicaid	48,403,700	50,968,300	55,627,300
Home and Community Based Services - Medicaid	762,045,500	900,717,100	983,051,200
Institutional Services - Medicaid	19,220,600	20,737,300	22,632,900
Medical Services - Medicaid	138,695,000	151,677,700	165,542,400
Arizona Training Program at Coolidge - Medicaid	15,403,800	15,822,100	15,822,100
Medicare Clawback Payments	2,902,400	2,928,700	3,370,600
Case Management - State Only	3,978,600	3,912,700	3,912,700
Home and Community Based Services - State Only	19,776,100	21,443,200	16,745,900
State-Funded Long Term Care Services	25,930,800	26,554,000	26,554,000
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
Rehabilitation Services	3,799,100	4,799,100	4,799,100
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
AGENCY TOTAL	1,445,716,100	1,661,230,800	1,758,006,000
FUND SOURCES			
General Fund	482,462,200	496,181,900	520,040,100
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	9,789,900	16,719,600	16,719,600

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
Domestic Violence Shelter Fund	2,220,000	2,220,000	2,220,000
Federal CCDF Block Grant	73,873,300	107,773,600	107,773,600
Federal TANF Block Grant	85,648,800	86,727,700	86,727,700
Long Term Care System Fund (Non-Federal Matched)	28,930,800	31,251,300	26,554,000
Public Assistance Collections Fund	30,800	424,600	424,600
Special Administration Fund	2,817,300	2,939,700	2,939,700
Spinal and Head Injuries Trust Fund	1,807,200	1,874,800	1,874,800
Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	1,000,000
Workforce Investment Act Grant	41,730,500	56,050,500	56,050,500
SUBTOTAL - Other Appropriated Funds	247,848,600	306,981,800	302,284,500
SUBTOTAL - Appropriated Funds	730,310,800	803,163,700	822,324,600
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund (EA)	36,352,500	40,230,200	42,479,100
Long Term Care System Fund (Federal Match)	679,052,800	817,836,900	893,202,300
SUBTOTAL - Expenditure Authority Funds	715,405,300	858,067,100	935,681,400
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,445,716,100	1,661,230,800	1,758,006,000
Other Non-Appropriated Funds	337,176,800	335,108,200	325,314,300
Federal Funds	1,928,553,600	1,944,424,900	1,962,967,200
TOTAL - ALL SOURCES	3,711,446,500	3,940,763,900	4,046,287,500

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.

Summary

The Department of Economic Security's (DES) FY 2017 General Fund Baseline spending would increase by \$23,858,200, or 4.8% above FY 2016, for changes in the Developmental Disabilities (DD) program and the TANF Cash Benefits program.

Statewide Cost Allocation Plan Fund 1,000,000
Workforce Investment Act Grant 2,385,900

FY 2017 adjustments would be as follows:

Expenditure Authority EA 248,900
The Baseline includes an increase of \$248,000 and 3 FTE Positions from the Child Support Enforcement Fund (EA) in FY 2017 to align expenditure authority with actual operations.

Operating Budget

The Baseline includes \$157,701,000 and 1,874.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

Expenditure Alignment OF 3,500,000
The Baseline 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 Other Issues for further discussion of the TANF Cash Benefits surplus.)

	FY 2017
General Fund	\$78,488,700
Child Support Enforcement Administration Fund	13,177,900
Child Support Enforcement Administration Fund (EA)	27,673,700
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	333,700
Special Administration Fund	1,703,800
Spinal and Head Injuries Trust Fund	544,700

Administration

Attorney General Legal Services

The Baseline includes \$11,067,600 and 156.9 FTE Positions in FY 2017 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,229,000
Child Support Enforcement Administration Fund	2,462,600
Child Support Enforcement Administration Fund (EA)	7,144,300
Federal TANF Block Grant	106,100
Federal CCDF Block Grant	17,700
Public Assistance Collections Fund	90,900
Special Administration Fund	5,000
Spinal and Head Injuries Trust Fund	2,000
Workforce Investment Act Grant	10,000

These amounts are unchanged from FY 2016.

Monies in this line item fund all AG legal services for the department.

Aging and Adult Services

Adult Services

The Baseline includes \$7,924,100 from the General Fund in FY 2017 for Adult Services. This amount is unchanged from FY 2016.

This line item provides an array of independent living support to elderly persons, distributed as shown in *Table 1*.

Independent Living Support	
Services	FY 2017
Adult Protective Contracted Services	\$ 295,100
Supplemental Payments	87,500
Home Care	3,768,800
Older Americans Act	1,742,500
Assessments and Case Management	1,568,300
Respite Care	462,000
Total	\$7,924,100^{1/}

^{1/} Numbers do not add due to rounding

Community and Emergency Services

The Baseline 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 Baseline 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 Baseline includes \$12,123,700 in FY 2017 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,000
Federal TANF Block Grant	6,620,700
Domestic Violence Shelter Fund	2,220,000

These amounts are unchanged from FY 2016.

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 Baseline includes \$41,499,400 from the Federal TANF Block Grant in FY 2017 for TANF Cash Benefits. FY 2017 adjustments would be as follows:

Expenditure Alignment	OF	(3,500,000)
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The Baseline 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.

As of October 2015, DES served a regular TANF Cash Benefit caseload of 22,756 individual recipients and 808 Diversion cases. The JLBC Staff projects that regular TANF Cash Benefits caseloads will remain flat at the June FY 2015 level of 22,355 in FY 2016. In FY 2017, caseloads are projected to increase by 2% over the FY 2016 level. Due to a policy change that reduces the lifetime cap on benefits from 24 months to 12 months starting on July 1,

2016, however, the caseloads are expected to see a net decrease to 19,064 in FY 2017.

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 JLBC Staff projects that the average number of diversion cases will be 754 in FY 2016 and FY 2017.

Based on the projected enrollment levels, total FY 2016 TANF Cash Benefits including Diversion payments are estimated to cost \$31,594,400 or \$(13,405,000) below the budget. FY 2017 enrollment levels are estimated to yield a surplus of \$17,263,300. The Baseline shifts \$3,500,000 of TANF dollars from the Cash Benefits line to the operating budget to align appropriations with actual expenditures.

The Baseline contains a new footnote requiring DES to transfer \$3,971,700 from the Federal TANF Block Grant to DCS, and for DCS to transfer a corresponding \$3,971,700 to DES in FY 2017 to realize savings associated with a new 1-year cap on TANF Cash Benefits. After the shift of funds to the operating budget and to DCS, the TANF Cash Benefits line is expected to have a remaining TANF surplus of \$9,791,300 in FY 2017 to allocate to DCS or DES. *(Please see the TANF Savings line item and Other Issues for further discussion of the TANF Cash Benefits surplus.)*

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. Financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

TANF Savings

The Baseline includes \$(3,971,700) from the General Fund in FY 2017 for TANF Savings. FY 2017 adjustments would be as follows:

TANF Savings	GF	(3,971,700)
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The Baseline includes a decrease of \$(3,971,700) from the General Fund in FY 2017 to show savings associated with the new 1-year cap on TANF Cash Benefits.

As permanent law, the FY 2016 Human Services Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 18) reduces the cumulative lifetime limit on regular TANF Cash Benefits from 24 months to 12 months starting on July 1, 2016. The 3-year spending plan associated with the enacted FY 2016 budget assumed that the lower lifetime

limit would yield TANF savings of \$(9.0) million in FY 2017. The savings estimate has been revised down to \$(4.0) million based on updated caseload information from DES.

The savings are to be used to pay existing General Fund costs, thereby freeing up a like amount of General Fund savings. DES states that all of their General Fund dollars are being used to meet Maintenance of Effort (MOE) requirements, leverage Federal Funds, or for purposes that do not qualify for TANF spending. In order to realize the savings, the Baseline reduces the DES FY 2017 General Fund total by \$(4.0) million and contains a new footnote requiring DES to transfer \$4.0 million from the Federal TANF Block Grant to DCS, and for DCS to transfer a corresponding \$4.0 million of General Fund to DES. *(Please see Other Issues for further discussion of the TANF Cash Benefits surplus.)*

Coordinated Hunger Services

The Baseline 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 Baseline 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.

<u>Sources</u>	<u>FY 2017</u>
State Share of Retained Earnings	3,858,700
Federal Incentive Payments	6,300,000
Fees	2,110,200
Excess Appropriation Authority ^{1/}	<u>6,594,500</u>
Total	\$18,863,400
<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>2,143,800</u>
Total	\$18,863,400

^{1/} This line is the difference between appropriation authority and expected revenues.

County Participation

The Baseline 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

FY 2017 adjustments would be as follows:

Expenditure Authority	EA	2,000,000
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The Baseline includes an increase of \$2,000,000 from the CSEA Fund (EA) in FY 2017 to align expenditure authority with actual operations.

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 September 2015, the Division of Developmental Disabilities serves 35,740 clients, which includes 28,496 clients in the LTC program and 7,244 clients in the state-only portion. The primary disabilities are shown in Table 3.

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Cognitive Disability	15,154	42.4%
At Risk	7,782	21.8%
Autism	7,973	22.3%
Cerebral Palsy	3,211	9.0%
Epilepsy	1,525	4.2%
Not Indicated	<u>95</u>	0.3%
Total	35,740	

The LTC program is funded from 2 sources: the General Fund and the Long Term Care System Fund.

Overall DES Formula Adjustments

The Baseline includes an increase of \$27,829,900 from the General Fund in FY 2017 for DES formula changes. Changes are described in further detail below. (Please see *Other Issues* for further discussion of 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 Baseline 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, caseloads are expected to grow by 4.5% to a level of 31,035 by June 2017.

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to Home and Community Based Services (HCBS) and Case Management/Medical Services Only, while caseloads for Institutional Services and the Arizona Training Program at Coolidge were held flat. All clients are eligible for Medical Services and Case Management as necessary, but not all clients access other services in any particular month.

Line Item	FY 15	FY 16 Est	FY 17 Est
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	3,258	3,156	3,156
Total	28,205	29,699	31,035

FY 2016 Capitation Rate Adjustments

The Baseline 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 Baseline includes an increase of \$441,900 from the General Fund in FY 2017 for adjustments associated with Medicare Clawback Payments.

DDD Operating Lump Sum

The Baseline includes \$47,835,800 and 294.3 FTE Positions in FY 2017 for the DDD Operating Lump Sum. These amounts consist of:

General Fund	14,752,600
Long Term Care System Fund	33,083,200

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	430,300
	FMA	(430,300)

The formula adjustments include the federal match rate change.

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 Baseline includes \$55,627,300 and 1,076.9 FTE Positions in FY 2017 for Medicaid Case Management. These amounts consist of:

General Fund	17,124,400
Long Term Care System Fund	38,502,900

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	913,700
	FMA	3,745,300

The formula adjustments include the federal match rate change, 4.5% caseload growth in FY 2017, and a 2.5% capitation rate increase. The Baseline also includes an increase of 67.3 FTE Position authority associated with capitation growth.

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 Baseline includes \$983,051,200 and 94.5 FTE Positions in FY 2017 for Medicaid Home and Community Based Services (HCBS). These amounts consist of:

General Fund	302,624,600
Long Term Care System Fund	680,426,600

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	21,956,400
	FMA	60,377,700

The formula adjustments include the federal match rate change, 4.5% caseload growth in FY 2017, and a 2.5% capitation rate increase.

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 home and community based services in FY 2017 (see Table 4).

Of the \$983,051,200 in this line item, \$970,742,500 funds HCBS services to clients enrolled in the LTC program; the other \$12,308,700 funds program staff.

The budget also includes \$20,000,000 in deferred FY 2016 General Fund payments appropriated in FY 2017 by Laws 2015, Chapter 8 and it defers the same amount for FY 2017 to FY 2018. As a result, the FY 2017 General Fund amount of \$302,624,600 would consist of \$20,000,000 from Chapter 8 and \$282,624,600 from the FY 2017 General Appropriation Act.

Institutional Services - Medicaid

The Baseline includes \$22,632,900 and 74 FTE Positions in FY 2017 for Medicaid Institutional Services. These amounts consist of:

General Fund	6,967,400
Long Term Care System Fund	15,665,500

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	498,500
	FMA	1,397,100

The formula adjustments include the federal match rate change and 4.5% caseload growth in FY 2017.

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 \$22,632,900 in this line item, \$17,067,400 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

Medical Services - Medicaid

The Baseline includes \$165,542,400 and 35.4 FTE Positions in FY 2017 for Medical Services. These amounts consist of:

General Fund	50,960,900
Long Term Care System Fund	114,581,500

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	3,645,100
	FMA	10,219,600

The formula adjustments include the federal match rate change, 4.5% caseload growth in FY 2017, and a 2.5% capitation rate increase.

Background – Of the \$165,542,400 in this line item, \$161,064,400 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 Baseline includes \$15,822,100 and 383.7 FTE Positions in FY 2017 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

General Fund	4,879,500
Long Term Care System Fund	10,942,600

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	(56,000)
	FMA	56,000

The formula adjustments include the federal match rate change.

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 current caseload at ATP-C is 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 \$202,847.

Medicare Clawback Payments

The Baseline includes \$3,370,600 from the General Fund in FY 2017 for Medicare Clawback Payments. FY 2017 adjustments would be as follows:

Formula Adjustments	GF	441,900
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The Baseline 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 Baseline includes \$3,912,700 and 79.3 FTE Positions from the General Fund in FY 2017 for state-only case management. These amounts are unchanged from FY 2016.

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 7,073 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 Baseline includes \$16,745,900 and 53.6 FTE Positions in FY 2017 for state-only Home and Community Based Services. These amounts consist of:

General Fund	16,625,900
Special Administration Fund	120,000

FY 2017 adjustments would be as follows:

Equity Adjustment **OF** **(4,697,300)**

The Baseline 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 on 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. DES has not indicated that there is a shortfall in this line.

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 7,073 clients in the state-only program.

Laws 2015, Chapter 169 appropriated \$120,000 from the Special Administration Fund to provide HCBS services for persons whose services were reduced under the Cost Effective Study (CES) rate as a result of the FY 2015 provider rate increase.

Of the \$16,745,900 in this line item, \$10,728,800 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 Baseline includes \$26,554,000 and 2 FTE Positions from the Long Term Care System Fund in FY 2017 for State-Funded Long Term Care Services. These amounts are unchanged from FY 2016.

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 \$26,554,000 in this line item, \$26,492,200 funds State-Funded Long Term Care Services to clients enrolled in the DD program; the other \$61,800 funds program staff. (Please see Other Issues for further discussion of the SFLTC shortfall.)

Employment and Rehabilitation Services

JOBS

The Baseline 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.

Table 5 Estimated JOBS Expenditures	
Expenditures	Amount
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 Baseline 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.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 165% of the FPL, 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 \$329 per month in FY 2017 and the average subsidy for the DCS population is projected to be \$403 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 October 2015, approximately 1,528 children are on the waiting list. It is unknown how many of those children remain eligible.

Table 6 June Child Care Caseloads			
Category	FY 15	FY 16 est	FY 17 est ^{1/}
TANF	2,233	2,080	1,940
Low-Income Working	11,878	14,120	10,550
Transitional Child Care	<u>4,855</u>	<u>4,850</u>	<u>4,850</u>
Total Served	18,966	21,050	17,340

^{1/} FY 2017 numbers are DES estimates.

Rehabilitation Services

The Baseline includes \$4,799,100 in FY 2017 for Rehabilitation Services. This amount consists of:

General Fund	4,594,400
Spinal and Head Injuries Trust Fund	204,700

These amounts are unchanged from FY 2016.

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 8,932 clients at an average Total Funds cost of \$17,453 per client. Administrative expenditures and local match draw down additional federal match.

The Baseline also includes \$1,000,000 in deferred FY 2016 General Fund payments appropriated in FY 2015 by Laws 2015, Chapter 8, and it defers the same amount for FY 2017 to FY 2018. As a result, the FY 2017 General Fund amount of \$4,594,400 consists of \$1,000,000 from Chapter 8 and \$3,594,400 from the FY 2017 General Appropriation Act.

Independent Living Rehabilitation Services

The Baseline 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 \$3,500.

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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Benefits and Medical Eligibility

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.

Child Support Enforcement

All state shares of retained earnings, fees and federal incentives in excess of \$16,719,600 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.

Aging and Adult Services

All Domestic Violence Shelter Fund monies in excess of \$2,220,000 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 \$2,220,000 to the Joint Legislative Budget Committee.

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.

Developmental Disabilities

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 impact 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.

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.

The Department of Economic Security 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-MR 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.

Before transferring any monies 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.

Employment and Rehabilitation Services

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.

All Federal Workforce Investment Act monies that are received by this state in excess of \$56,050,500 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 \$56,050,500 to the Joint Legislative Budget Committee.

Departmentwide

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.

The Department of Economic Security 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 funds, 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.

New Footnotes (FY 2016)

In FY 2016, the Department of Economic Security shall transfer \$6,752,300 of their FY 2016 Federal TANF Block Grant appropriation from the TANF Cash Benefits line to the Department of Child Safety. The Department of Child Safety shall transfer a corresponding \$6,752,300 of their FY 2016 General Fund appropriation to the Department of Economic Security. The Department of Economic Security shall use these funds to draw down FY 2016 capitation for the Division of Developmental Disabilities. The Department of Economic Security shall request Joint Legislative Budget Committee review before expending

monies for any other purpose. (Please see *Other Issues for further discussion of the TANF Cash Benefits surplus.*)

New Footnotes (FY 2017)

In FY 2017, the Department of Economic Security shall transfer \$3,971,700 of their FY 2017 Federal TANF Block Grant appropriation from the TANF Cash Benefits line to the Department of Child Safety. The Department of Child Safety shall transfer a corresponding \$3,971,700 of their FY 2017 General Fund appropriation to the Department of Economic Security. (Please see the *TANF Savings line item for further discussion.*)

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the proportional reduction of General Fund dollars to the Department of Economic Security and the Department of Child Safety for every Federal TANF Block Grant dollar received in excess of their FY 2017 appropriation. The department does not have the flexibility to backfill General Fund dollars with excess TANF dollars because all General Fund dollars are being used to meet MOE requirements, leverage Federal Funds, or for purposes that do not qualify for TANF spending.

The Baseline would delete the footnote requiring any balance in the Long Term Care System Fund to revert to the General Fund. The balance transfer is now required in statute.

STATUTORY CHANGES

The Baseline would:

- As session law, continue 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.
- As session law, continue to permit DES to reduce income eligibility levels for all child care programs if the program has insufficient resources. DES would be required to report to JLBC within 15 days of any such change in levels.
- As session law, in the General Appropriation Act, continue to defer \$21,000,000 in General Fund payments for FY 2017 until FY 2018. Appropriate \$21,000,000 in FY 2018 for these deferred payments.

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- Long-Term Budget Impacts
- Payment Deferral
- DDD FY 2016 Shortfalls

- Provider Rates
- Appropriation Transfers
- Federal TANF Block Grant

FY 2016 Supplemental

The Baseline recommends a supplemental increase of \$14,893,200 in Long Term Care System Fund Expenditure Authority in FY 2016 to allow DES to draw down and expend matching Federal Medicaid dollars using the \$6,672,300 of transferred General Fund dollars from DCS.

Long-Term Budget Impacts

Beyond FY 2017 Baseline changes, the JLBC Staff estimates that DES statutory caseload changes will require an additional \$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.

Payment Deferral

The Baseline continues the \$21.0 million payment deferral from FY 2017 to FY 2018. DES plans to defer a total of \$21.0 million in payments from the Special Line Items specified below:

Home and Community Based Services - Medicaid	20,000,000
Rehabilitation Services	1,000,000

Laws 2015, Chapter 8 appropriated \$21.0 million in FY 2017 to pay the amount deferred from FY 2016 to FY 2017. This amount does not appear in the General Appropriation Act; however, the amount is included in the agency General Fund totals in this report. As a result, the FY 2017 DES General Fund amount of \$524.0 million would consist of \$21.0 million from the deferral appropriation in Chapter 8 and \$503.0 million from the FY 2017 General Appropriation Act.

DDD FY 2016 Shortfalls

FY 2016 Capitation Shortfall

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 FY 2016 budget may not have enough General Fund appropriation to fully fund the DD capitation rates. The JLBC Staff estimates that the program may have a shortfall of \$3.6 million for this purpose in FY 2016.

In addition, DES has stated that they used \$3.2 million of the FY 2016 General Fund appropriation to draw the entire FY 2015 capitation amount. This is in addition to the FY 2016 shortfall, bringing the total 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.

As part of the Baseline, JLBC Staff proposes to resolve this issue by exchanging surplus DES TANF Cash Benefits dollars for DCS General Fund dollars (see new FY 2016 footnote in the Baseline).

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.

State-Funded Long Term Care Services Shortfall

The state deposits State-Funded Long Term Care (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 FY 2016 budget assumed DES would have the option of utilizing a portion of the surplus from the TANF Cash Benefit program in FY 2016 as a solution for the FY 2016 shortfall. In that circumstance, DES would need to allocate the surplus to offset General Fund spending in other non-DD areas of DES, and use those freed-up General Fund dollars to support the SFLTC line. However, DES states that all of their General Fund dollars are being used to meet MOE requirements, leverage Federal Funds, or for purposes that do not qualify for TANF spending, so they cannot be replaced with surplus TANF dollars.

This issue could be addressed by a second exchange of surplus TANF Cash Benefits dollars for DCS General Fund dollars. The Baseline does not address the \$2.9 million SFLTC issue. (Please see Federal TANF Block Grant section for further discussion of the TANF Cash Benefits Surplus.)

Table 8
State-Funded Long Term Care Revenues (SFLTC)
Sources and Uses

	<u>FY 2015</u> <u>Actual</u>	<u>FY 2016</u> <u>Estimate</u>	<u>FY 2017</u> <u>Estimate</u>
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
Other	<u>1,137,300</u>	<u>1,137,300</u>	<u>1,137,300</u>
Total	\$30,467,400	\$26,021,700	\$25,399,700
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)	\$ (4,362,800)

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%.

There are a number of policy choices and strategies the Legislature may consider to fund adjustments to provider rates, in addition to any capitation adjustments for inflation and utilization. For example, the Legislature could fund a percentage adjustment for providers, as was done in the FY 2015 budget when HCBS providers received an across-the-board 2% increase, or the Legislature could allow DES to decide how to implement the increase, as was done with the 1.5% increase in FY 2016. The Legislature could also fund increases and decreases for certain provider rates or use a combination of any of these strategies. A guaranteed provider rate increase may cause costs to exceed the budget.

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 2016 budget included a footnote requiring DES to submit a report for review to the Joint Legislative Budget committee 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.

DES reports that they have historically transferred appropriation authority from the HCBS - Medicaid line to other lines, particularly the DDD operating budget. The Legislature may want to determine whether or not to rebase the appropriations in the DDD Medicaid line items to align them with historical expenditures.

Federal TANF Block Grant

The Baseline appropriates \$218.7 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.

TANF Cash Benefits Surplus

TANF Cash Benefits caseloads have been declining over the past several years which is estimated to leave a surplus in FY 2016 and FY 2017 of \$13.4 million and \$17.8 million, respectively. The higher surplus estimate in FY 2017 is due to a provision in Laws 2015, Chapter 18 that reduces the cumulative lifetime limit on regular TANF Cash Benefits from 24 months to 12 months starting on July 1, 2016. The FY 2016 budget assumed that DES would be able to utilize these surplus TANF funds to address a shortfall in the SFLTC line in FY 2016, and to create \$(9.0) million of General Fund savings in FY 2017.

In order to cover the FY 2016 shortfall and to realize General Fund savings in FY 2017, DES would need to allocate the surplus TANF dollars to offset General Fund spending in non-DD areas of DES. However, DES states that all of their General Fund dollars are being used to meet MOE requirements, leverage Federal Funds, or for purposes that do not qualify for TANF spending. Therefore, the SFLTC shortfall and the assumed FY 2017 savings may not be able to be addressed with General Fund dollars from DES.

The JLBC Staff has identified \$8.5 million of General Fund dollars in the DCS Intensive Family Services line and \$10.5 million of General Fund dollars in the DCS Permanent Guardianship line that may be eligible to be replaced with TANF surplus dollars instead of using General Fund from DES.

The Baseline includes a new footnote requiring DES to transfer \$6.8 million of the Federal TANF Block Grant to DCS in FY 2016, and for DCS to transfer a corresponding \$6.8 million of General Fund to DES to allow DES to draw down FY 2016 capitation in the Division of Developmental Disabilities. In addition, DES is expected to transfer \$3.5 million of TANF from the Cash Benefits line to their operating budget, leaving an estimated \$3.1 million of surplus, unallocated TANF in FY 2016 (the \$3.5 million is not displayed in the FY 2016 column in the agency Baseline table). To address the FY 2016 SFLTC shortfall issue, DES would require an additional transfer of \$2.9 million TANF for General Fund between DES and DCS. The Baseline does not address the SFLTC issue.

In FY 2017, the Baseline shifts \$3.5 million of TANF dollars from the Cash Benefits line to the operating budget to align appropriations with actual expenditures. The Baseline also shifts \$4.0 million of TANF dollars from the Cash Benefits line to a new TANF 1-Year Cap Savings line, which represents the revised TANF savings associated with lowering the lifetime limit on benefits to 12 months. After these shifts, the TANF Cash Benefits line is expected to have an additional TANF surplus of \$9.8 million in FY 2017 that may be eligible to use in DCS or DES.

Table 9

TANF Block Grant Spending

	Actual FY 2015	Estimate FY 2016	Estimate FY 2017
Revenues			
Beginning Balance	\$ 1,547,200	\$ 6,320,900	\$ 9,421,400
Administrative Adjustments ^{1/}	(1,078,900)	-	-
TANF Base Revenues	200,141,300	200,141,300	200,141,300
TANF Contingency Fund Revenues	22,296,100	21,687,300	21,687,300
Total TANF Available	\$ 222,905,700	\$ 228,149,500	\$ 231,250,000
Expenditures			
Department of Child Safety			
DCS Operating	\$ 46,928,000	\$ 46,928,000	\$ 46,928,000
<u>Line Items</u>			
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	16,645,700	20,645,700	20,645,700
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	678,600	1,743,000	1,743,000
In-Home Preventive Support Services	0	5,911,200	5,911,200
Out-of-Home Support Services	38,779,000	28,867,800	28,867,800
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 130,936,000	\$ 132,000,400	\$ 132,000,400
Department of Economic Security			
DES Operating	\$ 23,198,500	\$ 16,815,500	\$ 20,315,500
<u>Line Items</u>			
Administration			
Attorney General Legal Services	\$ 27,300	\$ 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 Community Services	\$ 11,994,200	\$ 11,994,200	\$ 11,994,200
Benefits and Medical Eligibility			
TANF Cash Benefits	\$ 38,599,400	\$ 44,999,400	\$ 41,499,400
Coordinated Hunger Program	500,000	500,000	500,000
Total - Benefits and Medical Eligibility	\$ 39,099,400	\$ 45,499,400	\$ 41,999,400
Employment and Rehabilitation Services			
JOBS	\$ 8,611,600	\$ 9,594,700	\$ 9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
Total - Employment and Rehabilitation Services	\$ 11,329,400	\$ 12,312,500	\$ 12,312,500
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 85,648,800	\$ 86,727,700	\$ 86,727,700
TOTAL - STATEWIDE	\$ 216,584,800	\$ 218,728,100	\$ 218,728,100
Ending Balance	\$ 6,320,900	\$ 9,421,400	\$ 12,521,900

^{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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Child Restraint Fund (DEA2192/A.R.S. § 28-907)		Non-Appropriated
Source of Revenue: Fines or penalties from parents, guardians, or legal custodians who fail to sufficiently restrain in motor vehicles children under the age of 4 or weighing less than 40 pounds.		
Purpose of Fund: To purchase child passenger restraint systems and provide them to hospitals for loan to indigent persons. Monies in the fund shall not exceed \$20,000. All monies collected over \$20,000 shall be deposited in the Arizona Highway User Revenue Fund. This fund is now administered by the Department of Child Safety.		
Funds Expended	110,800	0
Year-End Fund Balance	0	0
Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)		Partially-Appropriated
Source of Revenue: State Share of Retained Earnings from child support collections, federal incentives, and fees.		
Purpose of Fund: To fund the statewide Child Support Enforcement program.		
Appropriated Funds Expended	9,789,900	16,719,600
Expenditure Authority Funds Expended	36,352,500	40,230,200
Year-End Fund Balance*	(871,200)	(7,492,800)
Client Trust Fund (DEA3152/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.		
Purpose of Fund: To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
Funds Expended	914,700	885,800
Year-End Fund Balance	282,100	0
Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Consists of client monies, such as Social Security, earnings, etc.		
Purpose of Fund: If consumers need assistance in handling their funds and no other person is available, the division is appointed to be the representative payee and is authorized to administer the personal funds of these consumers.		
Funds Expended	804,700	10,000
Year-End Fund Balance	668,600	1,458,600
Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572)		Non-Appropriated
Source of Revenue: Proceeds from the sale or lease of the real property and buildings used by the department for the Arizona Training Program at Phoenix (ATP-P) and the interest earned in those funds.		
Purpose of Fund: To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.		
Funds Expended	76,200	62,700
Year-End Fund Balance	62,200	0
Domestic Violence Shelter Fund (DEA2160/A.R.S. § 36-3002)		Appropriated
Source of Revenue: A portion of monies (8.87%) from statutory filing and copy fees collected by the Superior Court. Another portion of monies is from a \$50 fee for aggravated harassment, stalking, and other violent family offences. Monies also come from voluntary contributions using tax returns or federal grants, private grants, or other private gifts or contributions.		
Purpose of Fund: To fund grants to qualified shelters for victims of domestic violence.		
Funds Expended	2,220,000	2,220,000
Year-End Fund Balance	2,194,900	2,498,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954)		Non-Appropriated
Source of Revenue: Grants, gifts, or bequests.		
Purpose of Fund: To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest. Monies received for developmental disabilities purposes are maintained in a separate account.		
Funds Expended	2,000	5,300
Year-End Fund Balance	151,900	152,600
Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116)		Non-Appropriated
Source of Revenue: Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.		
Purpose of Fund: To be used by the department for buildings, equipment, and other capital investments.		
Funds Expended	100,000	224,500
Year-End Fund Balance	346,400	172,200
Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To be used for developing child care programs and policies that promote parental choice; providing consumer education to help parents make informed choices on child care; providing child care to welfare recipient parents; and implementing health, safety, licensing, and registration standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. DCS has a separate allocation of CCDF.		
Funds Expended	73,873,300	107,773,600
Year-End Fund Balance*	(11,159,800)	(27,957,700)
Federal Grants (DEA2000/A.R.S. § 41-101.01)		Non-Appropriated
Source of Revenue: Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Food Stamp administration and the Social Services Block Grant, and Medicaid.		
Funds Expended	1,928,553,600	1,944,424,900
Year-End Fund Balance	26,228,400	12,407,700
Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families. DCS has a separate allocation of TANF.		
Funds Expended	85,648,800	86,727,700
Year-End Fund Balance	6,320,900	9,421,400
Arizona Industries for the Blind Fund (DEA4003/A.R.S. § 41-1975)		Non-Appropriated
Source of Revenue: Proceeds from sales of products of Arizona Industries for the Blind, as well as interest earned on the fund balance.		
Purpose of Fund: To provide funds for the wages and salaries of production workers, inspectors, and other employees necessary for the operation of the training centers, workshops, or home industries; supplies, equipment or other incidental costs.		
Funds Expended	18,895,600	19,400,800
Year-End Fund Balance	1,194,800	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Interagency Service Agreement Fund (DEA2500/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement. Laws 2014, Chapter 2 appropriated these monies to ADOA to pay for costs associated with the relocation of the data center operated by DES.		
Funds Expended	0	7,936,400
Year-End Fund Balance	3,000,000	0
Arizona Job Training Fund (DEA1237/A.R.S. § 41-1544 [repealed])		Non-Appropriated
Source of Revenue: DES collects 0.1% of taxable wages per A.R.S. § 23-622 from employers for the job training tax and transfers all funds to the Arizona Commerce Authority. The revenue received by DES in this fund is the reimbursement for expenditures incurred for the purpose of collecting the job training tax. The FY 2015 Revenue BRB (Laws 2015, Chapter 10) repeals the job training tax effective December 31, 2015 and redirects unencumbered monies in the fund as of December 31, 2016 to the Unemployment Compensation Fund and General Fund.		
Purpose of Fund: To collect the job training tax.		
Funds Expended	1,039,100	495,500
Year-End Fund Balance	39,400	0
Long Term Care System Fund (Federal Match) (DEA2225/A.R.S. § 36-2953)		Expenditure Authority
Source of Revenue: Federal Medicaid Authority monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system.		
Funds Expended	679,052,800	817,836,900
Year-End Fund Balance*	76,521,700	(2,096,300)
Long Term Care System Fund (Non-Federal Matched) (DEA2224/A.R.S. § 36-2953)		Appropriated
Source of Revenue: Client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system. These monies are used to offset costs of services provided to Long Term Care clients which are not reimbursed by the federal government, such as room and board.		
Funds Expended	28,930,800	31,251,300
Year-End Fund Balance	0	0
Neighbors Helping Neighbors Fund (DEA2348/A.R.S. § 46-741)		Non-Appropriated
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To provide assistance in paying utility bills, conserving energy and weatherization to eligible individuals. Fund monies are available to designated community action or other agencies currently providing energy assistance services to eligible individuals. An amount of not more than 2% of the fund monies may be used by DES, and an amount of not more than 8% of the fund monies may be used by the designated agencies for administrative costs.		
Funds Expended	34,200	35,000
Year-End Fund Balance	38,200	28,100
Public Assistance Collections Fund (DEA2217/A.R.S. § 46-295)		Appropriated
Source of Revenue: A portion of monies collected in recovery payments from ineligible or overpaid public assistance recipients and reimbursements received from persons legally responsible for support of public assistance recipients. The fund receives 25% of the monies collected. The remaining 75% of revenues are credited to the General Fund.		
Purpose of Fund: To improve public assistance collection activities.		
Funds Expended	30,800	424,600
Year-End Fund Balance*	200,200	(139,400)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Special Administration Fund (DEA2066/A.R.S. § 23-705)		Appropriated
Source of Revenue: Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.		
Purpose of Fund: To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.		
Funds Expended	2,817,300	2,939,700
Year-End Fund Balance	6,023,500	2,916,400
Special Olympics Tax Refund Fund (DEA3207/A.R.S. § 41-173)		Non-Appropriated
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To contract with a nonprofit entity for delivery of those services essential to the Arizona Special Olympics' programs and to cover the Department of Revenue's costs for administering the refund checkoff.		
Funds Expended	46,800	40,200
Year-End Fund Balance	0	0
Spinal and Head Injuries Trust Fund (DEA2335/A.R.S. § 41-3203)		Appropriated
Source of Revenue: The fund receives 22% of monies deposited in the Medical Services Enhancement Fund (MSEF). MSEF revenues consist of a 13% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses, civil motor statute violations, and game and fish violations.		
Purpose of Fund: For 1) prevention and education of spinal and head injuries; 2) rehabilitation, transitional living and equipment necessary for daily living activities; 3) a portion of the cost of the disease surveillance system and statewide referral services for those with head injuries and spinal cord injuries; 4) costs incurred by the Advisory Council on Spinal and Head Injuries; and 5) DES' costs for administering the provisions.		
Funds Expended	1,807,200	1,874,800
Year-End Fund Balance	2,605,100	3,084,200
Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954)		Appropriated
Source of Revenue: Federal reimbursement.		
Purpose of Fund: General operations.		
Funds Expended	1,000,000	1,000,000
Year-End Fund Balance	0	0
Unemployment Insurance Benefits Fund (DEA7510/A.R.S. § 23-701)		Non-Appropriated
Source of Revenue: Employer contributions and interest earnings. The monies are maintained and tracked in 2 separate accounts: one by the U.S. Treasury and one by the state, which is used for clearing and paying benefits. The majority of the funds available are in the U.S. Treasury account. DES, as federally required, deposits all employer contributions, other than those retained for immediate benefit payments, in the U.S. Treasury, which tracks each state's account separately.		
Purpose of Fund: To retain and invest formula-determined employer unemployment contributions to be used for payment of future unemployment benefits and refunds pursuant to § 903 of the federal Social Security Act. This fund provides regular unemployment benefits up to 26 weeks. Benefits extended beyond that time are federally funded and included in the Federal Grants fund.		
Funds Expended	314,017,800	305,900,000
Year-End Fund Balance	136,073,600	296,314,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Unemployment Special Assessment Fund (DEA2558/A.R.S. § 23-730.01 [repealed]) **Non-Appropriated**

Source of Revenue: A Special Assessment (SA) on taxable wages paid in calendar years 2011 and 2012 only. In 2011 and 2012, the assessment was 0.4% and 0.5% respectively.

Purpose of Fund: The Director of DES had the discretion to set a SA in order to pay interest owed to the U.S. Department of the Treasury due to borrowing to continue to pay Unemployment Insurance (UI) benefits as well as to return the UI Trust Fund to solvency and avoid the loss of employer federal UI tax credits. Revenue in this fund was transferred to the UI Special Assessment Proceeds Fund.

Funds Expended	1,134,900	112,000
Year-End Fund Balance	0	0

Workforce Investment Act Grant (DEA2001/U.S. P.L. 105-220) **Appropriated**

Source of Revenue: Federal formula grant.

Purpose of Fund: To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.

Funds Expended	41,730,500	56,050,500
Year-End Fund Balance	25,180,600	17,159,200

*As reported by the agency. Actual ending balance will not be negative.

State Board of Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	0.0	11.0	11.0
Personal Services	0	650,500	650,500
Employee Related Expenditures	0	255,000	255,000
Professional and Outside Services	0	363,300	363,300
Travel - In State	0	2,000	2,000
Travel - Out of State	0	5,000	5,000
Other Operating Expenditures	0	329,200	329,200
Equipment	0	100,000	100,000
AGENCY TOTAL	0	1,705,000	1,705,000
FUND SOURCES			
General Fund	0	1,325,200	1,325,200
<u>Other Appropriated Funds</u>			
Teacher Certification Fund	0	379,800	379,800
SUBTOTAL - Other Appropriated Funds	0	379,800	379,800
SUBTOTAL - Appropriated Funds	0	1,705,000	1,705,000
TOTAL - ALL SOURCES	0	1,705,000	1,705,000

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 Baseline includes \$1,705,000 and 11 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$1,325,200
Teacher Certification Fund	379,800

These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

Other Issues

Background

The FY 2016 budget included an increase of \$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 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 of Education's (ADE) budget in FY 2015 due to a transfer from the Department of Education K-3 Reading line item for FY 2016 as a cost allocation measure.

K-3 Reading

A.R.S. § 15-211 requires the State Board of Education, in collaboration with the Department of Education, to establish a K-3 reading program to improve the reading proficiency of pupils in Grades K-3. Ongoing responsibilities of the State Board of Education and the Department of Education for the K-3 Reading program remain to be determined. (See the Department of Education budget for more information.)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Teacher Certification Fund (BOE2399/A.R.S. § 15-531)		Appropriated
Source of Revenue: Fees collected by the Department of Education from teachers and other school personnel who apply for professional certification.		
Purpose of Fund: To fund investigations of alleged immoral or unprofessional conduct from persons applying for professional certification pursuant to A.R.S. § 15-534C.		
Funds Expended	0	379,800
Year-End Fund Balance	0	0

Department of Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.9	164.9	164.9
Personal Services	4,543,100	5,297,300	5,421,300
Employee Related Expenditures	1,648,500	1,929,300	1,975,700
Professional and Outside Services	398,400	135,300	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	1,301,300	2,177,300
Equipment	842,500	77,400	1,118,200
OPERATING SUBTOTAL	9,357,500	8,775,700	11,975,700
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,341,523,300	3,621,149,600	3,714,100,100
State Aid Supplement	0	50,000,000	50,000,000
Additional Inflation	0	0	0
K-3 Reading	40,005,400	39,917,300	0
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	390,292,000
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	16,422,400
Adult Education	4,486,900	4,500,000	4,500,000
Alternative Teacher Development Program	0	500,000	500,000
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
English Learner Administration	6,451,100	6,507,900	6,507,900
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
School Safety Program	4,125,800	3,646,500	3,646,500
State Block Grant for Vocational Education	11,575,400	11,560,900	11,560,900
Student Success Fund Deposit	22,400,000	0	0
Teacher Certification	1,656,100	1,834,500	1,834,500
Technology-Based Language Development and Literacy Intervention Pilot Program	0	246,800	0
Tribal College Dual Enrollment Program Fund	0	0	160,000
State Board of Education			
State Board of Education	1,036,500	0	0
AGENCY TOTAL	3,899,374,400	4,170,932,000	4,258,066,700
FUND SOURCES			
General Fund	3,831,124,100	3,941,873,900	4,026,031,700
<u>Other Appropriated Funds</u>			
Department of Education Empowerment Scholarship Account Fund	200,100	399,000	399,000

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
FUND SOURCES			
Department of Education Professional Development Revolving Fund	777,700	0	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
Student Success Fund	18,746,600	0	0
Teacher Certification Fund	2,050,400	1,971,800	1,971,800
Technology-Based Language Development and Literacy Intervention Fund	0	246,800	0
Tribal College Dual Enrollment Program Fund	0	0	160,000
SUBTOTAL - Other Appropriated Funds	68,250,300	229,058,100	232,035,000
SUBTOTAL - Appropriated Funds	3,899,374,400	4,170,932,000	4,258,066,700
Other Non-Appropriated Funds	521,847,700	593,607,700	593,607,700
Federal Funds	1,135,613,800	1,175,376,900	1,175,376,900
TOTAL - ALL SOURCES	5,556,835,900	5,939,916,600	6,027,051,300

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.

Summary

In October 2015, Laws 2015, 1st Special Session, Chapters 1 and 2 were enacted into law, with Chapter 1 being conditional upon voter approval of Proposition 123 in May 17, 2016. This legislation would increase the per pupil “base level” in the Basic State Aid formula by \$173.26 beginning in FY 2016, fund part of the cost of that increase through higher land trust distributions through FY 2025, and appropriate monies for “Additional Funding” (“State Aid Supplement”) through FY 2025.

This narrative assumes passage of Proposition 123. If it does not pass, the \$173.26 base level increase will not occur and monies for “Additional Funding” would not be appropriated. (See *Other Issues for more information.*)

ADE’s FY 2017 General Fund Baseline spending would increase by \$84,157,800, or 2.1%. The Baseline includes the following changes:

- A decrease of \$(2,400,000) for a base adjustment for higher-than-budgeted savings from multisite charter small school weight reductions in FY 2016.
- An increase of \$83,575,700 for 1.4% 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 \$64,745,200 for a 1.15% inflator.

- A decrease of \$(43,194,700) for local property tax growth due to new construction offset by Homeowner’s Rebate impact of \$4,859,700.
- An increase of \$26,128,600 for higher Homeowner’s Rebate costs due to recent statutory changes.
- A decrease of \$(1,893,000) to eliminate remaining district-sponsored charter schools.
- A decrease of \$(6,500,000) for small school weight for multisite charter phase out.
- A decrease of \$(31,000,000) to eliminate a 1-year hold harmless for school district ADM declines.
- A decrease of \$(30,000,000) for reductions in Base Support Level (BSL) funding for students who attend Joint Technical Education Districts (JTEDs).
- An increase of \$700,000 for Empowerment Scholarship Accounts (ESAs).
- A decrease of \$(363,700) to offset higher available endowment earnings under Proposition 123.

As part of the Baseline’s 3-year spending plan, ADE General Fund costs are projected to increase by \$137,569,200 in FY 2018 above FY 2017 and \$123,564,300 in FY 2019 above FY 2018. (See *Other Issues for more information.*)

Operating Budget

The Baseline includes \$11,975,700 and 95.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<u>FY 2017</u>
General Fund	\$8,739,400
Department of Education Empowerment Scholarship Account Fund	399,000
Department of Education Professional Development Revolving Fund	2,700,000
Teacher Certification Fund	137,300

FY 2017 adjustments would be as follows:

K-3 Reading Transfer GF 500,000

The Baseline includes an increase of \$500,000 and 2 FTE Positions from the General Fund 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 would be required for FY 2017 because the Baseline would eliminate the separate K-3 Reading line item and instead fund the program's formula costs through Basic State Aid. *(See the Transfer K-3 Reading Monies policy issue under Basic State Aid for more information.)*

ESA Administration OF 0

The Baseline includes no change 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 would continue to provide the department with \$399,000 in ESA administration funding for FY 2017. The Baseline would continue a General Appropriation Act footnote stipulating that the Baseline 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 2016 would be as much as \$1,355,000 (an estimated \$27,100,000 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 Other Issues for more information regarding Empowerment Scholarship Account Administration.)*

Professional Development OF 2,700,000

The Baseline includes an increase of \$2,700,000 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 FY 2016 budget did not appropriate any DEPDRF monies to the department, but the Baseline proposes \$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 Baseline would maintain program funding for FY 2017 at the \$2,700,000 level proposed for supplemental funding for FY 2016.

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.

Formula Programs

Basic State Aid

The Baseline includes \$3,714,100,100 in FY 2017 for Basic State Aid. This amount consists of:

General Fund	3,494,295,900
Permanent State School Fund	219,804,200

The \$3,714,100,100 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.

(See Other Issues for background information regarding the Basic State Aid formula.)

FY 2017 adjustments would be as follows:

Base Adjustment GF (2,400,000)

The Baseline 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 will reduce 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.)*

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)
Enrollment Growth @ 1.4%	83,575,700
Higher Average Cost Per Pupil	19,500,000
1.15% Inflator	64,745,200
Property Taxes from New Construction	(43,194,700)
Endowment Earnings	(363,700)
Eliminate Hold Harmless for Enrollment Losses	(31,000,000)
JTED 7.5% Reduction	(30,000,000)
Multisite Charter Small School Weights	(6,500,000)
Eliminate District Sponsored Charter Schools	(1,893,000)
Move K-3 Reading Funding	39,417,300
Empowerment Scholarship Accounts	<u>700,000</u>
FY 2017 Baseline	\$3,494,295,900
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 Baseline	\$ 219,804,200
Prop 301 Sales Tax (no change) ^{1/}	\$ 86,280,500
Local Property Taxes ^{1/}	
FY 2016 Base - estimated	\$2,402,376,400
Property Taxes from New Construction	43,194,700
Non-State Aid Formula Changes	13,425,700
Non-State Aid Eliminate Hold Harmless	<u>(9,000,000)</u>
FY 2017 Baseline ^{2/}	<u>\$2,449,996,800</u>
Grand Total (all sources) ^{3/}	\$6,250,377,400

^{1/} Non-appropriated, so excluded from appropriated totals.

^{2/} An estimated \$401,071,200 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.

^{3/} 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 Baseline on a session law basis, including the impact on non-state aid districts.

Enrollment Growth GF 83,575,700

The Baseline includes an increase of \$83,575,700 from the General Fund in FY 2017 for enrollment growth. This assumes that K-12 ADM will increase by 1.4% in FY 2017 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

Table 2

K-12 ADM (unweighted)^{1/}

Fiscal Year	District ^{2/}	Charter ^{3/}	Total	Change	% Change
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	929,732	176,725	1,106,457	14,929	1.4%
2018 est	935,893	185,612	1,121,505	15,048	1.4%
2019 est	942,100	194,604	1,136,704	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 GF 19,500,000

The Baseline 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) and 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.

1.15% Inflation Adjustment GF 64,745,200

The Baseline includes an increase of \$64,745,200 from the General Fund in FY 2017 for a 1.15% 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. A 1.15% inflation adjustment would result in a base level of \$3,654.00 per pupil for FY 2017 versus \$3,600.00 for FY 2016.

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, would change the base level to \$3,600.00 per pupil for FY 2016 if voters approve Proposition 123 in May 2016. (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 assumed FY 2017 adjustment is 1.15%, which equals the currently projected 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 GF (43,194,700)

The Baseline includes a decrease of \$(43,194,700) from the General Fund in FY 2017 due to a projected 1.8% 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 \$43,194,700 in FY 2017. It also will decrease state costs by \$(43,194,700), 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 1.7% in FY 2016, resulting in a net 3.5% NAV increase for new construction and existing property combined for FY 2017.

The projected 1.7% 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 \$4.12 (from \$4.20 currently) and the SETR will decrease to \$0.4967 (from \$0.5054 currently) in FY 2017 in order to offset the estimated 1.7% NAV increase for existing property (see *Table 4*).

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	\$2.0617	
• Unified districts and elementary districts not located within a high school district	\$4.1954	\$4.1234	
• State Equalization Tax Rate (SETR)	\$0.5054	\$0.4967	

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 GF (363,700) OF 363,700

The Baseline 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*).

Table 5

Estimated K-12 Endowment Earnings for Basic State Aid ^{1/}			
Source	FY 2016	FY 2017	Change
Original 2.5% ^{2/}	\$47,359,500	\$47,359,500	\$0
New 4.4% ^{2/}	172,081,000	172,444,700	363,700
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 9*).

^{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 approve Proposition 123 in May 2016.

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.

If Proposition 123 is not approved by voters, the Legislature will need to modify a General Appropriation Act footnote that specifies the amount of Basic State Aid funding that is to come from expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2017 (see *Footnotes section below for more information*).

Eliminate Hold Harmless GF (31,000,000)

The Baseline 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 state aid to school districts statewide by an estimated \$(31,000,000) for FY 2017.

The FY 2016 K-12 Education BRB required the department to notify school districts by December 15, 2015 on how it plans to implement current year ADM funding in FY 2017 and report the estimated fiscal impact by district. In its report, which is based on ADM data from FY 2015, the department estimates 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, assumes 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 Baseline assumes that a statutory change would clarify that DAA would continue to be funded based on prior year ADM in FY 2017, which would forego the DAA increase included in the department’s estimates. The Baseline 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 *Statutory Changes section for more information.*)

JTED Reduction GF (30,000,000)

The Baseline includes a decrease of \$(30,000,000) from the General Fund in FY 2017 for a JTED funding reduction authorized by the FY 2016 K-12 Education BRB.

Beginning in FY 2017, the BRB permanently requires Base Support Level (BSL) funding for students who attend JTEDs to be funded at 92.5% for both the “sending” district or charter and for the JTED itself, except that districts and charters sending students to a JTED centralized campus will still receive full BSL funding for them. This change for satellite and central campus sites combined will reduce state aid to JTEDs, districts and charters by an estimated \$(30,000,000) statewide for FY 2017.

The FY 2016 K-12 Education BRB allows a school district or charter school that experiences a funding loss due to the 92.5% BSL funding factor for JTED satellite students to use a portion of its JTED satellite funding to offset the loss, up to the amount of the loss. A school district typically would lose about \$375 in BSL funding per pupil under the 7.5% BSL reduction scheduled for FY 2017 (\$5,000 rough average non-JTED BSL funding per pupil X 1.0 ADM X 7.5% = \$375). This amount, plus the 7.5% reduction in the satellite site’s JTED funding (\$5,000 X 0.25 ADM X 7.5% = \$94) would generate a total funding loss of approximately

\$469 per JTED satellite pupil ($\$375 + \$94 = \$469$). A satellite site would lose the entire \$469 (roughly) if its school district required it to offset the district’s whole \$375 revenue loss per JTED satellite pupil.

Satellite sites receive approximately \$1,000 in net formula funding per 0.25 ADM pupil from their regional JTED after the latter deducts a portion for regional JTED costs. A revenue loss of \$469 per pupil, therefore, could represent approximately 47% of a satellite site’s net JTED funding ($\$469 \text{ loss per pupil} \div \$1,000 \text{ total JTED funding per pupil} \approx 47\%$).

The FY 2016 K-12 Education BRB does not allow a school district to prohibit or discourage students from attending a JTED.

On a related note, the FY 2016 K-12 Education BRB continues to suspend 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2016 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 2016. The FY 2017 Baseline would continue this suspension for an assumed continuing savings of \$1,747,400.

Multisite Charter Small School

Weight Reduction GF (6,500,000)

The Baseline includes a decrease of \$(6,500,000) 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 funds school weights for most multisite charter schools at 66% for FY 2016 and 33% for FY 2017. The FY 2016 K-12 Education BRB makes multisite charters ineligible for small school weight funding after FY 2017 unless their combined student counts are 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 (\$20,000,000 total over 3 years). The Baseline assumes a savings of \$(6,500,000) in FY 2017 for this issue. The \$(6,500,000) savings estimate for FY 2017 is under review, however, as a revised estimate from the department projects that the phase out will reduce state costs by approximately \$(8,900,000) rather

than \$(6,500,000) in FY 2016. (See Base Adjustment policy issue above for more information.)

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 GF (1,893,000)

The Baseline includes a decrease of \$(1,893,000) from the General Fund in FY 2017 from the elimination of all remaining district-sponsored charter schools in FY 2017.

A.R.S. § 15-183C allows school districts to establish district-sponsored charter schools (DSCS). Prior to FY 2014, fewer than 2,400 students attended DSCS. By FY 2015, however, that number increased to approximately 39,000 students. This increased 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 DSCS that operated prior to FY 2014, however, to remain in operation. The FY 2016 K-12 Education BRB funds “incremental monies” (the difference between district and charter per pupil formula funding) for the latter DSCS at 50% for FY 2016. It also includes language indicating that the Legislature intends to eliminate all remaining district-sponsored charter schools after FY 2016.

The 50% funding factor in effect for FY 2016 is reducing state aid to the remaining district-sponsored charter schools by an estimated \$(1,181,400) for FY 2016. It also is reducing local funding to non-state aid districts by an estimated \$(1,115,000) in FY 2016. Eliminating the remaining 50% of district-sponsored charter school funding therefore would reduce state General Fund costs for Basic State Aid costs by an estimated \$(1,181,400) in FY 2017.

The Baseline would include statutory language repealing the authority for school districts to sponsor charter schools. It also would repeal statutory language that otherwise would require school districts to repay Charter Additional Assistance funding that they have received for their charter schools since they began operations. In addition, it would amend existing session law language from Laws 2014, Chapter 16, Section 5 that currently is

being interpreted as entitling former DSCS districts to unintended District Additional Assistance growth funding. (See *Statutory Changes* section for more information.)

Transfer K-3 Reading Monies GF 39,417,300

The Baseline includes an increase of \$39,417,300 from the General Fund in FY 2017 to move K-3 Reading funding from a separate line item to Basic State Aid. This would incorporate funding for the K-3 Reading Group B weight into Basic State Aid, which is the historical practice for all other formula weights.

In addition, current practice does not display the full cost of the weight, as the annual appropriation to the K-3 Reading program only reflects 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 initial cost X (3.8% + 10.1%) = \$5,560,000).

The Baseline also would transfer \$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.)

Rollover GF 0

The Baseline includes no change from the General Fund in FY 2017 for the K-12 rollover. This would continue 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 would affect only school districts with more than 600 students, as has been the policy since FY 2013. The Baseline would continue to exempt small districts from the K-12 rollover in FY 2017, which would 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 would 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, will not

appear in the FY 2017 General Appropriation Act. The Act, however, would advance appropriate \$930,727,700 from the General Fund in FY 2017 in order to fund the deferred FY 2016 obligation.

A continued \$930,727,700 rollover for FY 2017 would 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 GF 0**

The Baseline 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 would continue to suspend \$(352,442,700) of DAA state aid and \$(18,656,000) of CAA for FY 2017.

School districts will receive an estimated \$59,428,200 in DAA funding in FY 2017, plus an estimated \$5,000,000 self-funded by non-state aid districts, based on FY 2014 actuals. Without the continuing suspension they instead would receive an estimated \$411,870,900 in DAA funding, plus an estimated \$33,626,900 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 Baseline would 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 Baseline, however, would discontinue language extending this requirement to CAA reductions for non-state aid districts that have district-sponsored charter schools, since the Baseline would eliminate all 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 would continue 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 GF 700,000**

The Baseline 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 no 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

(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).

Table 6

Empowerment Scholarship Account Data^{1/}

<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.

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.” The impact of this change has been unclear due to varying interpretations of the enacted language.

Since FY 2015, however, the department has interpreted it 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 would be approximately \$2,439,000 for FY 2016 (\$27,100,000 estimated ESA cost for FY 2016 [from Table 6] X 9% = \$2,439,000).

Table 6 shows historical and projected data for the ESA program. For FY 2016, ADE estimates that 2,175 students are receiving \$27,100,000 in ESA funding. This represents an increase of 864 students, which is the same increase assumed in Table 6 for FY 2017 (2,175 students assumed for FY 2016 minus 1,311 assumed for FY 2015 = 864 student increase). Of the 864 new assumed ESA students for FY 2017, an estimated 130 would increase state costs.

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 Baseline would continue to appropriate \$399,000 to ADE from the Department of Education Empowerment Scholarship Account Fund (A.R.S. § 15-2402D) in FY 2017 for program administration (unchanged from FY 2016) (see agency Operating Budget narrative). The Baseline also would continue to appropriate \$79,700 from the State Treasurer Empowerment Scholarship Account Fund in FY 2017 for ESA program administration (also

unchanged from FY 2016) (see related narrative in State Treasurer Budget pages). (See Other Issues for more information regarding Empowerment Scholarship Account Administration.)

Laws 2015, Chapter 225 expands ESA eligibility to a child who resides within the boundaries of an Arizona Indian reservation and who meets other eligibility criteria for the program, such as being a full-time public school student in the prior year or an incoming kindergartner. Chapter 225 also establishes a study committee to review issues pertaining to special education services that are provided through ESAs.

State Aid Supplement (formerly "Additional Funding")

The Baseline 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 require voter approval of Proposition 123 in May 2016 (see Other Issues for more information regarding the October Special Session and Proposition 123). If voters do not approve Proposition 123, the Legislature will need to decide whether to keep State Aid Supplement funding and related footnote language described below in the state budget.

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 have already been enacted into law in advance for FY 2017 by Laws 2015, 1st Special Session, Chapter 1, so would be continued in the FY 2017 budget. (See Other Issues below for more information.)

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 have been advance appropriated by Chapter 1.

Additional Inflation

The Baseline 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 the 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. The amended FY 2016 budget therefore contains no separate funding for this line item.

If voters do not approve Proposition 123 in May 2016, the \$74,394,000 in Additional Inflation that was appropriated for FY 2016 would be reinstated for FY 2016 along with related footnote language. Under this circumstance, the Legislature would need to decide for FY 2017 whether to maintain separate funding and related footnote language for this issue.

K-3 Reading

The Baseline includes no funding from the General Fund in FY 2017 for the K-3 Reading program. FY 2017 adjustments would be as follows:

Fund Program Through	
Basic State Aid	GF (39,917,300)

The Baseline includes a decrease of \$(39,917,300) and (2) FTE Positions from the General Fund in FY 2017 in order to fund all formula costs for the K-3 Reading program through Basic State Aid and fund continuing administrative costs of the program 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 requires the State Board of Education, in collaboration with the department, to establish a 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. The FY 2016 budget transferred \$(90,400) and (2) FTE Positions from the department to the newly separate

State Board of Education (SBE) budget for FY 2016 in order to fund continuing SBE responsibilities for the program. (See the FY 2016 Appropriations Report for more information.)

Special Education Fund

The Baseline 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 Baseline 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 Baseline includes \$390,292,000 from the General Fund in FY 2017 for the Additional State Aid (ASA) - Homeowner's Rebate line item. FY 2017 adjustments would be as follows:

New Homes	GF	4,859,700
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The Baseline includes an increase of \$4,859,700 from the General Fund in FY 2017 for increased Homeowner's Rebate costs associated with new home construction. The \$4,859,700 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	GF	5,598,000
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The Baseline 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	GF	20,530,600
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The Baseline 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 Baseline 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 requires the Property Tax Oversight Commission (PTOC) 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.

The FY 2016 budget assumed a General Fund savings of \$(20,219,700) for the new \$1,000,000 limit on 1% Cap costs per county. The amount of Additional State Aid that DOR instructed the Department of Education to distribute to each school district for FY 2016 pursuant to A.R.S. § 15-972H, however, did not reflect the intended savings because DOR indicates that statute is not clear regarding how the related reductions would be allocated. As a result, it is unclear whether the intended savings will be captured for FY 2016 without the enactment of clarifying legislation. *(See Other Issues for more information regarding 1% Cap Implementation.)*

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 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 requires 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 Baseline includes \$16,422,400 and 2 FTE Positions in FY 2017 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,422,400
Proposition 301 Fund	7,000,000

These amounts are unchanged from FY 2016.

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.

	<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	<u>2.2</u>	<u>2.7</u>
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	<u>7.6</u>	<u>7.5</u>
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 M potentially could be devoted to Achievement Testing in FY 2017.

The Achievement Testing program, however, includes components other than AzMERIT testing. It also includes AIMS Science Tests, alternative exams for special needs students, test security costs, information technology support and program administration. ADE currently estimates that the cost of all of these other functions and AzMERIT combined at \$26,092,000 in FY 2017 (*see Table 7*). 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.*)

The Baseline would continue 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, prohibits the department from assigning letter grades to schools for FY 2015 and FY 2016 based on achievement testing scores. It also prohibits 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.

(See Other Issues in FY 2016 Appropriations Report for more information regarding AzMERIT testing.)

Adult Education

The Baseline includes \$4,500,000 and 2 FTE Positions from the General Fund in FY 2017 for Adult Education. These amounts are unchanged from FY 2016.

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, a total of 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 Baseline 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 Baseline 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.

English Learner Administration

The Baseline includes \$6,507,900 and 15.5 FTE Positions from the General Fund in FY 2017 for English Learner Programs. These amounts are unchanged from FY 2016.

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 are 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.

For FY 2017, the department estimates that it will need approximately \$1,000,000 in additional AZELLA funding in order to replace current test questions. (*See Other Issues for additional information.*)

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.

JTED Soft Capital and Equipment

The Baseline 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 2016 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. The Baseline would continue that footnote for FY 2017.

School Safety Program

The Baseline includes \$3,646,500 and 1.2 FTE Positions from the General Fund in FY 2017 for the School Safety program. These amounts are unchanged from FY 2016. 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 2016 K-12 Education BRB requires \$100,000 of the \$3,646,400 appropriation to be used for a pilot program on school emergency readiness. The FY 2016 K-12 Education BRB also requires the department to submit a report that summarizes the results of the FY 2016 program by November 1, 2016. The Baseline would continue these 2 BRB provisions.

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 Baseline includes \$11,560,900 and 26.3 FTE Positions from the General Fund in FY 2017 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2016.

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 Baseline includes \$1,834,500 and 21.1 FTE Positions from the Teacher Certification Fund in FY 2017 for Teacher Certification. These amounts are unchanged from FY 2016.

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.

The Baseline also would continue to include \$379,800 (unchanged) from the Teacher Certification Fund in FY 2017 to the State Board of Education to investigate allegations of immoral or unprofessional behavior by teachers and other certificated school personnel. (See State Board of Education budget for more information.)

The board therefore continues to receive funding and perform duties pertaining to certification investigations,

while the department continues to receive funding and perform duties pertaining to certification processing.

Technology-Based Language Development and Literacy Intervention Pilot Program

The Baseline 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. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (246,800)

The Baseline 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 Baseline, however, would make 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. The Baseline also would make 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. (See *Statutory Changes* section for more information.)

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, rather than partway through FY 2016, so the program's FY 2016 appropriation of \$246,800 also will go unused. The Baseline therefore proposes to amend Chapter 17 in order to extend the program through FY 2018. The extended program would be funded 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. (See *Statutory Changes* section for more information.)

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 Baseline includes \$160,000 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:

Funding Adjustment OF 160,000

The Baseline includes an increase of \$160,000 from the Tribal College Dual Enrollment Program Fund in FY 2017 for the Tribal College Dual Enrollment Program Fund program.

The FY 2016 Higher Education BRB (Laws 2015, Chapter 16) establishes 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. It annually receives 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 2016 budget did not appropriate any monies from the fund for FY 2016. The Baseline, however, proposes appropriating \$160,000 in supplemental funding from it for FY 2016. The Baseline would maintain program funding at the proposed \$160,000 level for FY 2017.

(See *Arizona State Lottery Commission narrative for more information on lottery funding.*)

State Board of Education

State Board of Education

The Baseline 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.)

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

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.

The appropriation from the Department of Education Empowerment Scholarship Account Fund includes \$100,000 in funding for one-time information technology changes.

Basic State Aid

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 INSTEAD SHALL BE \$47,359,500.

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 the expenditure of state General Fund monies.

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.

Achievement Testing

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.

English Learner Administration

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.

JTED Soft Capital and Equipment

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.

Other

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.

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.

New Footnotes

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 by A.R.S. § 15-211.

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.

Deletion of Prior Year Footnotes

The Baseline would delete the General Appropriation Act footnote concerning the allocation of Additional Funding (now "State Aid Supplement") monies, as Additional Funding monies for FY 2017 have already been appropriated by Laws 2015, 1st Special Session, Chapter 1 (conditional upon voter approval of Proposition 123), so will not appear in the General Appropriation Act for FY 2017.

The Baseline would delete the footnote concerning the intended use of monies appropriated to the K-3 Reading line item, as the Baseline would incorporate funding for that line item into other programs.

Potential Other Footnotes

Add footnote indicating that the amount appropriated for Basic State Aid from the state General Fund for FY 2017 in the General Appropriation Act shall be reduced to back out additional General Fund funding for Basic State Aid for FY 2017 that is associated with the October 2015 Special Session if Proposition 123 is not approved by voters. This is because the Baseline assumes passage of Proposition 123, so incorporates October 2015 Special Session monies into assumed funding totals for FY 2017. The amount of reduction will depend on student count and inflation data available in the spring of 2016.

STATUTORY CHANGES

The Baseline would:

Inflation

- 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 1.15% for standard inflation.

Additional Assistance

- 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.
- As session law, continue to reduce Charter Additional Assistance by \$18,656,000.
- As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.

Joint Technical Education Districts (JTEDs)

- 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. For FY 2017, the statutory funding formula for all JTEDs (large and small) under current law would fund the Base Support Level (BSL) portion of their funding (but not their District Additional Assistance - DAA) at 92.5% of the full formula amount. Large JTEDs therefore would receive 95.5% of 92.5% of BSL funding in FY 2017. All other JTEDs would receive 100% of 92.5% of BSL funding. DAA funding to both large and small JTEDs would be as prescribed by BRB provisions pertaining to DAA funding for school districts in general.

Education Learning and Accountability System (ELAS)

- As session law, continue to require community colleges and universities to transfer \$6 per pupil by December 1, 2016 for deposit into the Education Learning and Accountability Fund, but have them transfer the monies to the Arizona Department of Administration Automation Projects Fund instead of ADE in order to avoid double counting by ADE. (*See Education Learning and Accountability narrative under Other Issues section for more information.*)

School Safety

- As session law, continue to stipulate that \$100,000 of the \$3,646,500 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.
- As session law, continue to require the department to report results of the pilot program by November 1 of the fiscal year.

District-Sponsored Charter Schools

- As permanent law, repeal statutes authorizing district-sponsored charter schools starting in FY 2017. (*Section 17 of the FY 2016 K-12 Education BRB stated*

that it was the intent of the Legislature that district-sponsored charter schools be phased out by FY 2016-2017.)

- 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.
- As session law, amend Laws 2014, Chapter 16, Section 5 in order to clarify that it 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.
- As session law, also amend the language in Laws 2014, Chapter 16, Section 5 to make it apply to both FY 2016 and FY 2017 in order to address school districts that still operate districts sponsored charters in FY 2016.
- As session law, repeal 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.

Eliminate Hold Harmless

- As permanent law, clarify that District Additional Assistance funding will continue to be based on prior year Average Daily Membership after FY 2016.

Technology-Based Language Development and Literacy Intervention Pilot Program

- As session law, amend Laws 2014, Chapter 17, Section 19 to extend the program through FY 2018, make unspent FY 2015 monies non-lapsing through FY 2017 and make unspent FY 2016 monies non-lapsing through FY 2018.
- As permanent law, change the reporting dates for the program in A.R.S. § 15-217G to reflect the extended schedule.

Rollover

- As session law in the General Appropriation Act, continue to defer \$930,727,700 in Basic State Aid payments for FY 2017 until FY 2018. Appropriate \$930,727,700 in FY 2018 for these deferred Basic State Aid payments. Continue to exempt school districts with fewer than 600 students from the K-12 rollover. Allow the State Board of Education to make the rollover payment no later than July 12, 2017.
- As session law in the General Appropriation Act, 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.

Deleted Provisions

The Baseline would not continue the following session law provisions due to their one-time nature or because district-sponsored charter schools will no longer exist starting in FY 2017:

- As session law, continue to reduce Charter Additional Assistance funding to school districts with charter schools that do not receive state aid by the amount that would be reduced under the \$18,656,000 statewide Charter Additional Assistance suspension if they did qualify for state aid for FY 2016 and reduce budget limits accordingly.
- As session law, require all school districts to hold a public meeting to discuss or present their plans for reductions pertaining to District Additional Assistance funding. Require a "C", "D" or "F" school to allow the community to submit comments or recommendations on the reductions within 30 days of the meeting and require the governing board to consider the comments or recommendations at a subsequent public meeting. Require the governing board of all school districts to include the percentage of classroom spending in the school district's adopted budget on the page of the budget that governing board members sign.
- As session law, require ADE to notify school districts by December 15, 2015 how it plans to implement current year Average Daily Membership funding in FY 2017 and report the estimated fiscal impact by district.
- As session law, continue for FY 2016 the distribution formula for the Student Success Funding program that was in effect for FY 2015.

Potential Other Statutory Changes

- As permanent law, amend the 1% cap statute (A.R.S. § 15-972) to further clarify how the \$1,000,000 limit on 1% cap costs per county in A.R.S. § 15-972K is to be implemented.
- As permanent law, continue to use prior year ADM for determining eligibility for small school budget exemptions pursuant to A.R.S. § 15-949.
- As permanent law, continue to use prior year ADM in order to determine school district allocations from the Classroom Site Fund, Instructional Improvement Fund, K-12 rollover and lump sum reductions.
- As permanent law, continue to use prior year ADM to compute budget capacity for school district overrides, high school tuition amounts and "minimum QTR" payments required by A.R.S. § 15-992.
- As permanent law, amend A.R.S. § 15-393R4 to require JCCR review of JTED centralized campus leases on a permanent basis, rather than only through December 31, 2016.

- 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.

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

- JCCR Review of JTED Centralized Campus Leases
- Basic State Aid Formula Description

Property Tax Relief

- 1% Cap Implementation

Non-Formula Programs

- Empowerment Scholarship Account Administration
- Education Learning and Accountability System
- AzELLA Refresh

Non-General Fund Programs

- Proposition 301
- Classroom Site Fund and Current Year Funding
- Budget Overrides

Information on these various issues is as follows:

FY 2016 Supplemental

Additional data and analysis are needed in order to determine whether ADE will need supplemental funding from the General Fund for Basic State Aid for FY 2016. This will depend in part on whether school districts with discontinued “charter conversions” receive an estimated \$20 million in unintended District Additional Assistance “growth” funding in FY 2016 and whether a \$20.2 million savings that was budgeted for 1% Cap reforms for FY 2016 is realized, as discussed below.

The Baseline proposes non-General Fund supplementals for FY 2016 from the Department of Education Professional Development Revolving Fund and from the

Tribal College Dual Enrollment Program Fund. Those proposed non-General Fund supplementals also are discussed below.

District Additional Assistance Growth Funding

The FY 2015 Higher Education BRB (Laws 2014, Chapter 16, Section 5) requires the department in FY 2016 to compute K-12 equalization formula funding for students who in FY 2015 attended school district charter schools that converted to charter status in FY 2014 (“charter conversions”) as if they had attended school district non-charter schools in FY 2015 and to adjust student counts and budget limits for FY 2016 accordingly. This provision was needed in order to enable affected school districts to receive K-12 equalization formula funding for their former “charter conversion” students in FY 2016, as those students otherwise would be excluded from the districts’ student counts for FY 2016.

ADE, however, preliminarily interprets Chapter 16 as entitling affected school districts to approximately \$20.0 million in District Additional Assistance (DAA) “growth” funding in FY 2016 that they would not be receiving if their students had never attended “charter conversions.” The ADE interpretation is not consistent with legislative intent. Under the ADE interpretation, Chapter 16 artificially causes non-charter student counts in these districts to grow by more than 5% in FY 2016, which is the threshold for qualifying for DAA “growth” funding pursuant to A.R.S. § 15-961B3.

The Baseline includes a statutory change to clarify that school district ADM growth resulting from the phase out of district sponsored charter schools does not make a school district eligible for DAA growth funding. *(See Statutory Changes section for more information.)*

1% Cap Reforms

The department will require an estimated \$11,295,600 in supplemental funding from the General Fund for Additional State Aid for FY 2016 if the \$1,000,000 limit on 1% Cap funding per county that was established by the FY 2016 K-12 Education BRB is not successfully implemented for FY 2016. *(See Additional State Aid–1% Cap policy issue and related narrative below for more information.)*

Non-General Fund Supplementals

The department includes \$2,700,000 in proposed 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 Baseline also includes \$160,000 in proposed 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.)*

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, ADE General Fund costs are projected to increase by \$137,569,200 in FY 2018 above FY 2017 and \$123,564,300 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 1.74% for FY 2018 and 1.76% for FY 2019.
- New construction NAV growth of 2.0% for FY 2018 and 2.1% for FY 2019.
- A \$(7.0) million decrease in FY 2018 in order to eliminate small school weight funding for most multi-site charter schools in FY 2018 (the final year of a 3-year phase out).
- Voter approval of Proposition 123 in May 2016.
- 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).

October 2015 Special Session and Proposition 123

Laws 2015, 1st Special Session, Chapters 1 & 2 and HCR 2001 (the October 2015 Special Session legislation) make the changes described below (changes made by Chapter 1 and HCR 2001 are conditional upon voter approval of Proposition 123 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" through FY 2025 (Chapter 1).
- Authorize the special election for Proposition 123 and appropriate \$9.3 million to the Secretary of State to conduct the election (Chapter 2).

The related funding increases for FY 2016 include an estimated \$248.8 million in state aid for the Base Level increase and \$50.0 million for "Additional Funding" for a state aid total of \$298.8 million.

Chapter 1 would increase the Base Level from \$3,427 to \$3,600 per student in FY 2016 and by the lesser of inflation or 2% in subsequent years (unchanged from current law). The \$50.0 million in Additional Funding would be appropriated annually from the General Fund in FY 2016 through FY 2020; \$75.0 million in Additional Funds would be appropriated annually in FY 2021 through FY 2025.

Prop 123 and Chapter 1 would provide the estimated \$298.8 million in state funding to schools in FY 2016 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 would 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 under current law.

Proposition 123 would allow 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% in the prior year. It would require this suspension if sales tax revenue and employment both grew less than 1%.

Under the law, the Legislature may also 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 would allow 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 surpassed 49% of the total state General Fund appropriations. If K-12 spending surpassed 50%, the state could 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.

Passage of Prop 123 would resolve the *Cave Creek* litigation and satisfy all outstanding inflation adjustment claims brought forth in that case.

(See the 1.15% 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. Currently, the State Constitution requires 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 will be in effect through calendar year 2021 unless superseded by a new 6.9% factor from Proposition 123 (described below).

After calendar year 2021, the distribution formula in effect prior to Proposition 118 would resume under current law (again if not superseded by Proposition 123). That formula computed expendable Treasurer land trust earnings 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 in the past depending on market conditions (*see Treasurer’s earnings in Table 8*).

If Prop 123 is passed in May 2016, however, the distribution rate will increase from 2.5% to 6.9% beginning FY 2016 through FY 2025, and would revert back to 2.5% in FY 2026 (*Please see the October 2015 Special Session and Proposition 123 section for more information*).

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 8*).

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 8 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, conditional upon voter approval of the Proposition.

Under the existing 2.5% distribution rate, the State Treasurer distribution of K-12 endowment earnings would be \$87.2 million for FY 2016, which is a known number because it is based on land trust market values through calendar year 2014 only (prior 5 calendar years). Under the 6.9% distribution rate that would be enacted under Prop 123, the State Treasurer’s distribution of K-12 endowment earnings would be \$259.3 million.

The State Land Department will distribute an estimated \$43.9 million in K-12 endowment earnings for FY 2016 based on revenue data for the first 4 months of FY 2016. 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.

Table 9

**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	23.3	0.0	57.8	58.8	69.6
Total	99.0	38.1	129.2	303.2	314.3

^{1/} Estimated

Of the \$129.2 million in K-12 expendable earnings generated for FY 2015, \$24.9 million was used to help fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 and \$47.4 million was used to help fund Basic State Aid pursuant to A.R.S. § 37-521B3. The remaining \$57.0 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 (see Table 9).

JCCR Review of JTED Centralized Campus Leases

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).

To date, only 2 JTEDs have sought JCCR approval for JTED leases, but the JCCR approval requirement expires after December 31, 2016. After that it is possible that more satellite sites will convert to “leased centralized campus” status in order to qualify for up to 0.75 ADM per student, but JCCR review will no longer be required for those leases. This potentially could result in substantial increases in state formula costs for JTEDs starting in the second half of FY 2017 if large numbers of satellite sites converted to “leased centralized campus” status. The likelihood of this occurring is unknown.

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 2016 (as modified by the FY 2016 K-12 Education BRB) equal \$1,734.92 per pupil for Grades K-8 and \$2,022.02 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.

1% Cap Implementation

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 \$1.0 million per county. The FY 2016 K-12 BRB required the Property Tax Oversight Commission (PTOC) 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.

The FY 2017 budget assumed a state General Fund savings of \$(20,219,700) for this issue. The amount of Additional State Aid that the Department of Revenue (DOR) has instructed the Department of Education to allocate to each school district for FY 2017 pursuant to A.R.S. § 15-972H, however, does not reflect this intended savings. DOR indicates that this is because it believes that statute (A.R.S. § 15-972K) is unclear regarding how pro rata shares of the \$1.0 million are to be computed for counties with more than one affected school district. DOR also believes that A.R.S. § 15-972K is unclear regarding which taxing jurisdictions are required to transfer monies to school districts in order to help mitigate related losses and regarding how those pro rata transfers should be computed.

The Legislature may want to consider further amending A.R.S. § 15-972H in order to provide clarification on this issue. *(See Potential Other Statutory Changes section.)*

(See Additional State Aid – 1% Cap policy issue for more information.)

Empowerment Scholarship Account Administration

A.R.S. § 15-2402C allows ADE to retain up to 5% of each student's Empowerment Scholarship Account (ESA) funding for program administration, of which it is required to transfer 1/5th to the State Treasurer to fund the latter's costs for ESA fund processing. The remaining 4% leaves the department with up to approximately \$1,084,000 for its own ESA administrative costs for FY 2016 (\$27,100,000 in total estimated ESA funding for FY 2016 X 4% = \$1,084,000). The retained monies, however, are subject to legislative appropriation and the department's appropriation of ESA administration for FY 2016 is \$399,000. Any of the "4%" monies that are retained, but 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 in ESA administrative funding *(see Summary of Funds for more information).*

The FY 2017 Baseline would continue to appropriate \$399,000 from the Department of Education Empowerment Scholarship Account Fund for ESA administration for FY 2017. The department has requested that this appropriation be increased to \$800,000 for FY 2017 in order to fund program automation, caseload growth, and independent third party contracts that A.R.S. § 15-240(I) now requires it to enter into in order to determine whether students qualify for special education services.

The department estimates that it would cost \$500,000 - \$700,000 to automate its account management system based on earlier preliminary bids. *(See Empowerment Scholarship Accounts narrative under Basic State Aid for more information.)*

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).

Beginning in FY 2015, ELAS funding is appropriated to the Arizona Department of Administration Automation Projects Fund rather than ADE. As a result, ELAS funding no longer appears in the ADE budget. *(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)*

The FY 2017 Baseline includes no General Fund monies for continued ELAS development, as the \$5.4 million appropriated for ELAS development in FY 2016 was one-time funding.

The FY 2017 Baseline, however, assumes that the FY 2017 budget would continue to require community college and universities to transfer \$6 per Full-Time Student Equivalent (FTSE) by December 1 of the budget year to help fund ELAS, which would provide approximately \$1.6 million in continued non-General Fund monies for ELAS development for FY 2017. For FY 2017, however, the Baseline would have universities and community colleges make their deposits directly into the ADOA Automation Projects Fund, rather than first into the ADE Education Learning and Accountability System Fund in order to avoid double counting. Currently the monies appear as revenues for both funds, since they pass through both of them. *(See Statutory Changes section for more information.)*

AZELLA Refresh

The department estimates that it will need approximately \$1,000,000 in additional funding 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.

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 9*).

As shown in *Table 10*, 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).
- 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 10*). 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 would further amend A.R.S. § 37-521B4 in order to dedicate all growth in state land trust revenues from the proposed 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, would still 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 10*. 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 \$327 per pupil for FY 2016. The per pupil distribution for FY 2017 will be determined in March 2016 pursuant to A.R.S. § 15-977G1.

Classroom Site Fund and Current Year Funding

The Classroom Site Fund (CSF) per pupil allocation formula in A.R.S. § 15-977G2 currently is based on prior year Average Daily Membership (ADM) counts for school districts and current year ADM counts for charter schools. The FY 2016 K-12 Education BRB, however, requires both school district and charter school students to be counted on a current year basis starting in FY 2017. This will cause Classroom Site Fund (CSF) allocations to also be computed for school districts on a current year basis starting in FY 2017, which will increase the likelihood of adjustments in the CSF per pupil estimate that are computed annually by March 30 pursuant to A.R.S. § 15-977G1. Starting in FY

Table 10

**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	25.0	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	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	347.3	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	

2017, for example, allocations to school districts will depend on their final ADM counts for FY 2017, but the estimated per pupil amount for FY 2017 will be computed in March 2016, which is before even the final ADM counts for FY 2016 will be known. (See *Potential Other Statutory Changes section.*)

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 11*). (See the *School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.*)

Table 11

**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 11* are from the related ADE reports for FY 2015 and FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Agricultural Youth Organization Special Plate Fund (EDA2650/A.R.S. § 15-791)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal Arizona agricultural youth organization special plate fee, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue Arizona agricultural youth organization special plates. ADOT is to annually deposit these monies, excluding administrative fees, into the Arizona Agricultural Youth Organization Special Plate Fund for disbursement by the State Board of Education acting as the State Board for Vocational and Technological Education.		
Funds Expended	100,000	100,000
Year-End Fund Balance	0	15,000
Assistance for Education Fund (EDA2420/A.R.S. § 15-973.01)		Non-Appropriated
Source of Revenue: State income tax refunds that are donated to the fund via a check-off box on state income tax forms pursuant to A.R.S. § 43-617.		
Purpose of Fund: To fund solutions teams assigned to schools pursuant to A.R.S. § 15-241.		
Funds Expended	195,700	110,600
Year-End Fund Balance	110,600	8,500
Character Education Special Plate Fund (EDA2522/A.R.S. § 15-719)		Non-Appropriated
Source of Revenue: \$17 of the \$25 fee for Character Education license plates.		
Purpose of Fund: To fund character education programs in schools. Not more than 10% of monies deposited in the fund annually shall be used for the cost of administering the fund.		
Funds Expended	40,500	35,000
Year-End Fund Balance	11,200	6,200
Classroom Site Fund (EDA2471/A.R.S. § 15-977)		Non-Appropriated
Source of Revenue: A portion of the Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E10, and Permanent State School Fund expendable earnings that exceed the FY 2001 level, pursuant to A.R.S. § 37-521B4.		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
Funds Expended	356,890,200	435,335,500
Year-End Fund Balance	68,260,700	68,260,700
Department of Education Empowerment Scholarship Account Fund (EDA2570/A.R.S. § 15-2402)		Partially-Appropriated
Source of Revenue: Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C and prior year carry forward monies.		
Purpose of Fund: To fund ADE's costs of administering the Empowerment Scholarships Accounts program authorized by A.R.S. § 15-2402. ADE also transfers Basic State Aid monies to the State Treasurer each quarter to fund Empowerment Scholarship Accounts for individual students (the total FY 2015 scholarships account transfer was approximately \$17.7 million). The student account monies are not displayed to avoid double counting of the General Fund. Non-appropriated monies in the fund are prior year carryforward. (See also the "State Treasurer Empowerment Scholarship Account Fund" in the Summary of Funds for the State Treasurer.)		
Appropriated Funds Expended	200,100	399,000
Non-Appropriated Funds Expended	67,100	33,900
Year-End Fund Balance	842,600	1,709,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Department of Education Professional Development Revolving Fund (EDA2580/A.R.S. § 15-237.01)		Appropriated
Source of Revenue: Tuition paid for professional development, pursuant to A.R.S. § 15-237.01.		
Purpose of Fund: To offset the cost of providing professional development. Statute establishes the fund as an appropriated fund, but the department expended monies out of the fund in FY 2015 and is expending monies out of the fund in FY 2016 without an appropriation.		
Funds Expended	777,700	0
Year-End Fund Balance	601,000	601,000
Education Commodity Fund (EDA4210/A.R.S. § 15-1152)		Non-Appropriated
Source of Revenue: Fees from school districts participating in the federal Food Commodities Program.		
Purpose of Fund: To pay for costs of administering the federal Food Commodities Program.		
Funds Expended	16,800	261,200
Year-End Fund Balance	126,300	65,100
Education Donations Fund (EDA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants received by the department from foundations or other private sector donors.		
Purpose of Fund: To help pay for conferences, programs or other activities that are sponsored by donor organizations.		
Funds Expended	453,900	110,400
Year-End Fund Balance	404,900	317,000
Education Learning and Accountability Fund (EDA2552/A.R.S. § 15-249.02)		Non-Appropriated
Source of Revenue: Monies transferred from the Arizona Department of Administration (ADOA) Automation Projects Fund (APF), which for FY 2016 received \$5,400,000 from the State General Fund, and an estimated \$1,600,000 from a \$6 per Full-Time Student Equivalent (FTSE) fee received from Arizona public universities and community colleges pursuant to Laws 2015, Chapter 15, plus any remaining FY 2015 balances in the fund. Expenditures are not displayed to avoid double counting of the General Fund.		
Purpose of Fund: To develop and implement the Education Learning and Accountability System (ELAS) pursuant to A.R.S. § 15-249.		
Funds Expended	0	0
Year-End Fund Balance	3,566,500	2,838,300
Failing Schools Tutoring Fund (EDA2470/A.R.S. § 15-241)		Non-Appropriated
Source of Revenue: A portion of the 0.6% Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E8.		
Purpose of Fund: To fund tutoring for students who attend "failing" schools, pursuant to A.R.S. § 15-241R, and to purchase materials designed to help students meet the Arizona Academic Standards, pursuant to A.R.S. § 15-241CC.		
Funds Expended	1,162,300	1,451,800
Year-End Fund Balance	537,000	585,200
Federal Funds (EDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
Purpose of Fund: To be expended as stipulated by federal statutes that authorize the Federal grants.		
Funds Expended	1,126,218,000	1,175,376,900
Year-End Fund Balance	2,052,800	2,071,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants - American Recovery and Reinvestment Act (ARRA) (EDA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department to offset state reductions and enhance funding for programs such as Special Education and Title I.		
Funds Expended	9,395,800	0
Year-End Fund Balance	0	0
Golden Rule Special Plate Fund (EDA2366/A.R.S. § 15-243)		Non-Appropriated
Source of Revenue: \$17 of the \$25 fee for Golden Rule license plates.		
Purpose of Fund: To fund programs that demonstrate the promotion of the golden rule in schools and communities.		
Funds Expended	189,300	190,900
Year-End Fund Balance	0	0
IGA and ISA Fund (EDA2500/A.R.S. § 35-142E)		Non-Appropriated
Source of Revenue: Monies transferred into the fund from Federal Funds (EDA2000) and the Internal Services Fund (EDA4209).		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA's) and Intergovernmental Service Agreements (ISA's).		
Funds Expended	4,760,800	3,037,200
Year-End Fund Balance	391,500	629,300
Indirect Cost Recovery Fund (EDA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
Purpose of Fund: To fund overhead and other indirect costs associated with state level administration of federal programs.		
Funds Expended	4,875,600	5,109,700
Year-End Fund Balance	1,805,300	945,600
Instructional Improvement Fund (EDA2492/A.R.S. § 15-979)		Non-Appropriated
Source of Revenue: Shared revenue from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. The Instructional Improvement Fund receives 56% of total shared revenue from Proposition 202. This is distributed among school districts, charter schools and ASDB based on student counts.		
Purpose of Fund: To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
Funds Expended	43,077,300	44,032,900
Year-End Fund Balance	19,732,900	19,768,500
Internal Services Fund (EDA4209/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal indirect cost monies and intra-office fees for copier services, MIS maintenance, postage and other miscellaneous expenditures.		
Purpose of Fund: Clearing fund for federal indirect costs and miscellaneous intra-office revenues and expenditures.		
Funds Expended	3,518,500	3,823,300
Year-End Fund Balance	1,665,700	852,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Permanent State School Fund (EDA3138/A.R.S. § 37-521) Partially-Appropriated

Source of Revenue: Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund, up to the amount generated in FY 2001 (\$72,263,000), are automatically appropriated first to pay for debt service on State School Facilities Revenue Bonds, Qualified Zone Academy Bonds (QZAB) or State School Trust Revenue Bonds. Any remaining monies from the \$72,263,000 baseline total are then subject to appropriation to ADE to help fund Basic State Aid pursuant to A.R.S. § 15-971H. Expendable earnings beyond the \$72,263,000 baseline total from FY 2001 are automatically deposited into the Classroom Site Fund, as required by A.R.S. § 37-521B4.

In the display below, the "Funds Expended" total equals the amount used for Basic State Aid. Not included are monies automatically appropriated into the Classroom Site Fund pursuant to A.R.S. § 37-521B4. (See "State Land Trust Bond Debt Service Fund" and "School Improvement Revenue Bond Debt Service Fund" in the Summary of Funds for the School Facilities Board budget for information on other uses of expendable monies from this fund.)

Purpose of Fund: To support common schools.

Funds Expended	46,475,500	219,440,500
Year-End Fund Balance	7,754,000	7,754,000

Production Revolving Fund (EDA4211/A.R.S. § 15-237) Non-Appropriated

Source of Revenue: Print shop collections from in-house and interagency publishing.

Purpose of Fund: To fund agency print shop expenditures.

Funds Expended	1,681,400	1,672,800
Year-End Fund Balance	1,221,700	965,600

Proposition 301 Fund (EDA1014/A.R.S. § 42-5029E7) Partially-Appropriated

Source of Revenue: A portion of the Proposition 301 sale tax pursuant to A.R.S. § 42-5029E5-7. The appropriated portion of the fund receives "up to \$7 million" monies appropriated by the Legislature pursuant to A.R.S. § 42-5029E7. The non-appropriated portion receives monies automatically appropriated by Proposition 301 for additional school days, School Safety and Character Education, plus any unspent "up to \$7 million" monies from the prior year.

Purpose of Fund: To pay for K-12 Achievement Testing (appropriated) and additional school days, School Safety and Character Education (non-appropriated).

Appropriated Funds Expended	0	7,000,000
Non-Appropriated Funds Expended	104,818,300	98,302,500
Year-End Fund Balance	10,370,700	6,348,700

Special Education Fund (EDA1009/A.R.S. § 15-1182) Non-Appropriated

Source of Revenue: Legislative appropriations from the state General Fund.

Purpose of Fund: To provide voucher funding for students attending the ASDB pursuant to A.R.S. § 15-1182 or who are placed in a private special education facility pursuant to A.R.S. § 15-1202. Expenditures are not displayed to avoid double counting of the General Fund.

Funds Expended	0	0
Year-End Fund Balance	6,255,100	4,931,300

Structured English Immersion Fund (EDA2535/A.R.S. § 15-756.04) Non-Appropriated

Source of Revenue: Legislative appropriations from the state General Fund.

Purpose of Fund: To fund additional instructional costs of English Language Learners. Expenditures are not displayed to avoid double counting General Fund.

Funds Expended	0	0
Year-End Fund Balance	1,957,000	2,259,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Student Success Fund (EDA2575/A.R.S. § 15-917) [Repealed]		Appropriated
Source of Revenue: Legislative appropriations from the state General Fund.		
Purpose of Fund: To provide funding to school districts and charter holders based on achievement and improvement on the assigned achievement profile pursuant to A.R.S. § 15-241.		
Funds Expended	18,746,600	0
Year-End Fund Balance	6,053,400	0
Teacher Certification Fund (EDA2399/A.R.S. § 15-531)		Appropriated
Source of Revenue: Fees collected by the Department of Education from teachers and other school personnel who apply for professional certification.		
Purpose of Fund: To provide monies for operation of the department's Teacher Certification program.		
Funds Expended	2,050,400	1,971,800
Year-End Fund Balance	91,800	46,000
Technology-Based Language Development and Literacy Intervention Fund (EDA2759/A.R.S. § 15-217)		Appropriated
Source of Revenue: Unused monies from the now-repealed Early Graduation Scholarship Program. The FY 2015 K-12 Education Budget Reconciliation Bill (Laws 2014, Chapter 17) required the Commission for Postsecondary Education to transfer these monies (\$546,800) into the fund from its IGA/ISA Fund by August 1, 2014. As session law, Chapter 17 also appropriated monies in FY 2015 and FY 2016 for the pilot program. The Baseline would amend Chapter 17 to make the FY 2015 appropriation non-lapsing through FY 2017 and the FY 2016 appropriation non-lapsing through FY 2018 due to a delayed start for the program.		
Purpose of Fund: To fund a pilot program to promote English language development and literacy for public school pupils in Grades K-6.		
Funds Expended	0	246,000
Year-End Fund Balance	546,800	0
Tribal College Dual Enrollment Program Fund (No Fund Number/A.R.S. § 15-244.01)		Appropriated
Source of Revenue: Unclaimed lottery prize monies pursuant to A.R.S. § 5-568, other monies appropriated by the Legislature and gifts, grants, devices and other contributions.		
Purpose of Fund: To provide choice and access to higher education for high school students in this state by compensating tribal colleges for tuition and fees that are waived to allow high school students to attend classes at tribal colleges.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Youth Farm Loan Fund (EDA2136/A.R.S. § 15-1172)		Non-Appropriated
Source of Revenue: The investment of trust funds held by the United States as trustee for the Arizona Rural Rehabilitation Corporation.		
Purpose of Fund: To furnish financial assistance to deserving young persons, under 25 years of age, who are students or former students of vocational education or to young farmers in organized vocational agriculture classes who are interested in becoming established in farming. The financial assistance is provided as guaranteed loans for those who cannot obtain financing elsewhere.		
Funds Expended	0	0
Year-End Fund Balance	158,700	159,700

Department of Emergency and Military Affairs

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
PROGRAM BUDGET			
Administration	4,118,500	1,909,200	1,909,200
Emergency Management	3,815,900	7,654,100	7,692,600
Military Affairs	1,663,400	1,539,400	1,539,400
AGENCY TOTAL	9,597,800	11,102,700	11,141,200
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	68.6	69.6	69.6
Personal Services	1,453,300	1,492,000	1,492,000
Employee Related Expenditures	553,600	557,600	557,600
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	1,810,900	1,810,900
Equipment	117,000	80,200	80,200
OPERATING SUBTOTAL	4,075,200	4,085,900	4,085,900
SPECIAL LINE ITEMS			
Governor's Emergency Fund	1,592,700	4,000,000	4,000,000
Emergency Management Matching Funds	0	1,540,900	1,540,900
Nuclear Emergency Management Fund	1,373,600	1,385,900	1,424,400
Military Airport Planning	2,556,300	90,000	90,000
AGENCY TOTAL	9,597,800	11,102,700	11,141,200
FUND SOURCES			
General Fund	9,469,300	11,102,700	11,141,200
<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	11,102,700	11,141,200
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	79,594,500	63,687,500

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 Baseline includes \$4,085,900 and 63.1 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Governor's Emergency Fund

The Baseline includes \$4,000,000 from the General Fund in FY 2017 for the Governor's Emergency Fund. This amount is unchanged from FY 2016.

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 Matching Funds

The Baseline 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 estimates expending \$7,004,500 in EMPG funds.

DEMA anticipates utilizing 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, and \$727,300 in General Fund monies from the operating budget, or a total of \$2,901,400, as a match towards their share of the EMPG. As a result, DEMA will retain \$2,901,400 in EMPG monies for DEMA-specific expenditures.

The remaining \$4,103,100 in federal EMPG monies will be awarded to counties, tribes, and possibly municipalities for their emergency preparedness programs. These funds will require a match from local fund sources prior to expenditure.

Nuclear Emergency Management Fund

The Baseline includes \$1,424,377 and 5.5 FTE Positions from the General Fund in FY 2017 for the Nuclear Emergency Management Fund (NEMF). FY 2017 adjustments would be as follows:

NEMF Increase	GF	<u>FY 2017</u>
		\$38,500

The Baseline 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 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 Baseline 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.

At the June 18, 2015 meeting of the Joint Committee on Capital Review, DEMA received a favorable review of their proposed plan to expend \$4,700,000 from the Military Installation Fund to purchase or improve lands near Luke Air Force Base, Fort Huachuca, Davis-Monthan Air Force Base, and other areas in Pima County and Yuma. Of this amount, DEMA has expended \$1,647,900 through the end of FY 2015 leaving a FY 2015 year-end fund balance of \$5,988,500. DEMA is currently accepting applications for the \$2,936,400 in unencumbered monies remaining in the fund.

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 Budget Reconciliation Bill (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.

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.

* * *

FORMAT — Lump Sum by Program with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The Department of Emergency and Military Affairs appropriation includes \$215,000 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.

Other Issues

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 5-50%. 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 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 2015, 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.

DEMA is estimating their FY 2016 match need will be \$1,720,000. DEMA has retained \$528,300 from their FY 2015 state match appropriation in addition to the \$215,000 FY 2016 state match appropriation and \$230,000 in 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, it is projected that DEMA will have a state match shortfall of \$(746,700) in FY 2016.

In FY 2017, DEMA is projecting a state match need of \$1,700,000. The operating budget includes \$215,000 for matching monies. This will result in an additional funding need of \$1,485,000 in FY 2017 due to the exhaustion of prior year's state match appropriations and the elimination of one-time vacancy savings.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Camp Navajo Fund (MAA2106/A.R.S. § 26-152)		Non-Appropriated
Source of Revenue: Federal fees for storage and use of Camp Navajo, a munitions storage depot and National Guard training site.		
Purpose of Fund: To operate and maintain the Camp Navajo National Guard training and storage facility and for the operation and maintenance of National Guard facilities in Arizona. Laws 2015, Chapter 12 and Laws 2015, Chapter 208 expanded the allowable expenditures of Camp Navajo Fund monies to include the operation and maintenance of National Guard facilities after all budgeted costs for Camp Navajo are met.		
Funds Expended	12,840,700	14,811,800
Year-End Fund Balance	13,745,400	11,379,300

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Emergency Management Training Fund (MAA2087/A.R.S. § 26-305)		Non-Appropriated
Source of Revenue: Emergency management course fees paid by private sector participants.		
Purpose of Fund: To pay for the costs of administering the emergency management course.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Emergency Response Fund (MAA3031/A.R.S. § 26-352)		Appropriated
Source of Revenue: The fund receives 10% of the Department of Environmental Quality's Hazardous Waste Management Fund. Laws 2015, Chapter 208 shifted the administration of the fund in FY 2016 from DEMA to the Department of Environmental Quality.		
Purpose of Fund: To develop and administer a hazardous materials emergency management program, equip local emergency planning committees for the development of hazardous materials emergency response teams, and assist local agencies in providing adequate response to emergency situations.		
Funds Expended	128,500	0
Year-End Fund Balance	168,400	0
Federal Funds - Emergency (MAA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal program grants. Homeland Security funds received by Arizona after FY 2006 are reported in the Arizona Department of Homeland Security's budget.		
Purpose of Fund: To pay for the federal share of emergency planning, response and management programs.		
Funds Expended	6,534,600	21,866,900
Year-End Fund Balance	551,900	0
Federal Funds - Military (MAA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal service contracts for security, maintenance and operations of the National Guard.		
Purpose of Fund: To provide the federal share of costs for Army National Guard and Air National Guard positions, capital and operating expenses.		
Funds Expended	37,469,100	29,067,400
Year-End Fund Balance	1,044,100	844,600
Freedom Academy Fund (MAA2104/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Governor's Office for Drug Policy and the Joint Counter Narcotics Task Force (federal Department of Justice, through the Department of Defense).		
Purpose of Fund: To provide middle and high school students with anti-drug and gang information. Student representatives throughout the state are invited to participate in the weekend programs at Camp Navajo.		
Funds Expended	0	0
Year-End Fund Balance	3,600	3,600
Indirect Cost Recovery Fund (MAA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal FEMA grants and Non-Appropriated Funds.		
Purpose of Fund: To pay administrative expenditures not directly attributable to any one program, but associated with Federal Grant and Non-Appropriated funds.		
Funds Expended	769,900	871,000
Year-End Fund Balance	574,800	696,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Interagency Service Agreement Fund (MAA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Funds from federal grants.		
Purpose of Fund: Support of the agency's centralized personnel plan which allocates support staff costs to National Guard grants and the agency's mail distribution program in addition to agreements within and outside the agency.		
Funds Expended	1,070,400	1,764,700
Year-End Fund Balance	336,600	328,200
Military Installation Fund (MAA1010/A.R.S. § 26-262)		Non-Appropriated
Source of Revenue: The FY 2012 Government Budget Reconciliation Bill (Laws 2011, Chapter 34) eliminated the statutory annual General Fund deposit of \$4,825,000 into the Military Installation Fund; the FY 2015 General Appropriation Act (Laws 2014, Chapter 18), however, provided a one-time deposit of \$2,500,000 into the fund. Currently, the fund's sole revenue source is the collection of interest from the balance in the fund. Expenditures from this fund are not displayed below to avoid double counting.		
Purpose of Fund: Grants for military installation preservation and enhancement projects as well as costs associated with administering the fund. DEMA must utilize 80% of the monies to acquire private property, real estate, property rights and related infrastructure to preserve, support, or enhance a military installation. Up to 20% of this amount may be awarded to cities, towns, and counties for land acquisition purposes. The remaining 20% is awarded to cities, towns, and counties for military installation preservation and enhancement projects. In addition, \$90,000 is appropriated to the department for the costs associated with 1 FTE Position to administer the fund.		
Funds Expended	0	0
Year-End Fund Balance	5,988,500	4,662,900
Morale, Welfare and Recreational Fund (MAA2124/A.R.S. § 26-153)		Non-Appropriated
Source of Revenue: A portion of National Guard Member Special License Plate fees, funds generated from federally-defined recycling activities, monies from the disposal of unserviceable military property belonging to the state, or other non-state-appropriated monies.		
Purpose of Fund: To support morale, welfare, and recreational activities for guardsmen and non-state-employed support personnel.		
Funds Expended	17,500	10,000
Year-End Fund Balance	120,200	143,200
National Guard Fund (MAA2140/A.R.S. § 26-152)		Non-Appropriated
Source of Revenue: Monies appropriated to the fund by the Legislature and proceeds, deposited into a separate subaccount, from National Guard facilities that are utilized for commercial purposes. Prior to FY 2016, the fund received monies from the rental or use of armories only, however, Laws 2015, Chapter 208 expanded the property allowed to be utilized for commercial purposes to include all National Guard facilities.		
Purpose of Fund: For general operating expenses of the National Guard and maintenance and capital improvements to any National Guard facility.		
Funds Expended	208,600	100,000
Year-End Fund Balance	7,500	37,500
National Guard Relief Fund (MAA2349/A.R.S. § 26-183 [repealed])		Non-Appropriated
Source of Revenue: Monies received from individual contributors who voluntarily donate through the state individual income tax return. Laws 2015, Chapter 208 eliminated the National Guard Relief Fund and the state individual income tax donation and transferred any remaining monies in the fund to the Department of Veterans' Services for distribution to a nonprofit organization that provides financial assistance to Arizona National Guard members and their families.		
Purpose of Fund: To provide assistance to families of National Guard members who are mobilized in support of a contingency operation or state emergency.		
Funds Expended	0	0
Year-End Fund Balance	1,321,100	1,321,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Nuclear Emergency Management Fund (MAA2138/A.R.S. § 26-306.02)		Non-Appropriated
Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station.		
Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	5,200	5,200
State Armory Property Fund (MAA2146/A.R.S. § 26-231)		Non-Appropriated
Source of Revenue: Sale of surplus armory property.		
Purpose of Fund: For the construction and capital improvement of National Guard armories.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Statewide Donations Fund (MAA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs or for the specified purpose for which they were donated.		
Funds Expended	0	0
Year-End Fund Balance	10,300	10,300

Department of Environmental Quality

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	7,148,100
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	15,050,100
Equipment	77,300	103,300	103,300
OPERATING SUBTOTAL	31,415,800	46,353,800	46,353,800
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
WQARF Priority Site Remediation	7,000,000	7,000,000	7,000,000
AGENCY TOTAL	61,491,200	76,273,300	76,273,300
FUND SOURCES			
General Fund	7,000,000	7,000,000	7,000,000
<u>Other Appropriated Funds</u>			
Air Quality Fund	2,795,100	5,369,300	5,369,300
Emergency Response Fund	0	132,800	132,800
Emissions Inspection Fund	25,896,500	28,381,700	28,381,700
Hazardous Waste Management Fund	1,000,900	1,738,800	1,738,800
Indirect Cost Recovery Fund	12,772,000	13,373,700	13,373,700
Permit Administration Fund	4,848,700	7,129,700	7,129,700
Recycling Fund	787,800	1,356,300	1,356,300
Solid Waste Fee Fund	591,800	1,241,000	1,241,000
Underground Storage Tank Revolving Fund	0	22,000	22,000
Water Quality Fee Fund	5,798,400	10,528,000	10,528,000
SUBTOTAL - Other Appropriated Funds	54,491,200	69,273,300	69,273,300
SUBTOTAL - Appropriated Funds	61,491,200	76,273,300	76,273,300
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	153,762,000

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 Baseline includes \$46,353,800 and 322 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
Air Quality Fund	\$5,369,300
Emergency Response Commission	132,800
Emissions Inspection Fund	5,462,200
Hazardous Waste Management Fund	1,738,800
Indirect Cost Recovery Fund	13,373,700

Permit Administration Fund	7,129,700
Recycling Fund	1,356,300
Solid Waste Fee Fund	1,241,000
Underground Storage Tank Revolving Fund	22,000
Water Quality Fee Fund	10,528,000

These amounts are unchanged from FY 2016.

Emissions Control Contractor Payment

The Baseline 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 Maricopa and Pima Counties, with the purpose of identifying and repairing polluting motor vehicles. Pima County vehicle owners are subject only to the idle inspection. 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. *(Please see Other Issues for more information.)*

Safe Drinking Water Program

The Baseline 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.

As session law, the FY 2016 Environment Budget Reconciliation Bill (BRB) allowed 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, 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*.

Table 1

Safe Drinking Water Program Costs

Position or Function	Actual FY 2015	Estimated FY 2016
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 Baseline includes \$7,000,000 from the General Fund in FY 2017 for Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation. This amount is unchanged from FY 2016.

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 2016 Environment BRB continued to notwithstanding these statutory provisions and reduces the General Fund allocation to \$7,000,000. *Table 2* describes program activity for FY 2015 and FY 2016. The Baseline continues the deposit at the reduced level in FY 2017.

Table 2

WQARF Activity

	Actual FY 2015	Estimated FY 2016
Balance Forward	\$ 5,629,600	\$ 5,682,100
General Fund	7,000,000	7,000,000
Other Revenue	4,462,900	4,235,700
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
Funds Transferred		
Dept. of Water Resources	\$ (300,000)	\$ (130,000)
Year-End Fund Balance	\$ 5,682,100	\$ 1,381,900

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

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.

All Permit Administration monies received by the Department of Environmental Quality in excess of \$7,129,700 in FY 2017 are appropriated to the department. Before the expenditure of Permit Administration monies in excess of \$7,129,700 in FY 2017, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee.

All Indirect Cost Recovery Fund monies received by the Department of Environmental Quality in excess of \$13,373,700 in FY 2017 are appropriated to the department. Before the expenditure of Indirect Cost Recovery Fund monies in excess of \$13,373,700 in FY 2017, the Department of Environmental Quality shall report the intended use of the monies to the Joint Legislative Budget Committee.

STATUTORY CHANGES

The Baseline would:

- As session law, continue 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.
- As session law, continue to decrease the General Fund appropriation to the Water Quality Assurance Revolving Fund from \$15,000,000 to \$7,000,000.
- As session law, continue to allow \$1,800,000 of the department's Emissions Inspection Fund monies spent on the Safe Drinking Water Program.

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 was reduced from \$27.25 to \$20.00.

Despite this fee reduction, VEI fees continue to generate a structural surplus. As shown in *Table 3*, ADEQ estimates the VEI Program will generate \$2.7 million more in fees than it costs to administer the program in FY 2017.

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 Baseline does

Emissions Inspection Fund			
	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
Balance Forward	\$20,016,500	\$17,318,000	\$14,217,000
Revenues	30,359,300	30,280,700	30,280,700
Expenditures			
Inspections	24,890,000	26,581,700	25,731,300
SDWP	1,367,700	1,800,000	1,800,000
APF	<u>6,800,000</u>	<u>5,000,000</u>	<u>0</u>
Total Expenditures	\$33,057,700	\$33,381,700	\$27,531,300
Total Balance	\$17,318,100	\$14,217,000	\$16,966,400

not include FY 2017 transfers for this purpose. (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 \$5.4 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 Phoenix are often higher than comparable fees in Tucson:

- Vehicle owners in Phoenix pay \$20.00 for the onboard diagnostic test, while those in Tucson pay \$12.25 for the same test. Regardless of location,

ADEQ pays its contractor \$13.85 for each diagnostic test. As a result, ADEQ runs a \$6.15 surplus in Phoenix and a \$(1.60) deficit in Tucson per test.

- Owners of heavy-duty diesel trucks in Phoenix pay \$28.00 for each test, while those in Tucson 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 runs a \$4.50 surplus in Phoenix and an \$(11.25) deficit in Tucson per test.

The report did not propose specific fee changes, but recommended that ADEQ study the matter to determine revised fee structures. ADEQ responded to the Auditor General indicating that it is working on a recommendation for a new fee structure. ADEQ states that it “plans to take an incremental approach to revising program fees to not only help ensure that it can continue to pay for the costs of the Program, but that it can continue to use program fee revenues to help pay for the Safe Drinking Water Program and the Travel Reduction Program if so required.”

Underground Storage Tank Tax Extension & Program

Laws 2015, Chapter 247 extended the 1¢ gasoline excise tax for underground storage cleanup through 2023 and made modifications to the program. (Please see the FY 2016 Appropriations Report for more information.)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Permit Administration Fund (EVA2328/A.R.S. § 49-455)		Appropriated
Source of Revenue: Permit fees and interest.		
Purpose of Fund: To develop and administer permit programs and to conduct inspections.		
Funds Expended	4,848,700	7,129,700
Year-End Fund Balance	8,311,100	7,383,800
Air Quality Fund (EVA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: Monies received from the \$1.50 fee assessed on motor vehicle registration, as well as gifts, grants, donations, and legislative appropriations.		
Purpose of Fund: To pay the costs of air quality research, experiments, education, and programs conducted by or for the department. Also to provide an annual \$400,000 transfer to the Department of Administration for state employee travel reduction program and annual appropriations for the Department of Weights and Measures Oxygenated Fuels and Vapor Recovery programs. (See individual agencies for further description.)		
Funds Expended	2,795,100	5,369,300
Funds Appropriated		
Department of Weights and Measures	1,443,200	1,439,800
Arizona Department of Transportation	74,500	74,200
Arizona Department of Administration (Bus Subsidy)	927,100	927,300
Funds Transferred		
Arizona Department of Administration (Travel Reduction)	400,000	400,000
Year-End Fund Balance	10,854,900	5,554,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Donations Fund (EVA2449/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Various donations, settlements, and consent decrees.		
Purpose of Fund: To administer the intent of the donation, settlement or decree.		
Funds Expended	4,200	3,900
Year-End Fund Balance	4,000	2,600
Emergency Response Fund (EVA3031/A.R.S. § 26-352)		Appropriated
Source of Revenue: The fund receives 10% of the department's Hazardous Waste Management Fund's revenues. Laws 2015, Chapter 208 shifted the administration of the fund in FY 2016 from DEMA to ADEQ.		
Purpose of Fund: To develop and administer a hazardous materials emergency management program, equip local emergency planning committees for the development of hazardous materials emergency response teams, and assist local agencies in providing adequate response to emergency situations. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	0	132,800
Year-End Fund Balance	168,300	308,500
Emissions Inspection Fund (EVA2082/A.R.S. § 49-544)		Appropriated
Source of Revenue: Legislative appropriations, test fees, fleet certificate fees, private grants, donations, and federal grants.		
Purpose of Fund: To pay for enforcement of fleet inspections, exemptions, and certificates of waiver programs; to pay Emissions Inspection program contract and administrative charges, including station auditing, contractor training and certification, and motorist assistance; to pay for the state portion of catalytic converter program costs; and to pay for research studies of the feasibility and effectiveness of new emission control technologies. As session law, the FY 2016 Environmental Budget Reconciliation Bill (Laws 2015, Chapter 13) allows \$1,800,000 of these monies to be spent on the Safe Drinking Water Program in FY 2016. The FY 2016 General Appropriation Act transfers \$5,000,000 from the Emissions Inspection Fund to the Automation Projects Fund to be used for DEQ information technology projects.		
Funds Expended	25,896,500	28,381,700
Year-End Fund Balance	17,318,000	14,217,000
Federal Funds (EVA2000/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Federal grants related to water quality management, Underground Storage Tank enforcement provisions, air pollution control, research projects, and other programs.		
Purpose of Fund: To be used as specified by federal law.		
Funds Expended	13,984,100	17,451,700
Year-End Fund Balance	0	0
Hazardous Waste Management Fund (EVA2178/A.R.S. § 49-927)		Appropriated
Source of Revenue: Legislative appropriations, hazardous waste treatment, storage, and disposal permit fees, and hazardous waste generation and transportation fees.		
Purpose of Fund: To pay educational, permitting, planning, and enforcement costs of the Hazardous Waste Program, and to provide administration and state matching funds for federal source reduction grants. A portion of the fund is transmitted to the Emergency Response Fund for staffing and equipping local emergency management agencies. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	1,000,900	1,738,800
Year-End Fund Balance	2,200,700	2,196,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
IGA & ISA Fund (EVA2500/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	5,757,800	4,427,100
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (EVA9000/A.R.S. § 49-115)		Appropriated
Source of Revenue: Monies are generated from assessments to the department's appropriated and non-appropriated funds, including federal grants. At the end of FY 2015, the department switched from using the Indirect Cost Fund (Fund 7000) to the Indirect Cost Recovery Fund (Fund 9000). At the beginning of FY 2016, the remaining fund balance in Fund 7000 was transferred to Fund 9000.		
Purpose of Fund: To pay departmentwide administrative personnel and overhead costs that are not directly allocated to the budget of the contributing programs.		
Funds Expended	12,772,000	13,373,700
Year-End Fund Balance	3,204,100	2,317,400
Institutional & Engineering Control Fund (EVA2563/A.R.S. § 49-159)		Non-Appropriated
Source of Revenue: Application fees for department's assessment and verification of restricted, non-residential use of contaminated land, recovered costs for repair of engineering and institutional controls, grants, donations, and legislative appropriations.		
Purpose of Fund: To pay the department's cost of enforcing the use of engineering and institutional controls in environmental remediations on contaminated properties.		
Funds Expended	25,900	23,900
Year-End Fund Balance	75,800	87,300
Intergovernmental Agreement Fund (EVA2180/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements from various entities, including the Game and Fish Department and the Water Protection Commission.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	0	0
Year-End Fund Balance	4,900	0
Monitoring Assistance Fund (EVA2308/A.R.S. § 49-360)		Non-Appropriated
Source of Revenue: Fees from public water systems that participate in the Monitoring Assistance program.		
Purpose of Fund: To assist public water systems in complying with monitoring requirements under the federal Safe Drinking Water Act.		
Funds Expended	452,200	646,900
Year-End Fund Balance	1,820,800	2,073,200
Recycling Fund (EVA2289/A.R.S. § 49-837)		Appropriated
Source of Revenue: Landfill disposal (tipping) fees and legislative appropriations.		
Purpose of Fund: For grants to local governments and others developing recycling markets and programs; for public information and assistance on source reduction and recycling; and for revenue collection and fund administration.		
Funds Expended	787,800	1,356,300
Year-End Fund Balance	3,475,700	1,331,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Regulated Substance Fund (EVA2545/A.R.S. § 49-1015.01 [repealed])		Non-Appropriated
Source of Revenue: Legislative appropriations, UST revenues, reimbursements, donations, monies encumbered by the Director for implementing work plans and corrective action plans. Per Laws 2013, Chapter 244 monies from the UST State Assurance Account (SAF) were transferred into the RSF. Laws 2015, Chapter 247 abolished the RSF and transferred the monies in the fund to the UST Revolving Fund. <i>(Please see the UST Revolving Fund for additional information.)</i>		
Purpose of Fund: To pay the costs of administering and taking corrective actions of regulated substances, if the department cannot locate an owner or operator of an UST within 90 days or within a shorter period as determined to be necessary to protect human health or the environment.		
Funds Expended	7,483,600	0
Year-End Fund Balance	35,175,100	0
Solid Waste Fee Fund (EVA3110/A.R.S. § 49-881)		Appropriated
Source of Revenue: Fees, donations, and legislative appropriations.		
Purpose of Fund: To pay solid waste program costs, including waste tire removal expenses, special waste facility staff education, special waste management compliance monitoring, and used oil handling education and enforcement.		
Funds Expended	591,800	1,241,000
Year-End Fund Balance	1,197,400	848,800
Specific Site Judgment Fund (EVA3006/A.R.S. § 49-104)		Non-Appropriated
Source of Revenue: Fines, forfeitures, and penalties paid by parties responsible for site contamination.		
Purpose of Fund: For administration of court settlements, judgments, or consent decrees.		
Funds Expended	4,200	130,000
Year-End Fund Balance	683,300	554,600
Underground Storage Tank Revolving (UST Summary) (EVA2271/A.R.S. § 49-1015A)		Partially-Appropriated
Source of Revenue: Laws 2015, Chapter 247 established a newly-revised corrective action program and extended the 1¢ excise tax to January 1, 2024, on which date the tax will be repealed. The bill repealed the following: the State Assurance Account (SAF), the Regulated Substance Fund, and the Grant Account. The Underground Storage Tank (UST) Revolving Fund's allowable uses were redefined, and all unexpended and unencumbered monies from these accounts were transferred to the reorganized UST Revolving Fund.		
Purpose of Fund: To provide partial coverage for permanent closures, leak prevention, and corrective action costs related to leaking underground storage tanks incurred by the department, owners, operators, or political subdivisions. As session law, the FY 2016 Environment BRB (Laws 2015, Chapter 13) permits DEQ to transfer a combined total of \$6,531,000 from the UST Revolving Fund for administrative costs of the department.		
Balance Forward	2,191,100	12,844,500
Revenue	30,560,600	29,678,000
Transfer In (from RSF to UST Revolving Fund per Laws 2015, Chapter 247)	0	35,175,100
Transfer Out (to State Highway Fund per Laws 2013, Chapter 244)	(15,317,700)	0
Funds Available	17,434,000	77,697,600
Appropriated Funds Expended	0	22,000
Non-Appropriated Funds Expended	4,589,500	17,531,000
Legislative Fund Transfers	0	0
Year-End Fund Balance	12,844,500	60,144,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Voluntary Lawn and Garden Equipment Emissions Reduction Fund (EVA2306/A.R.S. § 49-474)		Non-Appropriated
Source of Revenue: Historically received an annual \$10,000 appropriation for operating costs from the since-abolished UST State Assurance Account (SAF). This fund no longer receives an appropriation.		
Purpose of Fund: To provide vouchers for the retirement of residential and commercial lawn mowers. Residential owners receive a \$100 voucher to be used toward the purchase of an electric mower. Commercial owners receive a \$200 voucher to be used toward the purchase of a mower that generates lower emissions.		
Funds Expended	0	0
Year-End Fund Balance	1,700	1,700
Voluntary Remediation Fund (EVA2564/A.R.S. § 49-187)		Non-Appropriated
Source of Revenue: Legislative appropriations, program fees, cost reimbursements, gifts, grants, and donations.		
Purpose of Fund: To pay the department's oversight costs of voluntary clean-ups of contaminated properties, including application, monitoring, and enforcement activities.		
Funds Expended	303,600	588,300
Year-End Fund Balance	392,100	206,300
Voluntary Vehicle Repair & Retrofit Program Fund (EVA2365/A.R.S. § 49-474.03)		Non-Appropriated
Source of Revenue: Legislative appropriations, a \$10 fee on diesel vehicle registrations, gifts, grants and donations.		
Purpose of Fund: To provide monies for local programs intended to repair or retrofit vehicles that fail emissions tests.		
Funds Expended	0	0
Year-End Fund Balance	3,302,700	2,202,700
Water Quality Assurance Revolving Fund (EVA2221/A.R.S. § 49-282)		Non-Appropriated
Source of Revenue: Fees and taxes related to municipal water use, pesticides, fertilizers, hazardous waste, and groundwater withdrawal. As required by A.R.S. § 49-282, \$15,000,000 is to be transferred to WQARF from the Corporate Income Tax. The \$15,000,000 is adjusted at the close of the fiscal year so that when combined with other revenues the fund receives \$18,000,000 annually. This statutory transfer was suspended between FY 2011 and FY 2016 to \$7,000,000.		
Purpose of Fund: For the operation of the WQARF Priority Site Remediation Program. Expenditures include administration, legal support, identification of responsible polluters, community involvement, and contract costs for the clean-up of sites for which no responsible party can be found. There is a transfer of up to \$800,000 to the Department of Water Resources for well inspection and data management. Although this fund is not appropriated, A.R.S. § 49-282 requires the Appropriations Committees to review the annual budget for WQARF.		
Funds Expended	11,410,400	14,685,900
Year-End Fund Balance	5,682,100	1,381,900
Water Quality Fee Fund (EVA4100/A.R.S. § 49-210)		Appropriated
Source of Revenue: Legislative appropriations and fees received from several water quality protection programs.		
Purpose of Fund: To pay the costs of aquifer protection permit registration, dry well registration, technical review, inspections, and issuance of aquifer protection permits.		
Funds Expended	5,798,400	10,528,000
Year-End Fund Balance	5,775,900	2,135,100

Governor's Office of Equal Opportunity

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	4,400
Equipment	2,400	2,000	2,000
AGENCY TOTAL	188,300	189,000	189,000
FUND SOURCES			
General Fund	188,300	189,000	189,000
SUBTOTAL - Appropriated Funds	188,300	189,000	189,000
Federal Funds	200	0	0
TOTAL - ALL SOURCES	188,500	189,000	189,000

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$189,000 and 4 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Equal Employment and Economic Development Fund (AFA2000/Executive Order: 93-20)		Non-Appropriated
Source of Revenue: Federal Funds received by the State of Arizona under the provisions of the Wagner-Peyser Act, the Workforce Investment Act, and Public Law 105-220.		
Purpose of Fund: To establish effective communication links between government agencies and local communities to address areas of employment under-utilization. To conduct research to improve, expand, or integrate state agencies' equal opportunity programs.		
Funds Expended	200	0
Year-End Fund Balance	0	0

State Board of Equalization

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	144,400
AGENCY TOTAL	501,200	642,800	642,800
FUND SOURCES			
General Fund	501,200	642,800	642,800
SUBTOTAL - Appropriated Funds	501,200	642,800	642,800
TOTAL - ALL SOURCES	501,200	642,800	642,800

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 Baseline includes \$642,800 and 7 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

Board of Executive Clemency

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	186,200
Professional and Outside Services	40,400	40,800	40,800
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	956,000
FUND SOURCES			
General Fund	889,800	956,000	956,000
SUBTOTAL - Appropriated Funds	889,800	956,000	956,000
Federal Funds	21,000	41,200	41,200
TOTAL - ALL SOURCES	910,800	997,200	997,200

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 Baseline includes \$956,000 and 14 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

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.

Other Issues

Caseload Data

A footnote in the FY 2016 General Appropriation Act requires 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants (PPA2000/A.R.S. § 31-401)		Non-Appropriated
Source of Revenue: Revenue from federal grants.		
Purpose of Fund: To be used as specified by the federal grants.		
Funds Expended	21,000	41,200
Year-End Fund Balance	25,200	25,200

Arizona Exposition and State Fair Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	988,800
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	3,172,500
Equipment	143,100	0	0
AGENCY TOTAL	11,505,700	11,616,100	11,616,100
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Arizona Exposition and State Fair Fund	11,505,700	11,616,100	11,616,100
SUBTOTAL - Other Appropriated Funds	11,505,700	11,616,100	11,616,100
SUBTOTAL - Appropriated Funds	11,505,700	11,616,100	11,616,100
TOTAL - ALL SOURCES	11,505,700	11,616,100	11,616,100

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

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The Baseline includes \$11,616,100 and 184 FTE Positions from the Arizona Exposition and State Fair Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Exposition and State Fair Fund (CLA4001/A.R.S. § 3-1005)		Appropriated
Source of Revenue: Receipts and lease revenues from fairground facilities, most of which are associated with the State Fair.		
Purpose of Fund: For operating costs of the State Fair.		
Funds Expended	11,505,700	11,616,100
Year-End Fund Balance	3,626,200	3,684,700

Department of Financial Institutions

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	60.1	69.1	69.1
Personal Services	2,486,800	2,607,200	2,599,200
Employee Related Expenditures	1,019,700	1,103,200	1,099,900
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	516,600
Equipment	44,800	120,000	120,000
OPERATING SUBTOTAL	4,138,700	4,465,700	4,453,100
SPECIAL LINE ITEMS			
Real Estate Appraisal	0	821,400	821,400
AGENCY TOTAL	4,138,700	5,287,100	5,274,500
FUND SOURCES			
General Fund	3,004,600	3,008,000	2,995,400
<u>Other Appropriated Funds</u>			
Board of Appraisal Fund	0	821,400	821,400
Financial Services Fund	1,134,100	1,457,700	1,457,700
SUBTOTAL - Other Appropriated Funds	1,134,100	2,279,100	2,279,100
SUBTOTAL - Appropriated Funds	4,138,700	5,287,100	5,274,500
Other Non-Appropriated Funds	1,214,700	1,806,400	927,000
TOTAL - ALL SOURCES	5,353,400	7,093,500	6,201,500

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 Baseline includes \$4,453,100 and 60.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$2,995,400
Financial Services Fund	1,457,700

FY 2017 adjustments would be as follows:

Agency Consolidation **GF** **(12,600)**

The Baseline includes a decrease of \$(12,600) from the General Fund in FY 2017 for consolidation savings. Laws 2015, Chapter 18 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.)

Real Estate Appraisal

The Baseline includes \$821,400 and 9 FTE Positions from the Board of Appraisal Fund in FY 2017 for Real Estate Appraisal. These amounts are unchanged from FY 2016.

The FY 2016 Agency Consolidation Budget Reconciliation Bill (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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

STATUTORY CHANGES

The Baseline would, as session law, continue to allow the department to use the Financial Services Fund for general operating expenditures.

Deleted Provisions

The Baseline would not continue the session law provision to extend spending authority from the Receivership Fund for an electronic licensing system. The department has now established the licensing system.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Appraisal Fund (BDA2270/A.R.S. § 32-3608)		Appropriated
<i>Source of Revenue:</i> Monies collected by the Department of Financial Institutions from the examination and licensing of real estate appraisers and tax agents. The department retains 90% of these monies and deposits 10% in the General Fund.		
<i>Purpose of Fund:</i> To examine, license, investigate and regulate real estate appraisers and property tax agents, and for board administration. The FY 2016 Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 19) eliminated the State Board of Appraisal and transferred all authority, powers, duties, and responsibilities of the board to the Superintendent of Financial Institutions.		
Funds Expended	0	821,400
Year-End Fund Balance	0	131,300
Financial Services Fund (BDA1998/A.R.S. § 6-991.21)		Appropriated
<i>Source of Revenue:</i> Loan originator licensing and renewal fees. Similar fees are also deposited in the Mortgage Recovery Fund.		
<i>Purpose of Fund:</i> To supervise and regulate loan originators. The FY 2016 Revenue BRB (Laws 2015, Chapter 10) allows the department to use this fund for general operating expenditures in FY 2016.		
Funds Expended	1,134,100	1,457,700
Year-End Fund Balance	6,141,400	7,208,200
IGA and ISA Fund (BDA2500/A.R.S. § 6-1241)		Non-Appropriated
<i>Source of Revenue:</i> Monies received through Intergovernmental Agreements with the Attorney General's Office.		
<i>Purpose of Fund:</i> To reimburse the department for expenses related to the examination of money transmitting organizations. The banking examiners work in cooperation with the Attorney General's Office to provide information leading to the criminal conviction of fraudulent money transmitting organizations.		
Funds Expended	80,400	81,700
Year-End Fund Balance	1,600	0
Mortgage Recovery Fund (BDA1997/A.R.S. § 6-991.09)		Non-Appropriated
<i>Source of Revenue:</i> Licensing and renewal fees paid by licensed loan originators. Similar fees also are deposited in the Financial Services Fund.		
<i>Purpose of Fund:</i> To benefit any person aggrieved by any act, representation, transaction or conduct of a licensed loan originator that violates statute or rule.		
Funds Expended	0	0
Year-End Fund Balance	2,044,300	2,175,300

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Receivership Revolving Fund (BDA3023/A.R.S. § 6-135.01)

Non-Appropriated

Source of Revenue: Revenue generated from the sale of assets of firms under receivership and transfers from the department's Revolving Fund.

Purpose of Fund: Provide funding for the administration of receiverships. The FY 2016 Revenue BRB (Laws 2015, Chapter 10) also allowed the department to use monies from the fund in FY 2014, FY 2015 and FY 2016 for an electronic licensing system. Total expenditures on the licensing system in FY 2014, FY 2015 and FY 2016 may not exceed \$850,000.

Funds Expended	328,700	930,000
Year-End Fund Balance	1,426,200	2,079,400

Revolving Fund (BDA2126/A.R.S. § 6-135)

Non-Appropriated

Source of Revenue: Investigative costs, attorney fees, or civil penalties recovered as the result of an enforcement action brought by the department or the Attorney General for violations of state banking laws.

Purpose of Fund: To support investigative and enforcement activities conducted by the department and the Attorney General. Year-end unencumbered fund balances in excess of \$200,000 are transferred to the department's Receivership Revolving Fund. Any excess balances are transferred at the beginning of the next fiscal year.

Funds Expended	805,600	794,700
Year-End Fund Balance	783,000	155,300

Department of Fire, Building, and Life Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	48.0	48.0	48.0
Personal Services	937,100	1,130,000	1,130,000
Employee Related Expenditures	414,800	505,600	505,600
Professional and Outside Services	19,200	10,100	10,100
Travel - In State	132,300	82,600	82,600
Travel - Out of State	300	0	0
Other Operating Expenditures	287,500	279,300	279,300
Equipment	25,700	21,700	21,700
OPERATING SUBTOTAL	1,816,900	2,029,300	2,029,300
SPECIAL LINE ITEMS			
State Fire School	100,000	172,700	172,700
AGENCY TOTAL	1,916,900	2,202,000	2,202,000
FUND SOURCES			
General Fund	1,916,900	2,202,000	2,202,000
SUBTOTAL - Appropriated Funds	1,916,900	2,202,000	2,202,000
Other Non-Appropriated Funds	364,100	437,400	437,400
Federal Funds	325,000	266,300	266,300
TOTAL - ALL SOURCES	2,606,000	2,905,700	2,905,700

AGENCY DESCRIPTION — The agency enforces safety standards for manufactured homes, mobile homes, and factory-built buildings. The agency 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 Baseline includes \$2,029,300 and 47 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Fire School

The Baseline includes \$172,700 and 1 FTE Position from the General Fund in FY 2017 for the Fire School. These amounts are unchanged from FY 2016.

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 \$72,700 and 1 FTE Position is used for liaison work with the Arizona State Fire Training Committee and other firefighter training activities.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arson Detection Reward Fund (MMA2169/A.R.S. § 41-2167)		Non-Appropriated
<i>Source of Revenue:</i> Donations, court imposed fines, and monies from forfeiture of bail posted for arson convictions.		
<i>Purpose of Fund:</i> To provide rewards for information leading to convictions of arson cases.		
Funds Expended	0	0
Year-End Fund Balance	88,000	101,500
Building & Fire Safety Fund (MMA2211/A.R.S. § 41-2173)		Non-Appropriated
<i>Source of Revenue:</i> Intergovernmental agreement with the Department of Environmental Quality and the Department of Health Services. Registration fees charged to fire training school participants.		
<i>Purpose of Fund:</i> The fund is used: a) to implement a fire and life safety inspection program for the removal or installation of storage tanks and to ensure that owners and operators are complying with and reporting environmental releases to the proper agencies; b) to implement a fire and life safety inspection program for all building licenses under Federal Medicaid and Medicare Programs and provide staff to perform inspections; and c) to provide training classes at the local level to address the needs of volunteer firefighters.		
Funds Expended	0	0
Year-End Fund Balance	15,300	15,300
Condominium and Planned Community Hearing Office Fund (MMA2537/A.R.S. § 41-2198.05)		Non-Appropriated
<i>Source of Revenue:</i> Filing fees and civil penalties arising from disputes between owners and condominium or planned community associations over violations of condominium or planned community documents or violations of regulatory statutes.		
<i>Purpose of Fund:</i> To reimburse the costs of the Office of Administrative Hearings in conducting hearings concerning disputes between owners and condominium or planned community associations. Remaining monies in the fund may be used by the department to offset the costs of administering cases between owners and condominium or planned community associations.		
Funds Expended	19,300	0
Year-End Fund Balance	0	19,000
Consumer Recovery Fund (MMA3090/A.R.S. § 41-2188)		Non-Appropriated
<i>Source of Revenue:</i> Fees charged to dealers and brokers of manufactured homes, mobile homes, or factory-built buildings designed for residential use.		
<i>Purpose of Fund:</i> To provide consumer and license education in connection with the manufactured housing and factory-built building industry and to make payments on damage claims filed by consumers of these types of residential buildings.		
Funds Expended	0	0
Year-End Fund Balance	363,100	479,000
DPS-FBI Fingerprint Fund (MMA2159/A.R.S. § 41-1750)		Non-Appropriated
<i>Source of Revenue:</i> Revenues include fees collected from fingerprint clearance cards.		
<i>Purpose of Fund:</i> Revenues are transferred to the Department of Public Safety (DPS) to process fingerprint clearance cards.		
Funds Expended	0	0
Year-End Fund Balance	100	100
Federal Grants (MMA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Housing and Urban Development (HUD) reimbursements for regulatory functions performed by the Office of Manufactured Housing (OMH) on its behalf. Tuition fees for HUD training conducted by OMH staff.		
<i>Purpose of Fund:</i> Pro-rated salaries and related expenses for employees performing related functions.		
Funds Expended	325,000	266,300
Year-End Fund Balance	154,900	136,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Interagency Service Agreement Fund (MMA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies transferred from the State Forester to cover their portion of rent expenses for office space shared with the Department of Fire, Building, and Life Safety.		
Purpose of Fund: To pay rent for office space shared by the Department of Fire, Building, and Life Safety and the State Forester.		
Funds Expended	111,300	86,900
Year-End Fund Balance	83,700	75,800
Manufactured Housing Cash Bond Fund (MMA3722/A.R.S. § 41-2179)		Non-Appropriated
Source of Revenue: Cash deposits made by housing manufacturers and installers prior to the granting of an original license. Applicants must make a cash deposit for each branch location of their operation.		
Purpose of Fund: To compensate consumers in cases where a licensee fails to perform sales or installation agreements or repairs under warranty; and to make payment to the department if the licensee fails to pay any fees or costs owed.		
Funds Expended	0	0
Year-End Fund Balance	639,500	639,500
Mobile Home Relocation Fund (MMA2237/A.R.S. § 33-1476.02)		Non-Appropriated
Source of Revenue: Assessments collected from mobile home owners who do not own the land upon which the mobile home is located and interest earnings. Once the fund balance reaches \$8,000,000, assessments will no longer be collected and the only revenue will be from interest. Assessment would resume when the fund balance at the end of a fiscal year is less than \$6,000,000.		
Purpose of Fund: To pay for relocations due to rental increases and to pay premiums and other costs of purchasing insurance coverage for tenant relocation costs due to a change in property use pursuant to A.R.S. § 33-1476.01. If such insurance is not available, or if the insurance costs exceed the amount available from the fund, the fund is used to make direct payments for tenant relocation costs.		
Funds Expended	233,500	350,000
Year-End Fund Balance	7,938,500	8,146,100
Trampoline Court Safety Fund (MMA2578/A.R.S § 41-2170.22)		Non-Appropriated
Source of Revenue: Fees charged to owners of trampoline courts.		
Purpose of Fund: To implement and maintain the registry of trampoline courts operating in Arizona.		
Funds Expended	0	500
Year-End Fund Balance	2,500	4,500

State Forester

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	55.0	55.0	55.0
Personal Services	1,541,100	1,568,000	1,568,000
Employee Related Expenditures	657,800	643,500	643,500
Professional and Outside Services	143,600	143,600	143,600
Travel - In State	42,800	94,900	94,900
Other Operating Expenditures	271,300	271,300	271,300
Equipment	52,100	0	0
OPERATING SUBTOTAL	2,708,700	2,721,300	2,721,300
SPECIAL LINE ITEMS			
Environmental County Grants	275,000	250,000	250,000
Fire Suppression	4,000,000	4,000,000	4,000,000
Hazardous Vegetation Removal	996,600	1,350,000	1,350,000
Inmate Fire Crews	683,200	691,000	691,000
AGENCY TOTAL	8,663,500	9,012,300	9,012,300
FUND SOURCES			
General Fund	8,663,500	9,012,300	9,012,300
SUBTOTAL - Appropriated Funds	8,663,500	9,012,300	9,012,300
Other Non-Appropriated Funds	25,655,900	25,270,500	25,490,000
TOTAL - ALL SOURCES	34,319,400	34,282,800	34,502,300

AGENCY DESCRIPTION — The State Forester 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).

Operating Budget

The Baseline includes \$2,721,300 and 42 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Environmental County Grants

The Baseline 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 State Forester's Office 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 Baseline includes \$4,000,000 from the General Fund in FY 2017 for Fire Suppression. This amount is unchanged from FY 2016.

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 \$4,000,000 would not be included in the General Appropriation Act.

Hazardous Vegetation Removal

The Baseline 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 State Forester crews or through fuel reduction grants to contractors.

Inmate Fire Crews

The Baseline includes \$691,000 and 13 FTE Positions from the General Fund in FY 2017 for Inmate Fire Crews. These amounts are unchanged from FY 2016.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Cooperative Forestry Fund (FOA2232/A.R.S. § 37-624)		Non-Appropriated
Source of Revenue: Legislative appropriations, reimbursements from organizations, the public, other levels of government, and state agencies.		
Purpose of Fund: To fund the State Forester's activities, including forestry assistance and wild land fire prevention and suppression on state lands.		
Funds Expended	6,067,900	8,003,100
Year-End Fund Balance	3,121,300	3,003,200

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Fire Suppression Revolving Fund (FOA2360/A.R.S. § 37-623.02)

Non-Appropriated

Source of Revenue: General Fund appropriations, monies authorized by the Governor's Emergency Council and the Wild Land Fire Emergency Council, civil penalties related to the use of fireworks on state lands and other monies. If the unobligated balance of the fund exceeds \$2,000,000 at the end of any calendar year, the excess shall be transferred to the General Fund. General Fund appropriation expenditures are not displayed to avoid double counting of appropriations.

Purpose of Fund: To cover the costs of fighting fires on public and private lands.

Funds Expended	19,588,000	17,267,400
Year-End Fund Balance	2,669,300	2,865,700

State Board of Funeral Directors and Embalmers

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	77,000
Professional and Outside Services	400	10,000	10,000
Travel - In State	3,800	4,500	4,500
Other Operating Expenditures	53,000	66,500	66,500
Equipment	2,900	0	0
AGENCY TOTAL	326,300	352,200	352,200

FUND SOURCES

Other Appropriated Funds

Board of Funeral Directors' and Embalmers' Fund	326,300	352,200	352,200
SUBTOTAL - Other Appropriated Funds	326,300	352,200	352,200
SUBTOTAL - Appropriated Funds	326,300	352,200	352,200
TOTAL - ALL SOURCES	326,300	352,200	352,200

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 Baseline includes \$352,200 and 4 FTE Positions from the Board of Funeral Directors' and Embalmers' Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Funeral Directors' and Embalmers' Fund (FDA2026/A.R.S. § 32-1308)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of funeral directors and embalmers. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate funeral directors and embalmers, and for board administration.		
Funds Expended	326,300	352,200
Year-End Fund Balance	380,000	396,900

Arizona Game and Fish Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	273.5	273.5	273.5
Personal Services	13,675,000	14,116,900	14,116,900
Employee Related Expenditures	8,694,100	10,152,900	10,152,900
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	13,117,100
Equipment	907,600	420,700	420,700
OPERATING SUBTOTAL	31,046,700	40,845,400	39,909,200
SPECIAL LINE ITEMS			
Lower Colorado Multispecies Conservation	350,000	0	0
Pittman-Robertson/Dingell-Johnson Act	3,058,000	0	0
Watercraft Grants	0	1,000,000	1,000,000
Watercraft Safety Education Program	243,700	0	0
AGENCY TOTAL	34,698,400	41,845,400	40,909,200
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Capital Improvement Fund	999,700	1,000,900	1,000,900
Game and Fish Fund	30,477,700	35,347,700	34,974,000
Game, Non-Game, Fish and Endangered Species Fund	154,000	346,500	346,500
Watercraft Licensing Fund	3,067,000	5,134,100	4,571,600
Wildlife Endowment Fund	0	16,200	16,200
SUBTOTAL - Other Appropriated Funds	34,698,400	41,845,400	40,909,200
SUBTOTAL - Appropriated Funds	34,698,400	41,845,400	40,909,200
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	108,854,400	107,918,200

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

The Baseline includes \$39,909,200 and 273.5 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
Capital Improvement Fund	\$1,000,900
Game and Fish Fund	34,974,000
Game, Non-Game, Fish and Endangered Species Fund	346,500
Watercraft Licensing Fund	3,571,600
Wildlife Endowment Fund	16,200

FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (936,200)

The Baseline 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)

Watercraft Grants

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Big Game Permit Fund (GFA3712/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: License fees for hunting permits.		
Purpose of Fund: Holding account for license fees from hunters who are unable to obtain big game hunting permits through the lottery system.		
Funds Expended	0	0
Year-End Fund Balance	2,481,200	2,481,200
Capital Improvement Fund (GFA2203/A.R.S. § 17-292)		Appropriated
Source of Revenue: Transfers from the Conservation Development Fund.		
Purpose of Fund: To acquire, construct, improve and renovate department facilities.		
Funds Expended	999,700	1,000,900
Year-End Fund Balance	401,400	810,500
Conservation Development Fund (GFA2062/A.R.S. § 17-282)		Non-Appropriated
Source of Revenue: A surcharge on hunting, fishing and combination licenses, and trout stamp sales.		
Purpose of Fund: To make debt service payments if the department issues bonds for the purpose of constructing, maintaining, and renovating department facilities.		
Funds Expended	2,045,500	1,415,500
Year-End Fund Balance	1,909,200	1,703,900
Federal Funds (GFA2000/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: Revenue from federal grants.		
Purpose of Fund: To be used as specified by the federal grants. The fund also generates interest owed to the federal government that is paid on a quarterly basis.		
Funds Expended	15,100	0
Year-End Fund Balance	137,800	137,800
Federal Grants - American Recovery and Reinvestment Act (ARRA) (GFA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department to fulfill Federal contracts.		
Funds Expended	0	0
Year-End Fund Balance	17,500	17,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Revolving Fund (GFA2028/A.R.S. § 17-406)		Non-Appropriated
Source of Revenue: Funds received from the federal government for deposit and appropriated state matching money.		
Purpose of Fund: For projects approved in compliance with the provisions of the restoration acts known as the Pittman-Robertson Act and the Dingell-Johnson/Wallop-Breaux Act and other wildlife projects in which the cost may be partially or wholly reimbursed from Federal Funds.		
Funds Expended	40,881,100	36,041,200
Year-End Fund Balance*	(1,600,200)	55,700
Firearms Safety and Ranges Fund (GFA2442/A.R.S. § 17-273)		Non-Appropriated
Source of Revenue: Annual appropriation of \$50,000 from retail sales taxes deposited to the General Fund and transferred to the fund pursuant to A.R.S. § 42-5029D4, revenues derived from the sale or lease of real property owned by the commission, and interest earnings as provided by A.R.S. § 17-273.		
Purpose of Fund: To award grants to assist existing government-owned shooting ranges in adapting to changes in the use of adjacent properties, including noise abatement, safety enhancement, range realignment, acquisition of land for buffer zones, or acquisition of State Trust Lands for locating or relocating government-owned shooting ranges.		
Funds Expended	11,100	11,000
Year-End Fund Balance	41,800	64,000
Game and Fish Fund (GFA2027/A.R.S. § 17-261)		Appropriated
Source of Revenue: Monies received from sales of licenses and tags for hunting, trapping and fishing, and other related fees and penalties.		
Purpose of Fund: To provide funding for general operation of the Game and Fish Department and to match federal grants for fish and wildlife restoration.		
Funds Expended	30,477,700	35,347,700
Year-End Fund Balance	14,562,000	11,484,400
Game and Fish Publications Revolving Fund (GFA4007/A.R.S. § 17-269)		Non-Appropriated
Source of Revenue: Sales of agency publications, including <i>Wildlife Views</i> magazine and various field guides.		
Purpose of Fund: To finance the production of agency publications. Amounts in excess of \$80,000 revert to the Game and Fish Fund at fiscal year end. However, in some circumstances, the balance forward may appear to exceed \$80,000 without reversion due to unexpended obligations at fiscal year end that the agency counts against the ending balance.		
Funds Expended	280,000	253,300
Year-End Fund Balance*	(71,300)	(173,600)
Game and Fish Stamps Fund (GFA3708/A.R.S. § 17-338)		Non-Appropriated
Source of Revenue: Sale of licenses and special use permits on shared waters.		
Purpose of Fund: To remit proceeds to Nevada on an annual basis pursuant to an agreement between the Arizona Game and Fish Department and the State of Nevada.		
Funds Expended	900	0
Year-End Fund Balance	96,000	96,000
Game and Fish Trust Fund (GFA3111/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: Collections from local governments for the Urban Fishing program, transfers from the state Risk Management Fund, proceeds from the charitable auction of bighorn sheep tags, and private donations from private contributors.		
Purpose of Fund: This fund fulfills the wildlife-related requests of private contributors. Most donations include a request to protect or research a particular form of wildlife.		
Funds Expended	2,587,300	2,360,000
Year-End Fund Balance	8,345,900	9,985,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Game, Non-Game, Fish and Endangered Species Fund (GFA2127/A.R.S. § 17-268)		Appropriated
Source of Revenue: Contributions from taxpayers who select the "check-off" option for non-game wildlife on their Arizona state income tax forms and interest earned.		
Purpose of Fund: To provide funding for research on non-game wildlife, endangered species, and related habitat for use in the department's management plan.		
Funds Expended	154,000	346,500
Year-End Fund Balance	70,700	71,600
Heritage Fund (GFA2295/A.R.S. § 17-297)		Non-Appropriated
Source of Revenue: Annual transfer from the Lottery Fund of up to \$10,000,000 and interest earnings.		
Purpose of Fund: To protect areas containing sensitive or endangered biological features and wildlife. At least 24% of the fund, but no more than 60%, may be used for capital projects and acquisitions. Interest earnings are to be used for administration.		
Funds Expended	10,223,100	11,053,900
Year-End Fund Balance	12,548,300	11,689,300
IGA and ISA Fund (GFA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency service agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	37,600	0
Year-End Fund Balance	2,000	2,000
Indirect Cost Recovery Fund (GFA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: This fund consists of revenue generated by billing federal aid for indirect costs.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended	4,733,000	5,386,400
Year-End Fund Balance	1,191,800	1,168,300
Kaibab Co-op Fund (GFA3714/A.R.S. § 17-231)		Non-Appropriated
Source of Revenue: Clearing account. In accordance with the Federal Sikes Act, 16 U.S.C. 670 et seq., monies are generated from the sale of a Kaibab habitat management stamp, which is required to take deer on the Kaibab Plateau.		
Purpose of Fund: To provide funding for habitat management.		
Funds Expended	0	0
Year-End Fund Balance	113,100	113,100
Land and Water Conservation and Recreation Development Fund (GFA2036/A.R.S. § 17-267)		Appropriated
Source of Revenue: Fishing license fees.		
Purpose of Fund: To pay for recreation benefits in conjunction with fish and wildlife restoration projects; purchase engineering services, land, rights of way, water rights, and construction; and match funds for Pittman-Robertson and Dingell-Johnson federal aid and other available funds from federal, state, county or municipal sources.		
Funds Expended	0	0
Year-End Fund Balance	31,600	31,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Off-Highway Vehicle Recreation Fund (GFA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: The Arizona Game and Fish Department receives 35% of off-highway vehicle user fees and annual collections from the Motor Vehicle Fuel Tax transfer to the State Parks Board, which is equivalent to 0.55% of the total license taxes on motor vehicle fuel.		
Purpose of Fund: To plan, administer, and enforce off-highway vehicle recreation, and to develop facilities consistent with the off-highway vehicle plan. Sixty percent of the monies collected are to be used by the Arizona State Parks Board for planning, administration, and facilities development and 5% are to be used by the State Land Department for costs associated with off-highway vehicle use for land within its jurisdiction. The remainder is transferred to the Arizona Game and Fish Department for informational and educational programs on off-highway vehicle recreation and law enforcement activities.		
Funds Expended	1,837,400	2,276,200
Year-End Fund Balance	815,000	400,600
Watercraft Licensing Fund (GFA2079/A.R.S. § 5-323)		Appropriated
Source of Revenue: Registration fees for the licensing and numbering of watercraft, license taxes, and penalty assessments.		
Purpose of Fund: To administer and enforce registration of watercraft and boating safety laws, and to provide any information and education programs relating to boating and boating safety.		
Funds Expended	3,067,000	5,134,100
Year-End Fund Balance	4,678,300	3,844,200
Wildlife Conservation Fund (GFA2497/A.R.S. § 17-299)		Non-Appropriated
Source of Revenue: Monies received from tribal gaming in accordance with A.R.S. § 5-601.02.		
Purpose of Fund: To conserve, enhance, and restore Arizona's diverse wildlife resources and habitats, and may include the acquisition of real property.		
Funds Expended	5,776,400	7,724,000
Year-End Fund Balance	7,044,900	5,811,000
Wildlife Conservation Enterprise Fund (GFA2029/A.R.S. 28-6302)		Non-Appropriated
Source of Revenue: External fee for service contracts and purchase orders.		
Purpose of Fund: For research projects and goals specified by contractual agreements.		
Funds Expended	469,000	369,700
Year-End Fund Balance	275,700	196,000
Wildlife Endowment Fund (GFA2279/A.R.S. § 17-271)		Appropriated
Source of Revenue: Sales of benefactor and lifetime hunting and fishing licenses, gifts, grants, contributions, and interest and investment income.		
Purpose of Fund: To provide funding for wildlife conservation and management.		
Funds Expended	0	16,200
Year-End Fund Balance	2,241,700	2,425,500
Wildlife Habitat Restoration and Enhancement Fund (GFA2536/A.R.S. § 17-471)		Appropriated
Source of Revenue: Legislative appropriations. The Legislature provided a non-lapsing, one-time allocation of \$3,500,000 from the General Fund in FY 2007.		
Purpose of Fund: To provide funding for wildlife habitat restoration and improvement projects.		
Funds Expended	0	0
Year-End Fund Balance	400	400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Wildlife Theft Prevention Fund (GFA2080/A.R.S. § 17-315)		Non-Appropriated
Source of Revenue: Fines charged for the unlawful taking, wounding or killing, or unlawful possession of wildlife; and monies received from donations.		
Purpose of Fund: To finance reward payments to persons providing information about illegal wildlife activities; to finance the department's "Operation Game Thief" program; and to promote awareness of the Wildlife Theft Prevention program.		
Funds Expended	117,800	117,800
Year-End Fund Balance	130,300	140,600

* As reported by the agency. Actual ending balance will not be negative.

Department of Gaming

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	115.3	155.8	155.8
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	800,400
Casino Operations Certification	1,726,400	2,089,900	2,089,900
County Fairs Livestock and Agricultural Promotion	0	1,779,500	1,779,500
Division of Racing	0	2,894,200	2,894,200
Problem Gambling	1,747,700	2,287,000	2,287,000
AGENCY TOTAL	11,474,400	18,146,500	18,146,500
FUND SOURCES			
General Fund	0	1,779,500	1,779,500
<u>Other Appropriated Funds</u>			
Arizona Benefits Fund	9,448,000	11,082,900	11,082,900
Racing Regulation Fund	0	2,894,200	2,894,200
State Lottery Fund	300,000	300,000	300,000
Tribal-State Compact Fund	1,726,400	2,089,900	2,089,900
SUBTOTAL - Other Appropriated Funds	11,474,400	16,367,000	16,367,000
SUBTOTAL - Appropriated Funds	11,474,400	18,146,500	18,146,500
Other Non-Appropriated Funds	0	1,370,000	1,370,000
TOTAL - ALL SOURCES	11,474,400	19,516,500	19,516,500

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 (BRB) (Laws 2015, Chapter 19) merged the Department of Racing into the Department of Gaming, effective 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 2015 actuals for the Department of Racing expenditures are shown in the Department of Racing budget.

Administrative Expenses

The FY 2017 Baseline continues the \$9,095,900 FY 2016 appropriated spending level for administration expenses, which consists of \$8,295,500 for operating budget expenditures and \$800,400 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 Baseline includes \$8,382,400 in FY 2017, as 9% of projected revenue is greater than \$8,000,000. In that circumstance, the department would not be able to expend its appropriation of \$9,095,900 for administrative expenses 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 \$9,095,900.

Problem Gambling

The Baseline 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 Baseline 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 Baseline includes \$800,400 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 is unchanged from FY 2016.

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.)*

Casino Operations Certification

The Baseline includes \$2,089,900 and 28 FTE Positions from the Tribal-State Compact Fund in FY 2017 for Casino Operations Certification. These amounts are unchanged from FY 2016.

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 Agricultural Promotion

The Baseline includes \$1,779,500 from the General Fund in FY 2017 for County Fairs Livestock and Agricultural Promotion. This amount is unchanged from FY 2016.

The FY 2016 Agency Consolidation BRB transferred this line item from the Department of Racing to the Department of Gaming. *(Please see Division of Racing for more information.)*

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 Baseline includes \$2,894,200 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 are unchanged from FY 2016.

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 Baseline includes \$2,287,000 and 5 FTE Positions in FY 2017 for Problem Gambling. These amounts consist of:

	<u>FY 2017</u>
Arizona Benefits Fund	\$1,987,000
State Lottery Fund	300,000

These amounts are unchanged from FY 2016.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

The amount appropriated to the County Fairs Livestock and Agricultural Promotion line item is for deposit in the County Fairs Livestock and Agricultural Promotion Fund established by A.R.S. § 5-113, and to be administered by the Office of the Governor.

Table 1

Tribal Gaming Distributions Pursuant to Proposition 202^{1/}

<u>Recipient</u>	<u>Proposition 202 Formula</u>	<u>FY 2014 Actual^{1/}</u>	<u>FY 2015 Actual^{1/}</u>	<u>FY 2016 Projected</u>	<u>FY 2017 Projected</u>
State Government Distribution	88% of total	\$ 86,728,500	\$ 88,424,800	\$ 91,311,200 ^{2/}	\$ 93,137,400 ^{2/}
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^{5/}</u>	<u>1,862,800^{5/}</u>
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 Baseline 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 Baseline include \$9,095,900, 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 Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Benefits Fund (GMA2350/A.R.S. § 5-601.02)		Partially-Appropriated
Source of Revenue: Tribal organizations, which have gaming compacts with the state, pay a portion of their gaming revenues to the state.		
Purpose of Fund: Provide funding for the regulation of tribal gaming and prevention of problem gambling. In addition, the Arizona Benefits Fund distributes monies to various state funds. <i>(See individual agency pages for detailed information on each recipient.)</i>		
Appropriated Funds Expended by Department of Gaming	9,448,000	11,082,900
Funds Transferred		
Instructional Improvement Fund	44,047,600	45,509,400
Trauma and Emergency Services Fund	22,023,800	22,754,800
Arizona Wildlife Conservation Fund	6,292,500	6,501,400
Tourism Fund	<u>6,292,500</u>	<u>6,501,400</u>
Total Funds Transferred	78,656,400	81,267,000
Year-End Fund Balance	1,617,800	804,800
Arizona Breeders' Award Fund (GMA2206/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
Purpose of Fund: To award the breeder of every winning horse, greyhound foaled or whelped, statewide.		
Funds Expended	0	17,500
Year-End Fund Balance	0	15,400
DPS-FBI Fingerprint Fund (GMA2159/A.R.S. § 41-1750)		Non-Appropriated
Source of Revenue: Revenues include fees collected from fingerprint clearance cards.		
Purpose of Fund: Revenues are transferred to the Department of Public Safety to process fingerprint clearance cards. Fund is basically a "pass through" for fingerprinting fees payable to DPS.		
Funds Expended	0	0
Year-End Fund Balance	0	2,000
Greyhound and Retired Racehorse Adoption Fund (GMA2015/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: License fees collected from dog breeders, racing kennels, and other operations where greyhounds are raised for dog racing. Additional monies are collected by the horse adoption surcharge that receives 5% of all horse racing related fines.		
Purpose of Fund: To provide funding for grants to non-profit organizations for the promotion and adoption of retired racing greyhounds and horses.		
Funds Expended	0	3,100
Year-End Fund Balance	0	900
IGA and ISA Fund (GMA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Various intergovernmental and interagency service agreements.		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA) and Intergovernmental Service Agreements (ISA).		
Funds Expended	0	1,320,000
Year-End Fund Balance	0	0
State Lottery Fund (GMA2122/A.R.S. § 5-571)		Appropriated
Source of Revenue: Funds transferred from the State Lottery Fund.		
Purpose of Fund: Provide additional funding to the department's Problem Gambling program. These funds are expended to prevent, educate, and treat individuals suffering from problem gambling.		
Funds Expended	300,000	300,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Racing Administration Fund (GMA2018/A.R.S. § 5-113)		Non-Appropriated
<i>Source of Revenue:</i> General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
<i>Purpose of Fund:</i> To administer the Arizona County Fairs Racing Betterment Fund, the Arizona Breeders' Award Fund, the Arizona Stallion Award Fund, and the Greyhound Adoption Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	23,700
Racing Commission Bond Deposit Fund (GMA3720/A.R.S. § 5-107)		Non-Appropriated
<i>Source of Revenue:</i> The fund holds bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing also deposits all racing and boxing applicant or licensee payments submitted in excess of the amount due into this fund.		
<i>Purpose of Fund:</i> To hold bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing requires racing permittees to post a bond with the Division of Racing each year, which is refunded when the permittee withdraws their permit. Forfeited bonds are deposited into the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	55,600
Racing Investigation Fund (GMA2369/A.R.S. § 41-705)		Non-Appropriated
<i>Source of Revenue:</i> Monies collected from persons, partnerships, associations or corporations that hold a permit for a racing meeting under Title 5.		
<i>Purpose of Fund:</i> To cover the cost of racing investigations by the Arizona Department of Racing. The fund is administered by the Department of Administration and disbursements are made pursuant to instructions from the Director of the Department of Racing.		
Funds Expended	0	0
Year-End Fund Balance	0	63,700
Racing Regulation Fund (GMA2556/A.R.S. § 5-113.01)		Appropriated
<i>Source of Revenue:</i> License fees and regulatory assessments established by the Arizona Department of Racing and the Boxing Commission, pari-mutuel taxes from wagering at horse and dog racing facilities and donations or grants received by the department.		
<i>Purpose of Fund:</i> To support the mission of the department.		
Funds Expended	0	2,894,200
Year-End Fund Balance	0	1,049,400
Racing Regulation Fund - Mixed Martial Arts Account (GMA2393/A.R.S. § 5-225)		Non-Appropriated
<i>Source of Revenue:</i> Fees established by the Boxing Commission for unarmed combat events.		
<i>Purpose of Fund:</i> To pay for the administration and regulation of unarmed combat.		
Funds Expended	0	29,400
Year-End Fund Balance	0	51,900
Tribal-State Compact Fund (GMA2340/A.R.S. § 5-601)		Appropriated
<i>Source of Revenue:</i> The fund receives monies from gaming vendors and gaming employees to pay for their certification.		
<i>Purpose of Fund:</i> Pay for the actual cost of performing background investigations on gaming employees and vendors to determine suitability for state certification.		
Funds Expended	1,726,400	2,089,900
Year-End Fund Balance	1,497,900	1,497,900

Arizona Geological Survey

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	10.3	10.3	10.3
Personal Services	483,000	507,300	507,300
Employee Related Expenditures	195,500	190,900	190,900
Professional and Outside Services	6,400	0	0
Other Operating Expenditures	219,900	212,800	212,800
Equipment	36,900	30,000	30,000
AGENCY TOTAL	941,700	941,000	941,000
FUND SOURCES			
General Fund	941,700	941,000	941,000
SUBTOTAL - Appropriated Funds	941,700	941,000	941,000
Other Non-Appropriated Funds	1,284,600	1,380,600	178,400
Federal Funds	3,276,000	2,781,500	184,200
TOTAL - ALL SOURCES	5,502,300	5,103,100	1,303,600

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.

Operating Budget

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The Baseline includes \$941,000 and 10.3 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants (GSA2000/A.R.S. § 27-107)		Non-Appropriated
Source of Revenue: Various federal sources including the U.S. Geological Survey, the National Park Service, the Federal Emergency Management Administration, and the National Science Foundation.		
Purpose of Fund: To perform various studies of Arizona's geologic framework and setting.		
Funds Expended	2,101,100	2,781,500
Year-End Fund Balance	18,200	75,000
Federal Grants - American Recovery and Reinvestment Act (ARRA) (GSA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: The fund is used for the National Geothermal Database System and 80% of the funds are passed through to other state agencies and/or universities.		
Funds Expended	1,174,900	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Geological Survey Fund (GSA3030/A.R.S. § 27-107)

Non-Appropriated

Source of Revenue: Made up of monies that are not federal or appropriated. They include state and local grants, fees, contracts, agreements, and MOUs.

Purpose of Fund: To investigate and describe Arizona's geologic setting, to plug abandoned oil and gas wells, and to finance map publication production expenses.

Funds Expended	650,500	752,900
Year-End Fund Balance	188,400	141,700

Indirect Cost Recovery Fund (GSA9000/A.R.S. § 35-142)

Non-Appropriated

Source of Revenue: These funds apply to a grant, contract, or agreement and represent costs incurred by the state/local agency which are legal obligations and are allowable.

Purpose of Fund: Federal circulars detail the allowable uses of indirect costs. Such items as wages, fringe benefits, necessary office, technical or information technology equipment, and some general government expenses as outlined in the federal circulars.

Funds Expended	634,100	627,700
Year-End Fund Balance	10,400	77,900

Office of the Governor

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	9,687,900	6,889,000	6,889,000
AGENCY TOTAL	9,687,900	6,889,000	6,889,000
FUND SOURCES			
General Fund	9,687,900	6,889,000	6,889,000
SUBTOTAL - Appropriated Funds	9,687,900	6,889,000	6,889,000
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	24,330,100

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 Baseline includes \$6,889,000 from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the Lump Sum appropriation of \$6,889,000 for FY 2017 is \$10,000 for the purchase of mementos and items for visiting officials.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
County Fairs Livestock and Agriculture Promotion Fund (GVA2037/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
Purpose of Fund: To promote Arizona’s livestock and agricultural resources and conduct an annual Livestock Fair at the Coliseum and Exposition Center. The direct expenses, less receipts, of the annual Livestock Fair are paid from this fund. Net expenditures for the Livestock Fair are limited to 30% of all receipts deposited to this fund during the preceding fiscal year. All expenditures from this fund must be recommended by the Livestock and Agricultural Committee and approved by the Governor.		
Funds Expended	0	0
Year-End Fund Balance	275,300	281,400
Endowment Partnership Fund (GVA3206/A.R.S. § 41-1105)		Non-Appropriated
Source of Revenue: Public or private gifts, grants and donations. All donations, except those from established non-profit economic development organizations, are limited to \$5,000, per person, each fiscal year.		
Purpose of Fund: This fund was established by Executive Order 92-7, to promote the interests of the state and encourage public service to Arizona by its citizens. Expenditures may include promoting economic development in Arizona, recruiting new industries, appropriate memorabilia or gifts for dignitaries or citizen volunteers, and promoting good working relationships between the various branches of national, state, and local governments.		
Funds Expended	1,007,400	474,800
Year-End Fund Balance	504,900	101,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants (GVA2000/A.R.S. § 4-101.01)		Non-Appropriated
Source of Revenue: Federal grants for various purposes, including services for women, children's services, and the Office for Drug Policy.		
Purpose of Fund: To provide separate accounting for the administration, supervision and distribution of federal grants made to the Office of the Governor, on behalf of the State of Arizona.		
Funds Expended	17,290,700	14,278,100
Year-End Fund Balance	607,800	0
Federal Grants - American Recovery and Reinvestment Act (ARRA) (GVA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used for a variety of programs.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Human Trafficking Victim Assistance Fund (GVA3210/A.R.S. § 41-114)		Non-Appropriated
Source of Revenue: Civil penalties for advertising violations by escorts, escort agencies, massage therapists or massage therapy businesses.		
Purpose of Fund: To assist victims trafficking for sex, forced labor or services.		
Funds Expended	0	0
Year-End Fund Balance	0	0
IGA and ISA Fund (GVA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency service agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	871,600	866,700
Year-End Fund Balance	153,600	0
Indirect Cost Recovery Fund (GVA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended ^{1/}	0	1,539,500
Year-End Fund Balance	6,702,800	5,963,300
^{1/} The agency reports accounting adjustments for FY 2015 for expenditures that were originally charged against the Indirect Fund, but should have been charged against General Fund.		
Oil Overcharge Fund (GVA3171/A.R.S. § 41-110)		Non-Appropriated
Source of Revenue: Federal court settlements by oil companies who overcharged consumers during the petroleum price controls of the 1970's, and interest earnings.		
Purpose of Fund: To provide restitution to the citizens of Arizona. Restitution is to be made through energy programs administered by the state.		
Funds Expended ^{2/}	269,700	0
Year-End Fund Balance	731,600	0
^{2/} Expenditures are not displayed beginning in FY 2016 to avoid double counting. The agency reports transferring \$731,600 to the Arizona Department of Administration in FY 2016. See the Arizona Department of Administration for additional information.		

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Prevention of Child Abuse Fund (GVA2439/A.R.S. § 41-109) Non-Appropriated

Source of Revenue: The fund receives \$17 of the annual \$25 fee for original and renewal child abuse prevention special license plates.

Purpose of Fund: To be allocated by the Director of the Division for Children in the Governor's Office for programs to prevent child abuse in the State of Arizona. Not more than 3% of annual fund revenues shall be used to administer the fund.

Funds Expended	292,500	282,000
Year-End Fund Balance	134,200	134,200

Statewide ARRA Administration SWCAP Fund (GVA2950/A.R.S. § 35-142) Non-Appropriated

Source of Revenue: Indirect federal cost recoveries associated with the statewide cost allocation plan (SWCAP). These funds were transferred to ADOA from the Governor's Office in FY 2012.

Purpose of Fund: To defray administrative expenses of implementing the federal American Recovery and Reinvestment Act.

Funds Expended	29,500	0
Year-End Fund Balance	0	0

Governor's Office of Strategic Planning and Budgeting

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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
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 Baseline 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.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Department of Health Services

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,047.7	1,176.7	1,036.5
Personal Services	21,373,600	28,235,900	19,144,900
Employee Related Expenditures	8,922,300	12,034,000	8,136,700
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	20,608,100	18,222,600
Equipment	360,200	2,833,800	2,254,700
OPERATING SUBTOTAL	60,850,900	65,676,200	49,200,000
SPECIAL LINE ITEMS			
Behavioral Health			
Medicaid Behavioral Health - Traditional Services	847,628,600	873,803,300	0
Medicaid Behavioral Health - Proposition 204 Services	529,432,900	533,810,200	0
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	175,012,100	174,324,200	0
Medicaid Behavioral Health - Adult Expansion Services	38,478,000	41,459,300	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	59,268,700
ASH - Restoration to Competency	900,100	900,000	900,000
ASH - Sexually Violent Persons	9,361,700	9,684,900	9,684,900
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	1,125,000
Biomedical Research Support	997,500	2,000,000	2,000,000
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 and Trauma Services	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	6,297,300
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
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	1,930,793,600	136,514,600

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
FUND SOURCES			
General Fund	611,180,000	602,738,300	85,433,600
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	10,308,700	9,575,300	9,575,300
ASH Land Earnings Fund	585,100	650,000	650,000
Capital Outlay Stabilization Fund	1,559,800	1,559,900	1,559,900
Child Fatality Review Fund	91,700	95,000	95,000
Emergency Medical Services Operating Fund	4,556,200	5,368,800	5,368,800
Environmental Laboratory Licensure Revolving Fund	720,500	926,400	926,400
Federal Child Care and Development Fund Block Grant	879,400	876,100	876,100
Health Services Licensing Fund	8,789,300	9,264,200	9,264,200
Indirect Cost Fund	9,451,900	8,559,800	8,559,800
Newborn Screening Program Fund	5,774,500	6,738,300	6,738,300
Nursing Care Institution Resident Protection Fund	45,100	138,200	138,200
Substance Abuse Services Fund	2,250,000	2,250,200	0
TTHCF Health Research Account	1,997,500	3,000,000	3,000,000
TTHCF Medically Needy Account	35,388,300	35,467,000	700,000
Vital Records Electronic Systems Fund	2,075,000	3,629,000	3,629,000
SUBTOTAL - Other Appropriated Funds	84,473,000	88,098,200	51,081,000
SUBTOTAL - Appropriated Funds	695,653,000	690,836,500	136,514,600
<u>Expenditure Authority Funds</u>			
Federal Medicaid Services	1,189,783,700	0	0
ISA Behavioral Health Services Fund	0	1,239,957,100	0
SUBTOTAL - Expenditure Authority Funds	1,189,783,700	1,239,957,100	0
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,885,436,700	1,930,793,600	136,514,600
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	2,350,040,600	451,644,900

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. DHS currently administers most behavioral health programs, but these programs will be transferred to AHCCCS on July 1, 2016. ASH will remain in DHS.

Summary

DHS' FY 2017 General Fund spending would decrease by \$(517,304,700), or (85.8)%, from FY 2016.

The Baseline 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 is unchanged 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 Baseline includes a reduction of \$(517,304,700) from the General Fund, \$(1,239,020,700) from Federal Medicaid Authority, and \$(141,057,100) from other funds in DHS in FY 2017 for the transfer, and includes a corresponding increase from each of these fund sources in AHCCCS.

The transfer could also generate administrative savings in behavioral health services. One of the goals of the

transfer was to simplify the administration of behavioral health services by having 1 state agency retain responsibility for these services instead of 2 separate agencies. AHCCCS reported \$(2,192,000) in FY 2017 administrative savings resulting from the transfer, which consists of \$(607,500) in General Fund savings and \$(1,584,500) in Federal Medicaid Authority savings. As a starting point for discussions on the appropriate level of administrative resources, the Baseline includes these savings. The JLBC Staff will continue to evaluate this issue. The Baseline adds administrative costs for behavioral health services to AHCCCS' operating budget, and to the Proposition 204 – Behavioral Health Administration line item transferred from DHS.

Table 1 shows the total resources that the Baseline transfers to AHCCCS for behavioral health services, net of the administrative savings. AHCCCS would have an increase of \$1,895,190,500 in total fund spending, including \$516,697,200 from the General Fund, \$1,237,436,200 from Federal Medicaid Authority, and \$141,057,100 from other funds.

Behavioral Health Transfer	
General Fund	\$ 516,697,200
TTHCF Medically Needy Account	34,767,000
Substance Abuse Services Fund	2,250,200
Federal Medicaid Authority	<u>1,237,436,200</u>
<i>Subtotal</i>	<i>\$1,791,150,600</i>
Non-Appropriated Funds	<u>104,039,900</u>
Total Funds	1,895,190,500

As a result of the administrative savings, the Baseline includes a net decrease of (28.2) FTE Positions across AHCCCS and DHS. 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. The increase of 112 FTE Positions in AHCCCS is based on a report issued jointly by AHCCCS and DHS indicating AHCCCS currently only intends to transfer 112 behavioral health services employees from DHS to AHCCCS.

The Baseline also includes a session law provision retaining the Interagency Service Agreement for Behavioral Health Services Fund until June 30, 2017 to allow DHS to continue to pay claims for services incurred before the transfer. The Baseline would, as session law, only permit DHS to use monies in the fund to pay for behavioral health services claims incurred on or before June 30, 2016. Any monies remaining in the fund no later than June 30, 2017 would revert to the General Fund. DHS is currently projecting that the fund will have a balance of \$36 million once DHS pays all behavioral health claims made prior to the transfer.

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. Mercy Maricopa Integrated Care, a partnership between Mercy Care and Maricopa Integrated Health System, was awarded the contract to provide these services. The Baseline 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 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 RBHA is Health Choice Integrated Care, a partnership between Northern Arizona RBHA and Health Choice Arizona. 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 Baseline 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.

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 in October 2015.

Operating Budget

The Baseline includes \$49,200,000 and 311.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$19,333,600
Capital Outlay Stabilization Fund	1,559,900
Child Fatality Review Fund	95,000
Emergency Medical Services (EMS) Operating Fund	4,476,800
Environmental Laboratory Licensure Revolving Fund	926,400
Federal Child Care and Development Fund (CCDF) Block Grant	876,100
Health Services Licensing Fund	9,264,200
Indirect Cost Fund	8,559,800
Newborn Screening Program Fund	441,000
Nursing Care Institution Resident Protection Revolving Fund	38,200
Vital Records Electronic Systems Fund	3,629,000

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	(4,602,400)
	OF	(200)
	EA	(10,937,200)

The Baseline 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	EA	(936,400)
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The Baseline 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.

Behavioral Health

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 Baseline includes no funding in FY 2017 for Medicaid Behavioral Health - Traditional Services. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	(233,735,000)
	OF	(34,767,000)
	EA	(605,301,300)

The Baseline includes a decrease of \$(873,803,300) 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	(34,767,000)
Federal Medicaid Authority	(605,301,300)

Background – This line item provides 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 Baseline includes no funding in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	(101,389,500)
	EA	(432,420,700)

The Baseline includes a decrease of \$(533,810,200) 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)
Federal Medicaid Authority	(432,420,700)

Background – This line item provides 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 Baseline includes no funding in FY 2017 for Medicaid Behavioral Health - Comprehensive Medical and Dental

Program (CMDP). FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	(54,355,600)
	EA	(119,968,600)

The Baseline includes a decrease of \$(174,324,200) 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)
Federal Medicaid Authority	(119,968,600)

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. 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 Baseline includes no funding in FY 2017 for Medicaid Behavioral Health - Adult Expansion Services. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	EA	(41,459,300)
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The Baseline includes a decrease of \$(41,459,300) 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.

The Adult Expansion provides behavioral health treatment for adults from 100%-133% FPL who are 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 Baseline includes no funding in FY 2017 for Proposition 204 Administration. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	(2,011,000)
	EA	(4,435,700)

The Baseline 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 provides 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 Baseline includes no funding in FY 2017 for Medicare Clawback Payments. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	(14,228,600)
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The Baseline 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 is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DHS is 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 Baseline includes no funding in FY 2017 for Medicaid Insurance Premium Payments. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	(8,669,800)
	EA	(24,497,900)

The Baseline 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 provides funding necessary for insurance premium tax payments by DHS. The department is required to pay a 2% tax on the capitation payments it pays 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 Baseline includes no funding in FY 2017 for Non-Medicaid Seriously Mentally Ill (SMI) Services. FY 2017 adjustments would be as follows:

Behavioral Health Transfer GF (78,846,900)

The Baseline 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 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. 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 Baseline includes no funding in FY 2017 for Supported Housing. FY 2017 adjustments would be as follows:

Behavioral Health Transfer GF (5,324,800)

The Baseline 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 funds housing services that will enable individuals to live in the community. These funds may serve 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 Baseline includes no funding in FY 2017 for Crisis Services. FY 2017 adjustments would be as follows:

Behavioral Health Transfer GF (14,141,100)
OF (2,250,000)

The Baseline 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 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. 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 Baseline includes \$59,268,700 and 587.5 FTE Positions in FY 2017 for the ASH operating budget. These amounts consist of:

General Fund 52,952,300
ASH Fund 5,666,400
ASH Land Earnings Fund 650,000

These amounts are unchanged from FY 2016.

This line item provides funding for inpatient psychiatric hospitalization services for adult seriously mentally ill (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 Baseline includes \$900,000 from the ASH Fund in FY 2017 for ASH - Restoration to Competency. This amount is unchanged from FY 2016.

The FY 2016 Health Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 14) requires counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH. The Baseline continues 100% county funding for RTC.

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 Baseline includes \$9,684,900 and 112.5 FTE Positions in FY 2017 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,676,000
ASH Fund	3,008,900

These amounts are unchanged from FY 2016.

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. Since FY 2010, counties that have sent Sexually Violent Persons (SVP) to ASH are responsible for a portion of the daily cost of care. The FY 2010 Health and Welfare BRB (Laws 2009, 3rd Special Session, Chapter 10) initially required counties to pay 25% of the daily cost of care. The FY 2012 Health BRB (Laws 2011, Chapter 31) increased the county share to 50% of daily SVP costs. The FY 2014 Health and Welfare BRB permitted DHS to set the percentage rate at a level that would increase the state share of the cost by \$1.8 million in FY 2014. The FY 2015 Health and Welfare BRB requires that the counties’ cost of care percentage for SVP treatment not increase from the FY 2014 levels.

The FY 2016 Health BRB requires counties to pay 31% of their total SVP costs in FY 2016. The Baseline maintains the county share of SVP funding of 31%. Of the total amount appropriated for SVP care in FY 2017, counties would pay \$3,022,200. The BRB provision also clarifies that counties must pay their share of SVP costs throughout the entire commitment process, including pre-adjudication proceedings.

In FY 2015, ASH had an average monthly census of 92 SVPs.

Public Health/Family Health

Adult Cystic Fibrosis Care

The Baseline 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 Baseline 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 Baseline includes \$1,125,000 in FY 2017 for Alzheimer’s Disease Research. This amount consists of:

General Fund	125,000
TTHCF Health Research Account	1,000,000

These amounts are unchanged from FY 2016.

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 Baseline continues to permit the department to use Tobacco Tax and Health Care Fund - Health Research Account monies for Alzheimer’s disease research.

Biomedical Research Support

The Baseline includes \$2,000,000 from the Tobacco Tax and Health Care Fund-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 Tobacco Tax and Health Care Fund - 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.

Breast and Cervical Cancer and Bone Density Screening

The Baseline 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 Baseline 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 Baseline 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 Baseline includes \$400,000 from the Tobacco Tax and Health Care Fund - 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 Baseline includes \$2,543,400 in FY 2017 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
Emergency Medical Services 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 Baseline includes \$6,297,300 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2017 for the Newborn Screening Program. These amounts are unchanged from FY 2016.

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 December 2015.

Nursing Care Special Projects

The Baseline 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 Baseline 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 Baseline 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 Baseline includes \$300,000 from the Tobacco Tax and Health Care Fund - 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Departmentwide

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.

Arizona State Hospital

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.

Public Health/Family Health

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.

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.

Deletion of Prior Year Footnotes

The Baseline would delete footnotes that will be obsolete following the transfer of behavioral health services to AHCCCS. All of these footnotes will be either directly transferred to AHCCCS, or incorporated into existing AHCCCS footnotes. These footnotes include requirements for DHS to:

- Report Medicaid reconciliation payments for behavioral health services.
- Report on progress in implementing the *Arnold v. Sarn* agreement.
- Limit the administration/profits of the Maricopa County RBHA.
- Use all available funding sources in the Proposition 204 line items.
- Report on capitation rate changes to the Legislature.

The Baseline would also delete a footnote requiring DHS to report on the revenues, expenditures, and balances in its IGA/ISA funds. This footnote is no longer necessary, as this report is now required by A.R.S. § 36-108.01.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to require all cities and counties to pay 100% of the Restoration to Competency Costs.
- As session law, continue to require all counties to pay 31% of their total Sexually Violent Persons (SVP) costs throughout the entire commitment process, including pre-adjudication proceedings. The Baseline would, as session law, also continue to allow counties to use any source of county revenue to make the transfers and exempt county contributions from county expenditure limitations. (*See ASH - Sexually Violent Persons for more information.*)
- 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 monies for Alzheimer's disease research.
- As session law, retain the ISA for Behavioral Health Services Fund in DHS until June 30, 2017. The Baseline would, as session law, prohibit DHS from spending the monies for any purpose except to pay for behavioral health services claims incurred June 30, 2016 or earlier. Any monies remaining in the fund after June 30, 2017 would revert to the General Fund.
- As permanent law, transfer the IGA for County Behavioral Health Services Fund to AHCCCS following the behavioral health services transfer.

Deleted Provisions

The Baseline would not continue the following one-time items:

- A provision that allows DHS to reduce behavioral health services provider rates by up to (5)%.
- A requirement for DHS to submit a report on strategies for increasing third party liability recoveries in behavioral health services. This provision will apply to AHCCCS following the transfer of behavioral health services on July 1, 2016.

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- Arizona State Hospital Plan of Correction
- Arizona State Hospital Fund Deficit
- October 2015 Special Session and Proposition 123

FY 2016 Supplemental

The Baseline includes an increase of \$21,412,000 from the General Fund in FY 2016 and \$112,373,300 in Federal Medicaid Authority to fund shortfalls in Medicaid behavioral health. The overall shortfall is the result of higher-than-projected caseload growth across Traditional, Proposition 204, and Adult Expansion populations.

Table 2 shows the differences in behavioral health caseload projections between the FY 2016 enacted budget and the FY 2017 Baseline. The Baseline is projecting additional enrollment of 171,257 relative to the FY 2016 budget.

	FY 2016 Budget	FY 2017 Baseline	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

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, CMS approved the plan of correction submitted by the Hospital, and in a follow-up inspection in September, CMS confirmed that ASH is no longer at immediate risk of losing certification. ASH plans to hire additional nurses and other staff to support the continued implementation of the plan of correction.

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 Restoration to Competency program and the Sexually Violent Persons program, as well as a limited amount of reimbursement from Medicaid and Medicare. DHS currently projects that ASH Fund disbursements will 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 Baseline includes a footnote in the AHCCCS budget that requires AHCCCS to transfer \$1.2 million from the Non-Medicaid Seriously Mentally Ill line item to DHS in FY 2017 to help cover the prescription medication costs of ASH patients.

	FY 2013	FY 2014	FY 2015
Beginning Balance	\$3.2	\$4.7	\$4.5
Actual Revenue	8.7	6.9	4.7
Total Available	11.9	11.7	9.3
Actual Spending ^{1/}	10.5	9.4	8.6
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.

October 2015 Special Session and Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona State Hospital 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 FY 2015, the Arizona State Hospital received \$138,400 in monies distributed from its permanent fund.

Conditional upon voter approval in May 2016, Proposition 123 would increase the 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 would receive \$274,900 in additional funding beyond what it otherwise would in FY 2016 if the ballot proposition is approved. (Please see the Department of Education – Endowment Earnings section for more information.)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona State Hospital Fund (HSA3120/A.R.S. § 36-545.08)		Appropriated
Source of Revenue: State monies and matching federal monies for disproportionate share payments at the Arizona State Hospital, Medicaid reimbursement for services provided at the Arizona State Hospital, and monies collected for services to clients at the state hospital. The FY 2016 Health Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 14) continues to require that all counties pay 100% of the cost of care for Restoration to Competency patients and 31% of the costs of patients in the Sexually Violent Persons (SVP) program.		
Purpose of Fund: To provide treatment of patients at the Arizona State Hospital or to place Arizona State Hospital patients in the community.		
Funds Expended	10,308,700	9,575,300
Year-End Fund Balance*	701,200	(3,850,100)
Arizona State Hospital Land Earnings Fund (HSA3128/A.R.S. § 36-211)		Appropriated
Source of Revenue: Monies received from interest on the Arizona State Hospital's Permanent Land Fund, as established through Arizona's Enabling Act, Section 25, and the monies derived from the lease of these lands and miscellaneous revenue.		
Purpose of Fund: For the benefit and support of the Arizona State Hospital.		
Funds Expended	585,100	650,000
Year-End Fund Balance	707,000	678,700
Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund (HSA2513/A.R.S. § 36-119)		Non-Appropriated
Source of Revenue: Revenues from special plate fees and renewals. Of the \$25 fee, \$8 is for administrative costs deposited to the State Highway Fund and \$17 is deposited into the Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund.		
Purpose of Fund: For breast and cervical cancer screening and diagnostic and outreach services.		
Funds Expended	103,700	425,000
Year-End Fund Balance	323,800	117,200
Capital Outlay Stabilization Fund (HSA1600/A.R.S. § 41-792.01)		Appropriated
Source of Revenue: Appropriations from the Arizona Department of Administration Capital Outlay Stabilization Fund and transfers from the Arizona Department of Administration (<i>see Arizona Department of Administration for more detail on Capital Outlay Stabilization Fund</i>).		
Purpose of Fund: Lease-purchase payments for the new state health laboratory (transfers from Arizona Department of Administration are spent for building renewal).		
Funds Expended	1,559,800	1,559,900
Year-End Fund Balance	0	0
Child Fatality Review Fund (HSA3036/A.R.S. § 36-3504)		Appropriated
Source of Revenue: A \$1 surcharge on fees collected on all certified copies of death certificates, up to \$100,000. Any revenue collected in excess of \$100,000 is transferred from the fund to the Child Abuse Prevention Fund in the Department of Child Safety.		
Purpose of Fund: To organize county child fatality review teams and to study data collected by these teams to determine ways to reduce the state's child mortality rate.		
Funds Expended	91,700	95,000
Year-End Fund Balance	1,093,000	1,280,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Childhood Cancer and Rare Childhood Disease Research Fund (No Fund Number/A.R.S. § 28-2442, A.R.S. § 36-121)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal of Childhood Cancer Research special plate fee and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue Childhood Cancer Research special plates, if a person or entity pays \$32,000 by December 31, 2012. The required implementation fee of \$32,000 was received by the deadline and has been reimbursed to the entity that made the payment to the Arizona Department of Transportation (ADOT). The entity that provided the \$32,000 shall design the Childhood Cancer Research special plates, subject to approval by ADOT. ADOT is to annually deposit these monies, excluding administrative fees, into the DHS-administered Childhood Cancer and Rare Childhood Disease Research Fund. DHS shall allocate monies from the fund to nonprofit health care providers and research institutions throughout the state for Phase I clinical trials relating to pediatric cancer or other rare pediatric diseases.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Disease Control Research Fund (HSA2090/A.R.S. § 36-274)		Non-Appropriated
Source of Revenue: Monies appropriated by the Legislature and any gifts, contributions or other monies received by the Disease Control Research Commission from any other source, including Proposition 204.		
Purpose of Fund: To be used for projects or services that may advance research in the causes, epidemiology and prevention of disease, including discovery and development.		
Funds Expended	1,956,100	2,203,700
Year-End Fund Balance	4,748,600	4,973,300
Donations - DHS (HSA3010/2025/A.R.S. § 36-132)		Non-Appropriated
Source of Revenue: Individual donations for various health related purposes.		
Purpose of Fund: For specific purposes as designated by the donors. Monies donated pursuant to A.R.S. § 36-213 and A.R.S. § 36-204 for the Arizona State Hospital are accounted for separately.		
Funds Expended	798,600	798,600
Year-End Fund Balance	860,800	744,900
Donations - Statewide (HSA2025/A.R.S. § 36-132)		Non-Appropriated
Source of Revenue: Individual donations from employee recognition events.		
Purpose of Fund: Employee recognition purposes.		
Funds Expended	2,700	2,800
Year-End Fund Balance	6,800	8,800
Emergency Medical Services Operating Fund (HSA2171/A.R.S. § 36-2218)		Appropriated
Source of Revenue: The fund receives 48.9% of the Medical Services Enhancement Fund revenues, which are collected from a 13% surcharge on fines charged for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To fund local and state emergency medical services systems.		
Funds Expended	4,556,200	5,368,800
Year-End Fund Balance	5,398,200	5,381,300
Environmental Laboratory Licensure Revolving Fund (HSA3017/A.R.S. § 36-495.15)		Appropriated
Source of Revenue: Fees collected for environmental lab licensure, fees derived from department-sponsored workshops, and monies from gifts, grants, and donations.		
Purpose of Fund: For costs associated with licensing environmental laboratories by the Department of Health Services.		
Funds Expended	720,500	926,400
Year-End Fund Balance	692,400	528,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Child Care and Development Fund Block Grant (HSA2008/U.S. P.L 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: A portion of the Federal Child Care and Development Block Grant provides the Assurance and Licensure Division with monies for the licensure of child care facilities.		
Funds Expended	879,400	876,100
Year-End Fund Balance	77,800	81,100
Federal Funds (HSA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants and reimbursements from the federal government. Federal reimbursement for the Medicaid program is not included in this fund and can be found listed in the Medicaid Services and County Contributions Fund.		
Purpose of Fund: To provide health services in accordance with the terms of each specific grant. Any federal grants for the delivery of behavioral health services will be transferred to AHCCCS on July 1, 2016 in accordance with Laws 2015, Chapters 19 and 195. In FY 2016 \$43.1 million in federal grants will fund the delivery of behavioral health services.		
Funds Expended	295,902,400	291,116,300
Year-End Fund Balance	15,827,400	27,732,100
Federal Medicaid Services (HSA2500/A.R.S. § 35-142)		Expenditure Authority
Source of Revenue: The fund receives federal match dollars for treating behavioral health problems in Medicaid-eligible persons.		
Purpose of Fund: For accounting purposes, these monies are considered part of the Agreements/IGA Fund. However, for informational purposes, the revenues and expenditures related to behavioral health have been separated from the Agreements Fund. In FY 2016, these monies can be found in the Interagency Services Agreement for Behavioral Health Services Fund.		
Funds Expended	1,189,783,700	0
Year-End Fund Balance	0	0
Health Services Licensing Fund (HSA1995/A.R.S. § 36-405, A.R.S. § 36-414)		Appropriated
Source of Revenue: Nonrefundable fees for health care institution licensing services and monies from the examination and licensing of hearing and speech professionals.		
Purpose of Fund: For health care institutions' licensing applications, initial license, renewal license and architectural drawing reviews. Pursuant to A.R.S. § 36-1903, revenues from licensing and examination of hearing and speech professionals are deposited into this fund. DHS establishes nonrefundable fees for assurance and licensure. 90% of assurance and licensure fees have been deposited into this fund with the remaining 10% deposited into the General Fund.		
Funds Expended	8,789,300	9,264,200
Year-End Fund Balance	4,495,600	5,054,400
Health Services Lottery Fund (HSA4250/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: State Lottery monies.		
Purpose of Fund: To fund teenage pregnancy prevention programs, the Health Start program, and the federal Women, Infants and Children (WIC) food program. Monies in this fund were included in the IGA/County Contributions Fund in FY 2015.		
Funds Expended	0	7,130,400
Year-End Fund Balance	0	11,681,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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IGA/County Contributions (HSA2144/2500/A.R.S. § 35-142) Non-Appropriated

Source of Revenue: This fund receives revenues from intergovernmental agreements between DHS and other state and local entities, contributions from Maricopa and Pima Counties for treating persons with behavioral health problems, subaccounts for Liquor Services Fees authorized under A.R.S. § 4-203.02, and deposits from the State Lottery Fund pursuant to A.R.S. § 5-572. In FY 2016, these monies are split between 3 new accounts: the Health Services Lottery Fund, IGA and ISA Fund, and the IGA for County Behavioral Health Services Fund.

Purpose of Fund: To fund services which DHS has agreed to perform at the request of, or in conjunction with, public agencies.

Funds Expended	85,347,400	0
Year-End Fund Balance	80,039,900	0

IGA and ISA Fund (HSA4500/A.R.S. § 36-108.01) Non-Appropriated

Source of Revenue: Monies from intergovernmental agreements and interagency services agreements between the Department of Health Services and other state and local entities. In FY 2016, this fund will receive \$13,103,300 from DES pursuant to an interagency service agreement between DHS and DES that requires DHS to provide nutrition education in schools for grades 1-6 using funds from the Supplemental Nutrition Assistance Program (SNAP). The monies in this fund were included in the IGA/County Contributions Fund in FY 2015.

Purpose of Fund: To fund services which DHS has agreed to perform at the request of, or in conjunction with, public agencies.

Funds Expended	0	17,651,700
Year-End Fund Balance	0	0

IGA for County Behavioral Health Services Fund (HSA4503/A.R.S. § 36-108.01) Non-Appropriated

Source of Revenue: County funds.

Purpose of Fund: To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers to treat substance abuse. In FY 2016, the fund will receive \$55.2 million from Maricopa County and \$3.1 million from Pima County. These monies were included in the IGA/County Contributions Fund in FY 2015. This fund will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.

Funds Expended	0	60,519,600
Year-End Fund Balance	0	944,500

Indirect Cost Fund (HSA9001/A.R.S. § 36-108) Appropriated

Source of Revenue: Charges made to Federal Funds and interagency agreements in order to reimburse the agency for a portion of the administrative costs of the programs.

Purpose of Fund: To pay a portion of the administrative personnel and overhead costs associated with various federal programs and interagency agreements.

Funds Expended	9,451,900	8,559,800
Year-End Fund Balance	2,817,600	4,988,900

Interagency Service Agreement for Behavioral Health Services Fund (HSA4502/A.R.S. § 36-108.01) Expenditure Authority

Source of Revenue: Federal monies from the Centers for Medicare and Medicaid Services.

Purpose of Fund: To provide behavioral health services to Medicaid-eligible individuals. These monies were included in the Federal Medicaid Services Fund in FY 2015. The monies in this fund will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195, and will be included in AHCCCS' Federal Medicaid Authority.

Funds Expended	0	1,239,957,100
Year-End Fund Balance	0	70,605,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Internal Services Fund (HSA4202/A.R.S. § 36-108)		Non-Appropriated
Source of Revenue: Charges from other DHS funds.		
Purpose of Fund: Revolving Fund used by DHS warehouse for the purchase of goods.		
Funds Expended	7,700	7,700
Year-End Fund Balance	102,300	94,600
Medical Marijuana Fund (HSA2544/A.R.S. § 36-2817)		Non-Appropriated
Source of Revenue: The fund receives application and renewal fees from medical marijuana dispensaries, civil penalties and private donations.		
Purpose of Fund: To enforce the provisions of Proposition 203 (Arizona Medical Marijuana Act) enacted in the 2010 General Election. The Arizona Medical Marijuana Act regulates dispensation, prescription, and use of medical marijuana, including an electronic registry of dispensary agents, patients and designated caregivers.		
Funds Expended	9,476,200	10,198,700
Year-End Fund Balance	11,614,400	13,529,700
Medical Student Loan Fund (HSA3306/A.R.S. § 15-1725)		Non-Appropriated
Source of Revenue: Monies from legislative appropriations, and loan repayments of principal, interest, and penalties received by the board. These monies are exempt from lapsing. The FY 2013 Higher Education Budget Reconciliation Bill (Laws 2012, Chapter 301) transferred the administration of the fund to DHS. All monies in the fund are to be used for the Primary Care Provider Loan Repayment Program. There are no new legislative appropriations into this fund.		
Purpose of Fund: To provide loans to defray the medical education expenses of medical program graduates attending medical school, in return for a service commitment to the state.		
Funds Expended	0	0
Year-End Fund Balance	195,800	280,100
Newborn Screening Program Fund (HSA2184/A.R.S. § 36-694.01)		Appropriated
Source of Revenue: Monies received as part of the hospital charges for each child born in Arizona. Fee limits for newborn screening are \$30 for the first blood and hearing screening and \$65 for the second blood and hearing screening.		
Purpose of Fund: To provide monies for the centralized testing of all newborns in the state for a standard set of 29 metabolic and congenital (environmental/inherited) disorders. Every 4 years the department solicits bids for the contracting of these tests. The State Health Lab holds the current contract. In addition, the fund provides monies for follow-up counseling for the parents of affected infants.		
Funds Expended	5,774,500	6,738,300
Year-End Fund Balance	2,248,100	2,734,300
Nursing Care Institution Resident Protection Revolving Fund (HSA2329/A.R.S. § 36-446.08)		Appropriated
Source of Revenue: Civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications.		
Purpose of Fund: For the protection of the health and property of residents of nursing care facilities that are found deficient.		
Funds Expended	45,100	138,200
Year-End Fund Balance	1,654,000	1,860,800
Oral Health Fund (HSA3038/A.R.S. § 36-138)		Non-Appropriated
Source of Revenue: Monies received from AHCCCS contracts for dental services.		
Purpose of Fund: To provide dental services to Medicaid-eligible children identified by the DHS Oral Health program.		
Funds Expended	131,400	353,800
Year-End Fund Balance	822,800	654,200

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Risk Assessment Fund (HSA2427/A.R.S. § 36-1693)		Non-Appropriated
Source of Revenue: Monies from the Department of Environmental Quality for risk services performed by DHS. The fund may also receive legislative appropriations, gifts, grants, or donations.		
Purpose of Fund: To conduct health effects studies and risk assessments of public health risks from environmental exposure, to evaluate and calculate cleanup standards, to communicate health risks to the public, and for administrative costs of those activities.		
Funds Expended	43,800	60,000
Year-End Fund Balance	62,800	62,800
Serious Mental Illness Services Fund (HSA2464/A.R.S. § 36-503.02 [repealed])		Non-Appropriated
Source of Revenue: Monies appropriated from the Tobacco Litigation Settlement Account, other legislative appropriations and interest earned on these monies. The fund received a one-time appropriation of \$50,000,000 from tobacco settlement funds in FY 2001. The final \$1,100,000 was spent in FY 2005. Laws 2015, Chapter 195 eliminated this fund, and required that any remaining balance revert to the General Fund on July 1, 2016.		
Purpose of Fund: To fund Community Housing, Vocational Rehabilitation, and other recovery support services to persons with serious mental illnesses.		
Funds Expended	0	0
Year-End Fund Balance	2,900	2,900
Seriously Mentally Ill Housing Trust Fund (HSA2555/A.R.S. § 41-3955.01)		Partially-Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects as well as rental assistance for the seriously mentally ill. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. This fund will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	822,500	2,000,000
Year-End Fund Balance	3,957,000	3,983,600
Smoke Free Arizona Fund (HSA2541/A.R.S. § 36-601.01)		Non-Appropriated
Source of Revenue: A 2¢ per pack tax on cigarettes. Any revenues not used by the department to enforce the smoking ban are deposited to the Tobacco Tax Products Fund to be used for education programs to reduce or eliminate tobacco use.		
Purpose of Fund: To enforce the provisions of Proposition 201 (Smoke Free Arizona Act) enacted in the 2006 General Election. The Smoke-Free Arizona Act banned smoking in public places except retail tobacco stores, veteran and fraternal clubs, hotel rooms designated as smoking rooms, and outdoor patios.		
Funds Expended	3,163,700	3,160,000
Year-End Fund Balance	463,800	403,800
Substance Abuse Services Fund (HSA2227/A.R.S. § 36-2005)		Appropriated
Source of Revenue: The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
Purpose of Fund: To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers. This fund will be transferred to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.		
Funds Expended	2,250,000	2,250,200
Year-End Fund Balance	2,598,400	2,633,200

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Tobacco Tax and Health Care Fund - Health Education Account (HSA1308/A.R.S. § 36-772)		Non-Appropriated
Source of Revenue: The account receives 23¢ of each dollar deposited in the Tobacco Tax and Health Care Fund and 2¢ of each dollar in the Tobacco Products Tax Fund.		
Purpose of Fund: Monies are used for community-based education and evaluation, and other programs to discourage tobacco use among the general public, specifically targeting minors and culturally diverse populations. The monies from the Tobacco Products Tax Fund are used for the prevention and detection of the 4 leading causes of death.		
Funds Expended	20,343,900	20,343,900
Year-End Fund Balance	7,401,600	5,145,300
Tobacco Tax and Health Care Fund - Health Research Account (HSA2096/A.R.S. § 36-275, A.R.S. § 36-773)		Partially-Appropriated
Source of Revenue: The fund receives monies from the Health Research Account of the Tobacco Tax and Health Care Fund. The FY 2016 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 14) continues to permit DHS to use the fund for Alzheimer's disease research.		
Purpose of Fund: Monies are used for research into the prevention and treatment of tobacco-related disease and addiction.		
Appropriated Funds Expended	1,997,500	3,000,000
Non-Appropriated Funds Expended	1,340,900	3,274,800
Year-End Fund Balance	8,966,900	10,996,700
Tobacco Tax and Health Care Fund - Medically Needy Account (HSA1306/A.R.S. § 36-774)		Partially-Appropriated
Source of Revenue: The account receives funding from the Medically Needy Account of the Tobacco Tax and Health Care Fund, which is managed by AHCCCS. All monies remaining unexpended at the end of the fiscal year revert to the AHCCCS Medically Needy Account. <i>(See Tobacco Tax Table in the AHCCCS section.)</i>		
Purpose of Fund: Monies are used for a variety of health programs that are intended to increase primary care and mental health services for uninsured and low-income populations. Any monies in this fund used to pay for behavioral health services will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. Of the \$35,467,000 estimated to be expended from this account in DHS in FY 2016, \$34,767,000 will be transferred to AHCCCS for behavioral health services in FY 2017, with \$700,000 remaining in DHS for public health programs.		
Appropriated Funds Expended	35,388,300	35,467,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	397,900	397,900
Vital Records Electronic Systems Fund (HSA3039/A.R.S. § 36-341.01)		Appropriated
Source of Revenue: Fees collected for searches, copies of records, applications to file delayed records, requests for supplementary birth certificates, following adoption, legitimation, paternity determination, surgical alterations, and chromosomal counts, or amendments to existing records. DHS is authorized by A.R.S. § 36-341 to set vital records fees for individuals and counties that access the vital records electronic system. Total revenues are limited to \$4,530,000. Of the first \$4,000,000, 85% will be required into the Vital Records Electronic Systems Fund and 15% will be deposited into the General Fund. For any revenue above \$4,000,000, 40% will be deposited into the Vital Records Electronic Systems Fund and 60% will be deposited into the General Fund.		
Purpose of Fund: To develop and operate a new vital records automated system.		
Funds Expended	2,075,000	3,629,000
Year-End Fund Balance	1,896,300	905,800

*As reported by the agency. Actual balance may be higher due to expense transfers from the ASH Fund to the Non-Medicaid Seriously Mentally Illness Services line item.

Arizona Historical Society

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	51.9	51.9	51.9
Personal Services	1,211,500	1,218,100	1,218,100
Employee Related Expenditures	509,700	516,200	516,200
Professional and Outside Services	52,300	53,400	53,400
Other Operating Expenditures	343,800	330,800	330,800
OPERATING SUBTOTAL	2,117,300	2,118,500	2,118,500
SPECIAL LINE ITEMS			
Arizona Experience Museum	428,300	428,300	428,300
Field Services and Grants	66,000	66,000	66,000
Papago Park Museum	544,400	544,400	544,400
AGENCY TOTAL	3,156,000	3,157,200	3,157,200
FUND SOURCES			
General Fund	3,156,000	3,157,200	3,157,200
SUBTOTAL - Appropriated Funds	3,156,000	3,157,200	3,157,200
Other Non-Appropriated Funds	1,198,100	1,282,000	1,231,700
Federal Funds	100	0	0
TOTAL - ALL SOURCES	4,354,200	4,439,200	4,388,900

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 Baseline includes \$2,118,500 and 40.4 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Arizona Experience Museum

The Baseline includes \$428,300 and 1 FTE Position from the General Fund in FY 2017 for the Arizona Experience Museum. These amounts are unchanged from FY 2016.

This line item funds 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. The Arizona Historical Society (AHS) does not currently plan to re-open the facility. Rent is still paid on the vacant 18,000 square-foot property and a Curator position is retained to care for the mineral collection. Of the total 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.

The FY 2015 General Appropriation Act contained a footnote requiring AHS and the Department of Administration (ADOA) to submit a joint report before November 28, 2014 to the Joint Legislative Budget Committee (JLBC) with options and a recommendation for use of the vacant building. The report raised 4 options for the former Arizona Mining and Mineral Museum:

1. Re-open the Arizona Mining and Mineral Museum: Cost of \$2.1 million related to significant building system upgrades and space reconfiguration.

2. Convert the space into offices: Cost of \$3.1 million for renovations, upgrades to building systems, and relocation of memorabilia and equipment. This would result in a building containing approximately 123 workstations, including primarily cubicle space.
3. Sell the facility: One-time revenue (savings) of \$2.9 million. If the buyer were to convert the space to non-museum use, ADOA would incur costs related to relocating mining related memorabilia and equipment.
4. Keep the facility closed: No cost compared to current budget. However, AHS would still continue to pay ADOA rent of \$360,800 per year.

ADOA and AHS selected Option 4 as the preferred option for the former Arizona Mining and Mineral Museum. The agencies note that while Options 2 and 3 may repurpose the museum, the state would still face costs associated with relocating and storing the current mineral collections.

In April 2015, the Governor vetoed SB 1200, which would have transferred \$428,300 and 1 FTE Position (as adjusted for statewide allocations) from the General Fund from AHS to the Arizona Geological Survey to reopen the Museum. The bill would have renamed the Centennial Museum as the Mining, Mineral and Natural Resources Educational Museum (Museum).

SB 1200 would have transferred all unexpended and unencumbered monies remaining in the Centennial Special Plate Fund to the Mining, Mineral and Natural Resources Educational Museum Account within the Arizona Geological Survey Fund consisting of monies received from the Museum to be used exclusively for restoration, maintenance, and operations of the Museum. *(Please see Other Issues for more information.)*

Field Services and Grants

The Baseline 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 Baseline includes \$544,400 and 10.1 FTE Positions from the General Fund in FY 2017 for the Papago Park Museum. These amounts are unchanged from FY 2016.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

Experience Museum and Centennial Special Plate Funds

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. To date, \$126,500 has been collected in the Centennial Special Plate Fund.

As noted in the discussion above, the Mining and Mineral Museum is now closed, which suggests AHS may not have the authority to expend these funds. AHS, however, utilizes the funds strictly to support the curation of the mining and mineral collection and for the development of exhibits and educational programs that showcase the collection. The collections, exhibits, and programming are being featured primarily in the Papago Park facility.

Museum Attendance

Table 1

FY 2015 Museum Attendance

Facility	Visitors
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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Exposition Museum Centennial Fund (HIA2650/A.R.S. § 41-827)		Non-Appropriated
Source of Revenue: Monies collected from issuance and renewals of the Centennial License Plates distributed to AHS from the Department of Transportation.		
Purpose of Fund: To support AHS' Centennial Museum, which has been re-branded as the Arizona Experience. The monies are used to develop educational programming showcasing the natural history collection. The Arizona Experience collections and exhibits are primarily housed at AHS' museum at Papago Park.		
Funds Expended	116,400	147,400
Year-End Fund Balance	0	0
Federal Grants (HIA2000/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: To be used in accordance with the requirements of each grant.		
Funds Expended	100	0
Year-End Fund Balance	0	0
Permanent Arizona Historical Society Revolving Fund (HIA2900/A.R.S. § 14-826)		Non-Appropriated
Source of Revenue: Monies from the operation of gift shops, book shops, food service facilities, and charges for the use of or admission into any of the society's facilities.		
Purpose of Fund: For enhancing the programs of the society, or operating or improving its facilities.		
Funds Expended	422,500	575,200
Year-End Fund Balance	213,500	227,300
Preservation and Restoration Fund (HIA2125/A.R.S. § 41-825)		Non-Appropriated
Source of Revenue: Reproduction charges.		
Purpose of Fund: To preserve and restore historic photographs.		
Funds Expended	46,900	44,700
Year-End Fund Balance	36,900	30,200
Private Fund (HIA9447/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Revenues are generated through memberships, unrestricted donations, and program revenue. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool.		
Purpose of Fund: For operating expenses.		
Funds Expended	410,300	313,600
Year-End Fund Balance	595,000	565,500
Private Grants Fund (HIA9449/A.R.S. § 41-821)		Non-Appropriated
Source of Revenue: Derived from the AHS Foundation, National Endowment for the Humanities, and DeGrazia Foundation. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool.		
Purpose of Fund: To be used in accordance with the requirements of each grant.		
Funds Expended	47,300	46,200
Year-End Fund Balance	16,100	31,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Restricted Fund (HIA9448/A.R.S. § 41-821) Non-Appropriated

Source of Revenue: Private restricted donations. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool.

Purpose of Fund: To be used for specific projects as designated by donor.

Funds Expended	142,000	132,500
Year-End Fund Balance	253,000	226,400

Trust Fund (HIA9450/A.R.S. § 41-821) Non-Appropriated

Source of Revenue: Monies held in trust for specific purposes. The fund is held in trust by the Society Treasurer and invested with the State Treasurer's Local Government Investment Pool. Only interest earnings are expended.

Purpose of Fund: For operating expenses.

Funds Expended	12,700	22,400
Year-End Fund Balance	186,100	163,900

Prescott Historical Society of Arizona

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	111,800
AGENCY TOTAL	809,000	825,800	825,800
FUND SOURCES			
General Fund	809,000	825,800	825,800
SUBTOTAL - Appropriated Funds	809,000	825,800	825,800
Other Non-Appropriated Funds	569,800	901,200	726,200
TOTAL - ALL SOURCES	1,378,800	1,727,000	1,552,000

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 Baseline includes \$825,800 and 13 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Sharlot Hall Historical Society (PHA9505/A.R.S. § 41-831)		Non-Appropriated
Source of Revenue: Monies received from admissions, donations, memberships, interest, gift shop and rent. Funds are outside the control of the State Treasurer and by statute are held in trust for the society's use by the Society Treasurer.		
Purpose of Fund: To print publications and journals, as well as to pay for educational programming, archival and curatorial supplies and graphics.		
Funds Expended	569,800	901,200
Year-End Fund Balance	1,025,200	649,000

Arizona Department of Homeland Security

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Funds (HLA2000/A.R.S. § 41-4254)		Non-Appropriated
Source of Revenue: Grants received from the U.S. Department of Homeland Security.		
Purpose of Fund: To provide state agencies and local governments with funding to deter and mitigate acts of terrorism. Federal grant guidelines allow up to 5% of the grant total to be used for administrative costs.		
Funds Expended	24,454,800	25,423,300
Year-End Fund Balance	0	0

Board of Homeopathic and Integrated Medicine Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	23,200
Equipment	200	0	0
AGENCY TOTAL	92,600	102,800	102,800

FUND SOURCES

Other Appropriated Funds

Board of Homeopathic and Integrated Medicine Examiners' Fund	92,600	102,800	102,800
SUBTOTAL - Other Appropriated Funds	92,600	102,800	102,800
SUBTOTAL - Appropriated Funds	92,600	102,800	102,800
TOTAL - ALL SOURCES	92,600	102,800	102,800

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

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The Baseline includes \$102,800 and 1 FTE Position from the Board of Homeopathic and Integrated Medicine Examiners' Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Homeopathic and Integrated Medicine Examiners' Fund (HEA2041/A.R.S. § 32-2906)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of homeopaths. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate homeopaths, and for board administration.		
Funds Expended	92,600	102,800
Year-End Fund Balance *	5,500	(12,700)

*As reported by the agency. Actual ending balance will not be negative.

Arizona Department of Housing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	169,100	182,700	182,700
Employee Related Expenditures	76,900	69,400	69,400
Professional and Outside Services	5,900	2,000	2,000
Travel - In State	14,600	11,100	11,100
Travel - Out of State	800	0	0
Other Operating Expenditures	44,900	48,300	48,300
Equipment	2,400	5,000	5,000
AGENCY TOTAL	314,600	318,500	318,500

FUND SOURCES

Other Appropriated Funds

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	318,500
Other Non-Appropriated Funds	13,980,200	13,831,800	15,490,500
Federal Funds	76,291,500	79,594,600	81,495,200
TOTAL - ALL SOURCES	90,586,300	93,744,900	97,304,200

AGENCY DESCRIPTION — Through a variety of housing and community improvement programs, the department annually administers approximately \$93 million in federal and non-appropriated state housing and community development funds. The appropriated budget reflects a portion of the agency's administration expenses. The department provides affordable housing opportunities in conjunction with the Arizona Housing Finance Authority.

Operating Budget

The Baseline includes \$318,500 and 3 FTE Positions from the Housing Trust Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Funds (HDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Funds for affordable housing programs.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the federal grants.		
Funds Expended	76,291,500	79,594,600
Year-End Fund Balance	2,315,000	1,753,300
Federal Grants - American Recovery and Reinvestment Act (ARRA) (HDA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department for the weatherization of homes, energy efficiency and usage reduction, and appliance rebates.		
Funds Expended	0	0
Year-End Fund Balance	357,800	457,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Housing Development Fund (HDA2313/A.R.S. § 41-3956)		Non-Appropriated
Source of Revenue: Monies transferred through legislation from the Housing Trust Fund. The Legislature transferred \$500,000 from the Housing Trust Fund in FY 1999 and FY 2001. No new appropriations are being sought for this fund.		
Purpose of Fund: To provide incentives for the development of affordable housing around state prisons for state prison employees.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Housing Program Fund (HDA2200/A.R.S. § 41-3957)		Non-Appropriated
Source of Revenue: Fees received from the following programs: private activity bond (underwriting and hearings), low-income tax credit (application, monitoring and reservation fees), fees charged from conferences and workshops, fees from the Section 8 project-based contract administration program, and administrative reimbursements from Federal Hardest Hit Funds.		
Purpose of Fund: To pay the costs of administering the programs from which the deposits are received and for other department programs. Additionally, at the Director's election, to transfer to any fund established by the Arizona Housing Finance Authority in connection with any bonds or certificates issued by the Arizona Housing Finance Authority.		
Funds Expended	4,899,200	5,265,200
Year-End Fund Balance	10,365,700	6,719,700
Housing Trust Fund (HDA2235/A.R.S. § 41-3955)		Partially-Appropriated
Source of Revenue: Receives \$2,500,000 from the proceeds of the sales of unclaimed property and interest income. Laws 2011, Chapter 28 reduced the annual deposit of unclaimed property revenues to the Housing Trust Fund from \$10,500,000 to \$2,500,000 beginning in FY 2012. The Housing Trust Fund receives its \$2,500,000 annual unclaimed property deposit after the first \$2,000,000 in unclaimed property revenues are distributed to the Department of Health Services Seriously Mentally Ill Housing Trust Fund.		
Purpose of Fund: For expenses related to the provision of affordable housing opportunities to low and moderate income families. The appropriated portion pays for administration expenses, and may not exceed 10% of the Housing Trust monies. The non-appropriated portion of the fund is used for the operation, construction, or renovation of housing facilities for low-income households. The Legislature may transfer monies from the fund to the Housing Development Fund for use on housing projects around state prisons. <i>(See Housing Development Fund detail for additional information).</i>		
Appropriated Funds Expended	314,600	318,500
Non-Appropriated Funds Expended	6,412,700	6,108,800
Year-End Fund Balance	9,285,100	10,288,100
IGA & ISA Fund (HDA2500/A.R.S. § 41-3952)		Non-Appropriated
Source of Revenue: Interagency Service Agreements including transfers from the Housing Trust Fund through an interagency agreement to support the programs of the Arizona Housing Finance Authority (AZHFA). The fund will also receive monies through fees earned by the finance authority.		
Purpose of Fund: To support the activities of the AZHFA which issues bonds to finance single and multi-family housing programs. Majority of funds relate to a Housing Trust Fund ISA with AZHFA for homeownership and multi-family programs.		
Funds Expended	2,668,300	2,457,800
Year-End Fund Balance	4,829,400	5,475,400

Independent Redistricting Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	913,900	1,115,300	1,115,300
AGENCY TOTAL	913,900	1,115,300^{1/}	1,115,300
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 Baseline includes \$1,115,300 from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

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.

Table 1

CY 2010 Redistricting Cycle Appropriations

<u>Fiscal Year</u>	<u>Appropriation</u>
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)	<u>1,115,300</u>
Total	\$11,600,927

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 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 current resources of \$2,276,500.

^{1/} In addition, IRC may expend up to \$1,161,200 of remaining funds from the appropriation made by Laws 2014, Chapter 3 which Laws 2015, Chapter 8, Section 120 specifies does not lapse until June 30, 2016.

These appropriations through FY 2016 bring total funding for the current redistricting cycle to \$11,600,927 (see *Table 1*).

Litigation Status

The budget includes funding for several outstanding cases. Those 3 cases are as follows:

1. *Arizona Legislature v. Independent Redistricting Commission* – The Legislature has sued in federal court stating that the United States Constitution gives the Legislature sole responsibility to draw U.S. congressional districts. The U.S. Supreme Court heard the case in March 2015 and released a ruling in June 2015. The Court ruled in favor of the IRC, stating that the constitutional delegation of power to the Legislature in the Elections Clause is not limited to the state legislative body alone but includes all of a state’s lawmaking processes.
2. *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.
3. *Harris v. Independent Redistricting Commission* – Various individuals are suing 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 agreed and heard the case on December 8, 2015.

Arizona Commission of Indian Affairs

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	17,300
AGENCY TOTAL	54,200	57,400	57,400

FUND SOURCES

General Fund	54,200	57,400	57,400
SUBTOTAL - Appropriated Funds	54,200	57,400	57,400
Other Non-Appropriated Funds	19,400	14,800	14,800
TOTAL - ALL SOURCES	73,600	72,200	72,200

AGENCY DESCRIPTION — The agency studies policy issues affecting the Indian tribes, attempts to facilitate better working relationships between the tribes and government agencies, and promotes an understanding of Indian history and culture through statewide forums and other educational activities.

Operating Budget

* * *

The Baseline includes \$57,400 and 3 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Indian Town Hall Fund (IAA4014/A.R.S. § 41-545)		Non-Appropriated
Source of Revenue: Monies collected or received at Indian town halls as fees for administration.		
Purpose of Fund: To defray administrative costs related to Indian town halls.		
Funds Expended	0	0
Year-End Fund Balance	100	100
Publications Fund (IAA4013/A.R.S. § 41-543)		Non-Appropriated
Source of Revenue: Sale of commission publications.		
Purpose of Fund: To produce and distribute commission publications. At fiscal year end, amounts in excess of \$15,000 revert to the General Fund.		
Funds Expended	1,300	1,300
Year-End Fund Balance	1,000	700

SUMMARY OF FUNDS

**FY 2015
Actual****FY 2016
Estimate**

Statewide Donations Fund (IAA2025/A.R.S. § 35-142)**Non-Appropriated**

Source of Revenue: Monies from booth space at Indian Nations and Tribes Legislative Day. Additional funds are obtained from outside sources such as the 22 tribes and nations of Arizona, as well as private corporations.

Purpose of Fund: To pay for expenses incurred for Indian Nations and Tribes Legislative Day. Arizona Commission of Indian Affairs is required by statute to facilitate this day on the second Tuesday of each regular legislative session.

Funds Expended	18,100	13,500
Year-End Fund Balance	10,200	8,700

Industrial Commission of Arizona

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	4,040,700
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	3,180,000
Equipment	342,400	18,600	18,600
AGENCY TOTAL	18,895,200	19,940,300	19,940,300

FUND SOURCES

Other Appropriated Funds

Administrative Fund	18,895,200	19,940,300	19,940,300
SUBTOTAL - Other Appropriated Funds	18,895,200	19,940,300	19,940,300
SUBTOTAL - Appropriated Funds	18,895,200	19,940,300	19,940,300
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	41,794,200

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 Baseline includes \$19,940,300 and 235.6 FTE Positions from the Administrative Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

* * *

FORMAT — Lump Sum by Agency

Other Issues

Workers' Compensation Insurance Account/Guaranty Fund

Laws 2014, Chapter 186 established the Workers' Compensation Insurance Account (WCIA) as part of the Arizona Property and Casualty Insurance Guaranty Fund (Guaranty Fund) within the Department of Insurance. The law transferred the rights and obligations related to

payment of workers' compensation claims on insolvent insurers from the Special Fund, administered by the Industrial Commission of Arizona (ICA), to the Guaranty Fund effective July 1, 2015. In accordance with the law, the commission transferred \$222,848,153 in assets from the Special Fund to the Guaranty Fund for deposit in the WCIA by July 1, 2015.

The WCIA is to be used to continue workers' compensation benefits for claimants of insolvent carriers and bankrupt self-insured employers.

In the event of an insolvency or bankruptcy, the Department of Insurance may cover the cost of claims on that insurer or employer by levying an assessment of up to 1% on the other solvent workers' compensation insurers' premiums from all policies issued during the preceding calendar year. The assessment revenue is deposited into the WCIA for payment of those claims.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Administrative Fund (ICA2177/A.R.S. § 23-1081)		Appropriated
Source of Revenue: Annual tax on workers' compensation premiums that can not exceed 3%.		
Purpose of Fund: For all expenses of the Industrial Commission in carrying out its powers and duties.		
Funds Expended	18,895,200	19,940,300
Year-End Fund Balance	9,424,000	5,522,700
Federal Grants (ICA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: To enforce occupational safety and health standards in all industries in Arizona except businesses relating to mining and smelting, businesses located on Indian reservations and federal agencies.		
Funds Expended	4,843,000	3,216,500
Year-End Fund Balance	16,800	32,400
Revolving Fund (ICA2002/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges for claims education seminars and training materials, charges for medical fee schedules and other miscellaneous revenue.		
Purpose of Fund: To fund an annual seminar on workers' compensation for insurance carriers and self-insured employers; to print a medical fee schedule for workers' compensation; and to provide a holding account for money owed to employees by their employers for back wages.		
Funds Expended	90,600	196,000
Year-End Fund Balance	147,500	86,600
Special Fund (ICA2180/A.R.S. § 23-1065)		Non-Appropriated
Source of Revenue: Assessments on workers' compensation premiums, earnings on investments, rent proceeds, and reimbursement of the cost of benefits provided to injured employees of uninsured employers.		
Purpose of Fund: To provide medical benefits in excess of original policy limits on claims occurring prior to a 1973 law change requiring unlimited statutory medical benefits; to provide compensation benefits resulting from second injuries; to provide vocational rehabilitation benefits; and to provide benefits on claims against uninsured employers and insolvent insurance carriers. Laws 2014, Chapter 186 transferred \$222,848,153 in assets and the payment of workers' compensation claims on insolvent insurers from the Special Fund to the Workers' Compensation Insurance Account of the Arizona Property and Casualty Insurance Guaranty Fund within the Department of Insurance no less than 30 days before July 1, 2015.		
Funds Expended	31,653,300	21,700,300
Year-End Fund Balance	2,486,100	700,500

Department of Insurance

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	90.5	95.5	95.5
Personal Services	2,992,900	3,475,000	3,475,000
Employee Related Expenditures	1,262,900	1,377,000	1,377,000
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	728,900
Equipment	47,800	17,800	6,400
AGENCY TOTAL	5,312,900	5,867,400	5,856,000
FUND SOURCES			
General Fund	5,312,900	5,867,400	5,856,000
SUBTOTAL - Appropriated Funds	5,312,900	5,867,400	5,856,000
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	39,367,400

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 Baseline includes \$5,856,000 and 95.5 FTE Positions from the General Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would:

- As session law, continue to suspend the statutory requirement that fee revenues be between 95% and 110% of the department's appropriation for FY 2017.
- As session law, allow the department to increase the fraud investigation assessment to the \$1,050 limit set by A.R.S. § 20-466(J) in FY 2016 and FY 2017. This authorization would be retroactive to July 1, 2015.

Remove One-Time Funding	GF	FY 2017 (11,400)
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The Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Assessment Fund for Voluntary Plans Fund (IDA2316/A.R.S. § 20-2201)		Non-Appropriated
Source of Revenue: Assessments paid by insurance companies or reinsuring carriers authorized to sell liability insurance.		
Purpose of Fund: To provide for the administrative costs associated with finding liability insurance for classes of risk that are unable to obtain liability coverage. Monies are also used to administer the Small Employers Reinsurance Plan Board. The board ensures the accessibility of small group health insurance by requiring a reinsurance program to spread the risk of insuring small groups.		
Funds Expended	119,000	145,300
Year-End Fund Balance	185,100	219,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Captive Insurance Regulatory and Supervision Fund (IDA2377/A.R.S. § 20-1098.18)		Non-Appropriated
Source of Revenue: License and renewal fees collected from individual captive insurers and corporations applying to do business as a captive insurer. A captive insurer is an enterprise with the authority to function as an independent insurance company, but is organized by a parent company with the express intent to provide the parent company's insurance.		
Purpose of Fund: To provide funding for the promotion of the state's captive insurance industry. Up to \$100,000 may be used annually to cover the department's administrative costs.		
Funds Expended	207,000	247,700
Year-End Fund Balance	488,800	100,000
Federal Funds (IDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal monies from Affordable Care Act grants.		
Purpose of Fund: To implement the provisions of the Affordable Care Act, including the planning and implementation of a health insurance exchange and to aid in the review of health insurance premium rates.		
Funds Expended	675,800	1,646,100
Year-End Fund Balance	0	0
Financial Surveillance Fund (IDA2473/A.R.S. § 20-156)		Non-Appropriated
Source of Revenue: Assessments paid by domestic insurers, other than life and disability re-insurers, service companies, and mechanical reimbursement re-insurers.		
Purpose of Fund: To provide funds for the costs of financial analysts who conduct financial surveillance of domestic insurers in order to identify possible risks to financial stability.		
Funds Expended	298,800	307,100
Year-End Fund Balance	403,100	440,100
Health Care Appeals Fund (IDA2467/A.R.S. § 20-2540)		Non-Appropriated
Source of Revenue: One-time fee of \$200 and an annual fee of up to \$200 per health care insurance company.		
Purpose of Fund: To pay for start-up and ongoing costs related to selecting an independent review organization. The selected organization will conduct external independent reviews that involve issues of medical necessity.		
Funds Expended	254,200	181,200
Year-End Fund Balance	103,300	178,700
Insurance Examiners' Revolving Fund (IDA2034/A.R.S. § 20-159)		Non-Appropriated
Source of Revenue: Payments made by insurance companies for costs of financial, rate, and market conduct examinations performed by contract examiners.		
Purpose of Fund: To provide funds for contract examiners' per diem compensation and funds to reimburse contract examiners for travel and living expenses, as approved by the Director of the Department of Insurance. Monies are also used to cover the department's related administrative costs.		
Funds Expended	4,547,800	5,531,400
Year-End Fund Balance	1,650,700	1,319,300
Life and Disability Insurance Guaranty Fund (IDA2154/A.R.S. § 20-683)		Non-Appropriated
Source of Revenue: Assessments on life and disability insurance companies and reimbursements from the sale of insolvent companies' assets by the department's Receivership Division.		
Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for life and disability insurance policies and annuity contracts. The fund also pays the administrative costs of the 9-member Life and Disability Insurance Guaranty Fund Board authorized by A.R.S. § 20-684. Monies are held in a depository designated by the Director of the Department of Insurance.		
Funds Expended	2,674,600	4,755,200
Year-End Fund Balance	29,124,100	25,218,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Arizona Property and Casualty Insurance Guaranty Fund

(IDA2114/A.R.S. § 20-662)

Non-Appropriated

Source of Revenue: Assessments on property, casualty, and workers' compensation insurance and reimbursements from the sale of insolvent companies' assets by the department's Receivership Division.

Purpose of Fund: To provide funds for the covered policy claims of insolvent insurance companies for property, casualty, and workers' compensation insurance policies. The fund also pays the administrative costs of the 11-member Property and Casualty Insurance Guaranty Fund Board authorized by A.R.S. § 20-663. Monies are held in a depository designated by the Director of the Department of Insurance. Laws 2014, Chapter 186 created the Workers' Compensation Insurance Account within the Fund, and transferred the rights and obligations from the Industrial commission to the Department of Insurance Guaranty Fund. The law also required the Industrial Commission to transfer \$222,848,200 to the Arizona Property and Casualty Insurance Guaranty Fund.

Funds Expended	1,009,700	21,723,600
Year-End Fund Balance	254,719,600	233,960,000

Receivership Liquidation Fund (IDA3104/A.R.S. § 20-648)

Non-Appropriated

Source of Revenue: Consists of 10% of an insolvent insurer's statutory deposit with the State Treasurer authorized by A.R.S. § 20-213. Upon termination of a receivership, the court may award proceeds to the fund, up to the amount of the department's administrative costs.

Purpose of Fund: To support the department's Receivership Division, which administers the liquidation of insurance companies to ensure maximum recovery of assets. The balance forward represents cash on hand. It does not include the state's unfunded liability for deposits being held as assurance against future insolvencies.

Funds Expended	38,400	67,100
Year-End Fund Balance	108,300	41,600

Judiciary - Supreme Court

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.0	175.0	175.0
Personal Services	6,211,100	6,017,600	6,017,600
Employee Related Expenditures	2,290,800	2,272,600	2,272,600
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	3,790,100
Equipment	247,200	0	0
OPERATING SUBTOTAL	12,459,500	13,002,000	13,002,000
SPECIAL LINE ITEMS			
State Aid	4,648,900	5,648,400	5,648,400
County Reimbursements	187,900	187,900	187,900
Automation	10,246,200	20,013,100	20,013,100
Case and Cash Management System	2,426,600	0	0
Foster Care Review Board	3,611,500	3,212,300	3,212,300
Court Appointed Special Advocate	2,650,400	2,862,500	2,862,500
Model Court	446,800	437,600	437,600
Domestic Relations	649,600	621,000	621,000
Judicial Nominations and Performance Review	426,800	413,500	413,500
Commission on Judicial Conduct	520,300	505,000	505,000
AGENCY TOTAL	38,274,500	46,903,300	46,903,300
FUND SOURCES			
General Fund	15,863,900	17,951,100	17,951,100
<u>Other Appropriated Funds</u>			
Confidential Intermediary and Fiduciary Fund	257,500	488,400	488,400
Court Appointed Special Advocate Fund	2,548,400	2,942,800	2,942,800
Criminal Justice Enhancement Fund	2,221,200	4,363,800	4,363,800
Defensive Driving School Fund	3,072,100	4,197,300	4,197,300
Judicial Collection Enhancement Fund	11,883,700	14,014,900	14,014,900
State Aid to the Courts Fund	2,427,700	2,945,000	2,945,000
SUBTOTAL - Other Appropriated Funds	22,410,600	28,952,200	28,952,200
SUBTOTAL - Appropriated Funds	38,274,500	46,903,300	46,903,300
Other Non-Appropriated Funds	16,642,200	21,403,800	21,403,800
TOTAL - ALL SOURCES	54,916,700	68,307,100	68,307,100

AGENCY DESCRIPTION — The Supreme Court consists of 5 Supreme Court Justices, 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 Baseline includes \$13,002,000 and 100.7 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$9,181,300
Confidential Intermediary and Fiduciary Fund	488,400
Criminal Justice Enhancement Fund (CJEF)	5,600
Defensive Driving School Fund	705,000
Judicial Collection Enhancement Fund (JCEF)	2,621,700

These amounts are unchanged from FY 2016.

State Aid

The Baseline includes \$5,648,400 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	2,945,000

These amounts are unchanged from FY 2016.

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 Baseline 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.

The FY 2015 Criminal Justice Budget Reconciliation Bill (Laws 2014, Chapter 12) permanently limited 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 Baseline includes \$20,013,100 and 13 FTE Positions in FY 2017 for Automation. These amounts consist of:

General Fund	3,392,500
Court Appoint Special Advocate (CASA) Fund	80,300
CJEF	1,654,800
Defensive Driving School Fund	3,492,300
JCEF	11,393,200

These amounts are unchanged from FY 2016.

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.

Foster Care Review Board

The Baseline includes \$3,212,300 and 40 FTE Positions from the General Fund in FY 2017 for the Foster Care Review Board. These amounts are unchanged from FY 2016.

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 Baseline includes \$2,862,500 and 5.5 FTE Positions from the Court Appointed Special Advocate (CASA) Fund in FY 2017 for CASA. These amounts are unchanged from FY 2016.

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 Baseline 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.

Domestic Relations

The Baseline includes \$621,000 and 4.9 FTE Positions from the General Fund in FY 2017 for Domestic Relations. These amounts are unchanged from FY 2016.

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 Baseline includes \$413,500 and 3.6 FTE Positions from the General Fund in FY 2017 for Judicial Nominations and Performance Review. These amounts are unchanged from FY 2016.

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 Baseline includes \$505,000 and 4 FTE Positions from the General Fund in FY 2017 for Commission on Judicial Conduct. These amounts are unchanged from FY 2016.

The Commission on Judicial Conduct investigates and resolves all complaints of judicial misconduct.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Included in the operating lump sum appropriation for the Supreme Court is \$1,000 for the purchase of mementos and items for visiting officials.

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.

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.

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.

Other Issues

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.

Fund Transfers

The Baseline continues the \$6,000,000 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, allocated as follows:

Alternative Dispute Resolution Fund	\$300,000
Arizona Lengthy Trial Fund	300,000
CASA Fund	500,000

These aggregate fund transfers were part of the Legislature's 3-year spending plan that was part of the FY 2016 enacted budget. *(Please see the Other Issues section in the Superior Court for more information.)*

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Alternative Dispute Resolution Fund (SPA3245/A.R.S. § 12-135)		Non-Appropriated
Source of Revenue: The fund consists of 0.35% of notary bond fees, 0.35% of fee collections on civil filings in the Superior Court, and 2.42% of civil filings in Justice of the Peace Courts.		
Purpose of Fund: To supplement local courts' funding for alternative dispute resolution programs.		
Funds Expended	149,300	259,000
Year-End Fund Balance	547,200	359,000
Certified Reporters Fund (SPA2440/A.R.S. § 32-4007)		Non-Appropriated
Source of Revenue: Fees, costs and penalties relating to reporter certification.		
Purpose of Fund: For reporter certification.		
Funds Expended	39,700	95,400
Year-End Fund Balance	90,400	174,700
Confidential Intermediary and Fiduciary Fund (SPA2276/A.R.S. § 8-135)		Appropriated
Source of Revenue: A portion of Superior Court fees; fees received by state and local registrars for certified copies of birth certificates; and fees collected through fiduciary registration with the Supreme Court.		
Purpose of Fund: To train and certify confidential intermediaries, who facilitate contact between adoptees/adoptive parents and birth parents while protecting court and agency records. Monies are also used to train and certify private fiduciaries, who serve as court appointed guardians or representatives, and to establish the Sibling Information Exchange Program, which facilitates contact between a former dependent child of biological parents, adoptive parents, guardians, and the child's sibling or siblings.		
Funds Expended	257,500	488,400
Year-End Fund Balance	450,800	294,100
Court Appointed Special Advocate Fund (SPA2275/A.R.S. § 8-524)		Appropriated
Source of Revenue: Revenues consist of 30% of the state lottery unclaimed prize monies.		
Purpose of Fund: For operating the Court Appointed Special Advocate program, which trains volunteers to advocate for abused and neglected children in Juvenile Court proceedings.		
Funds Expended	2,548,400	2,942,800
Year-End Fund Balance	2,483,300	1,602,500
Criminal Justice Enhancement Fund (SPA2075/A.R.S. § 41-2401)		Appropriated
Source of Revenue: Includes allocations of the Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: 9.35% of CJEF monies allocated to the courts are used to reduce juvenile crime, 6.02% is used to enhance the court's ability to process criminal and delinquency cases and salaries of Superior Court judges, and 2.13% is used to provide drug treatment services to adult probationers. The portions of the fund dedicated to juvenile crime reduction and drug treatment are included in the Superior Court's budget, while the case processing portion is part of the Supreme Court's budget.		
Funds Expended	2,221,200	4,363,800
Year-End Fund Balance	2,636,000	2,168,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Defensive Driving School Fund (SPA2247/A.R.S. § 28-3398)		Appropriated
Source of Revenue: A fee, not to exceed \$15, imposed on each person who attends a defensive driving school, and \$500 initial certification and \$50-\$250 recertification fees paid by defensive driving schools. The fees are set by the Supreme Court.		
Purpose of Fund: To monitor defensive driving schools for compliance with claims and court policy, to supervise their use by the courts in Arizona, and to expedite the processing of highway traffic offenses. The Administrative Office of the Courts (AOC) has also used these monies to fund court automation projects throughout the state. In FY 2015, the AOC spent approximately \$2,519,900 for court automation projects.		
Funds Expended	3,072,100	4,197,300
Year-End Fund Balance	554,800	760,100
Drug Treatment and Education Fund (SPA2277/A.R.S. § 13-901.02)		Non-Appropriated
Source of Revenue: The fund receives 7% of tax revenue collected on spirituous liquors and 18% of tax revenue collected on vinous and malt liquor. Of this amount, 50% is allocated to this fund and 50% is allocated to the Arizona Parents Commission on Drug Education and Prevention.		
Purpose of Fund: To place persons in drug education and treatment programs. Such monies are allocated to Superior Court probation departments according to a formula based on probation caseloads.		
Funds Expended	0	386,000
Year-End Fund Balance	2,911,400	2,503,400
Grants and Special Revenue (SPA2084/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies provided from various sources, private and public, for specific programs and projects.		
Purpose of Fund: To expend grants as required by the contribution.		
Funds Expended	15,396,700	19,611,900
Year-End Fund Balance	18,971,400	15,173,500
Judicial Collection Enhancement Fund (SPA2246/A.R.S. § 12-113)		Appropriated
Source of Revenue: Electronic case filing and access fees; 27.78% of Supreme Court fees, 17.07% of Superior Court fees, 19.42% of Court of Appeals fees, 19.18% of Municipal Court fees, and 14.02% to 15.58% of Justice of the Peace fees; time payment fees assessed for late court payments; fees paid for court-ordered diversion programs, and a \$20 probation surcharge on fines, penalties, and forfeitures imposed by the courts for criminal offenses and civil motor vehicle statute violations. <i>(See Superior Court for information regarding non-Maricopa Counties.)</i>		
Purpose of Fund: To train court personnel, improve and enhance the court's ability to collect and manage monies assessed or received by the court, to fund court automation projects likely to improve case processing or the administration of justice, and for probation services. Funds represented here reflect the shift from the Supreme Court budget to the Superior Court budget of monies for probation officer salaries and programs.		
Funds Expended	11,883,700	14,014,900
Year-End Fund Balance	3,388,700	1,920,100
Juvenile Probation Services Fund (SPA2193/A.R.S. § 8-322)		Non-Appropriated
Source of Revenue: Monies appropriated to Juvenile Probation Services - Treatment Services and Juvenile Diversion Consequences and allocated by the AOC.		
Purpose of Fund: To fund programs for juvenile probationers required as conditions of diversion. These programs are intended to reduce the number of repetitive juvenile offenders and provide services, including treatment, testing, independent living programs, residential foster and shelter care, and for juveniles referred to the juvenile court for incorrigibility or delinquency offenses. Expenditures from this fund are not displayed to avoid double counting General Fund monies.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Lengthy Trial Fund (SPA2382/A.R.S. § 21-222)		Non-Appropriated
Source of Revenue: The fund consists of fees established by the Supreme Court on court filings paid to the clerk of the Superior Court.		
Purpose of Fund: To pay juror expenses in cases that last longer than 5 days. Monies in the fund are used to reimburse counties for these juror costs. Statute specifies that not more than 3% of the fund is to be used on administration of the fund.		
Funds Expended	615,300	610,300
Year-End Fund Balance	971,500	416,000
Public Defender Training Fund (SPA3013/A.R.S. § 12-117)		Non-Appropriated
Source of Revenue: Two dollars of the \$20 surcharge on each person paying a court order penalty, fine, or sanction on a time-payment basis.		
Purpose of Fund: For training of public defenders. Allocation of monies is made to each county Public Defender Office in proportion to the number of felony cases assigned to that office in the last fiscal year.		
Funds Expended	441,200	441,200
Year-End Fund Balance	4,200	4,200
State Aid to the Courts Fund (SPA2446/A.R.S. § 12-102.02)		Appropriated
Source of Revenue: Legislative appropriations, a portion of court filing fees, and a portion of fees, fines, penalties and forfeitures collected on criminal offenses and civil motor vehicle violations.		
Purpose of Fund: To provide state aid to the Superior Court, including the clerk of the Superior Court, and Justice Courts for the processing of criminal cases. Monies are distributed to each county based on a formula using Superior Court felony filings and county population.		
Funds Expended	2,427,700	2,945,000
Year-End Fund Balance	143,100	363,200

Judiciary - Court of Appeals

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
PROGRAM BUDGET			
Division I	9,988,900	9,988,800	9,988,800
Division II	4,340,200	4,326,700	4,326,700
AGENCY TOTAL	14,329,100	14,315,500	14,315,500
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	136.8	136.8	136.8
Personal Services	9,712,400	9,965,400	9,965,400
Employee Related Expenditures	3,313,100	3,354,800	3,354,800
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	794,300
Equipment	126,500	0	0
AGENCY TOTAL	14,329,100	14,315,500	14,315,500
FUND SOURCES			
General Fund	14,329,100	14,315,500	14,315,500
SUBTOTAL - Appropriated Funds	14,329,100	14,315,500	14,315,500
TOTAL - ALL SOURCES	14,329,100	14,315,500	14,315,500

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 Baseline includes \$14,315,500 and 136.8 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts include \$9,988,800 and 98.3 FTE Positions for Division I and \$4,326,700 and 38.5 FTE Positions for Division II. These amounts are unchanged from FY 2016.

* * *

FORMAT — Operating Lump Sum by Subprogram

FOOTNOTES

Standard Footnotes

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.

Judiciary - Superior Court

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	137.5	137.5	137.5
Personal Services	0	2,376,000	2,376,000
Employee Related Expenditures	0	970,700	970,700
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	870,700
OPERATING SUBTOTAL	0	4,325,700	4,325,700
SPECIAL LINE ITEMS			
Centralized Service Payments	0	3,458,000	3,458,000
Judges' Compensation	8,272,300	8,231,000	8,231,000
Adult Standard Probation	17,687,800	15,109,200	15,109,200
Adult Intensive Probation	12,173,400	9,910,000	9,910,000
Community Punishment	1,451,000	2,310,300	2,310,300
Interstate Compact	748,600	416,700	416,700
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	3,745,700
Juvenile Intensive Probation	8,467,300	5,532,700	5,532,700
Juvenile Treatment Services	22,341,600	19,937,800	19,937,800
Juvenile Family Counseling	658,300	500,000	500,000
Juvenile Diversion Consequences	9,024,800	8,039,300	8,039,300
Juvenile Crime Reduction	3,388,200	3,308,000	3,308,000
Special Water Master	131,300	160,000	160,000
AGENCY TOTAL	90,472,300	85,978,000	85,978,000
FUND SOURCES			
General Fund	79,865,000	73,911,400	73,911,400
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	4,339,000	5,542,000	5,542,000
Drug Treatment and Education Fund	500,200	502,400	502,400
Judicial Collection Enhancement Fund	5,768,100	6,022,200	6,022,200
SUBTOTAL - Other Appropriated Funds	10,607,300	12,066,600	12,066,600
SUBTOTAL - Appropriated Funds	90,472,300	85,978,000	85,978,000
Other Non-Appropriated Funds	6,399,000	6,427,800	6,427,800
TOTAL - ALL SOURCES	96,871,300	92,405,800	92,405,800

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 Baseline includes \$4,325,700 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)	423,900
Drug Treatment and Education Fund	2,200
Judicial Collection Enhancement Fund (JCEF)	20,200

These amounts are unchanged from FY 2016.

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 Baseline includes \$3,458,000 in FY 2017 for centralized service payments. This amount consists of:

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 Baseline includes \$8,231,000 and 82 FTE Positions from the General Fund in FY 2017 for Judges' Compensation. These amounts are unchanged from FY 2016.

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 Baseline includes \$15,109,200 in FY 2017 for Adult Standard Probation. This amount consists of:

General Fund	11,335,100
JCEF	3,774,100

These amounts are unchanged from 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 Baseline includes \$9,910,000 in FY 2017 for Adult Intensive Probation. This amount consists of:

General Fund	8,374,800
JCEF	1,535,200

These amounts are unchanged from 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 Baseline 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 Baseline includes \$416,700 in FY 2017 for Interstate Compact. This amount consists of:

General Fund	323,900
JCEF	92,800

These amounts are unchanged from FY 2016.

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 Baseline 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 Baseline includes \$3,745,700 in FY 2017 for Juvenile Standard Probation. This amount consists of:

General Fund	3,595,700
JCEF	150,000

These amounts are unchanged from 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 Baseline includes \$5,532,700 from the General Fund in FY 2017 for Juvenile Intensive Probation. This amount is unchanged from 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 Baseline includes \$19,937,800 from the General Fund in FY 2017 for Juvenile Treatment Services. This amount is unchanged from FY 2016.

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 probation treatment services will first be transferred to the Juvenile Treatment Services line item.

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 Baseline 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 Baseline includes \$8,039,300 from the General Fund in FY 2017 for Juvenile Diversion Consequences. This amount is unchanged from FY 2016.

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.

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 Baseline 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.

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.

Special Water Master

The Baseline 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 special line item within the Superior Court budget. *(Please see the Other Issues section for more information.)*

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

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.

~~Up to 4.6% of the amounts appropriated for Juvenile Treatment Services and Juvenile Diversion Consequences may be retained and expended by the Supreme Court to~~

~~administer the programs established pursuant to A.R.S. § 8-322, and to conduct evaluations as needed. MONIES APPROPRIATED TO The remaining amount of the Juvenile Treatment Services and Juvenile Diversion Consequences appropriations shall be deposited in the Juvenile Probation Services Fund established by A.R.S. § 8-322.~~

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.

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 probation 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.

New Footnotes

All monies in the Judges Compensation line item shall be used to pay for the 50% state share of non-Maricopa County Superior Court judges' salaries, Elected Officer Retirement Plan costs, and related state benefit costs. Monies in the operating lump sum appropriation or other line items intended for this purpose shall be transferred to the Judges Compensation line item prior to expenditure.

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 prior to expenditure.

(These 2 footnotes match similar footnotes for Centralized Service Payments and Probation line items.)

STATUTORY CHANGES

The Baseline would, as session law, continue the FY 2016 suspension of 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.

Other Issues

Fund Transfers

The Baseline continues the \$6,000,000 in aggregate fund transfers for the Supreme and Superior Courts in FY 2017. The Superior Court share of these fund transfers would be \$4,900,000, allocated as follows:

Drug Treatment and Education Fund	\$250,000
Juvenile Probation Services Fund	4,650,000

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 were part of the Legislature’s 3-year spending plan that was part of the FY 2016 enacted budget.

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

Probation Caseloads

The Baseline includes \$29,162,200 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 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 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 SLI 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 SLI 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.

Table 2

Non-Maricopa County Average Annual Probation Caseloads

	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Estimate</u>	<u>FY 2017 Estimate</u>
Probation Category					
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

	<u>FY 2013 Actual</u>	<u>FY 2014 Actual</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Estimated^{1/}</u>	<u>FY 2017 Estimated^{1/}</u>
Gila River					
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
Little Colorado River					
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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Community Punishment Program Fines Fund (SPA2119/A.R.S. § 13-821)		Non-Appropriated
Source of Revenue: Discretionary fines imposed by the courts on drug offenders.		
Purpose of Fund: To provide drug treatment services to adult probationers through the Community Punishment Program.		
Funds Expended	57,900	110,000
Year-End Fund Balance	161,800	81,000
Criminal Justice Enhancement Fund (SPA2075/A.R.S. § 41-2401)		Partially-Appropriated
Source of Revenue: Includes allocations of the Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: 9.35% of CJEF monies allocated to the courts are used to reduce juvenile crime, 6.02% is used to enhance the court's ability to process criminal and delinquency cases and salaries of Superior Court judges, and 2.13% is used to provide drug treatment services to adult probationers. The portions of the fund dedicated to juvenile crime reduction and drug treatment are included in the Superior Court's budget, while the case processing portion is part of the Supreme Court's budget.		
Appropriated Expenditures	4,339,000	5,542,000
Non-Appropriated Expenditures	1,216,700	1,258,200
Year-End Fund Balance	2,872,000	681,000
Drug and Gang Enforcement Account (SPA2074/A.R.S. § 41-2402)		Non-Appropriated
Source of Revenue: Federal grant monies passed through the Arizona Criminal Justice Commission's Drug and Gang Enforcement Account.		
Purpose of Fund: To fund programs that enhance the ability of the courts to process drug offenses and related cases.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Drug Treatment and Education Fund (SPA2277/A.R.S. § 13-901.02)		Partially-Appropriated
Source of Revenue: The fund receives 7% of tax revenue collected on spirituous liquors and 18% of tax revenue collected on vinous and malt liquor. Of this amount, 50% is allocated to this fund and 50% is allocated to the Arizona Parents Commission on Drug Education and Prevention.		
Purpose of Fund: To place persons in drug education and treatment programs. Such monies are allocated to Superior Court probation departments according to a formula based on probation caseloads.		
Appropriated Expenditures	500,200	502,400
Non-Appropriated Expenditures	3,841,100	3,769,700
Year-End Fund Balance	0	0
Grants and Special Revenue (SPA2084/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies provided from various sources, private and public, for specific programs and projects.		
Purpose of Fund: To expend grants as required by the contribution.		
Funds Expended	1,283,300	1,289,900
Year-End Fund Balance	6,800	24,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Judicial Collection Enhancement Fund (SPA2246/A.R.S. § 12-113) Appropriated

Source of Revenue: Electronic case filing and access fees; 27.78% of Supreme Court fees, 17.07% of Superior Court fees, 19.42% of Court of Appeals fees, 19.18% of Municipal Court fees, and 14.02% to 15.58% of Justice of the Peace fees; time payment fees assessed for late court payments; fees paid for court-ordered diversion programs, and a \$20 probation surcharge on fines, penalties, and forfeitures imposed by the courts for criminal offenses and civil motor vehicle statute violations. Maricopa County retains any probation surcharge imposed in its county.

Purpose of Fund: To train court personnel, improve and enhance the court's ability to collect and manage monies assessed or received by the court, to fund court automation projects likely to improve case processing or the administration of justice, and for probation services. Funds represented here reflect the shift from the Supreme Court budget to the Superior Court budget of monies for probation programs.

Funds Expended	5,768,100	6,022,200
Year-End Fund Balance	1,782,400	850,100

Juvenile Probation Services Fund (SPA2193/A.R.S. § 8-322) Non-Appropriated

Source of Revenue: Monies appropriated to Juvenile Probation Services - Treatment Services and Juvenile Diversion Consequences and allocated by the Administrative Office of the Courts.

Purpose of Fund: To fund programs for juvenile probationers required as conditions of diversion. These programs are intended to reduce the number of repetitive juvenile offenders and provide services, including treatment, testing, independent living programs, residential foster and shelter care, and for juveniles referred to the juvenile court for incorrigibility or delinquency offenses. Expenditures from this fund are not displayed to avoid double counting General Fund monies.

Funds Expended	0	0
Year-End Fund Balance	10,721,300	4,703,500

State Aid to Detention Fund (SPA2141/A.R.S. § 41-2417) Non-Appropriated

Source of Revenue: General Fund monies appropriated by the Legislature.

Purpose of Fund: To provide state assistance to counties in maintaining, expanding, and operating juvenile detention centers. On behalf of the juvenile court, the Administrative Office of the Courts may use monies in the fund to enter into agreements with public agencies or private entities to acquire land for, build, purchase, lease-purchase, lease, maintain, expand, or operate juvenile detention centers. Expenditures from this fund are not displayed to avoid double counting.

Funds Expended	0	0
Year-End Fund Balance	0	0

Department of Juvenile Corrections

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	738.5	738.5	738.5
Personal Services	23,890,600	24,164,500	24,164,500
Employee Related Expenditures	12,640,700	12,702,600	12,702,600
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	3,430,000
Equipment	937,900	262,200	262,200
AGENCY TOTAL	43,345,400	43,116,700	42,116,700
FUND SOURCES			
General Fund	40,762,300	26,984,600	25,984,600
<u>Other Appropriated Funds</u>			
Criminal Justice Enhancement Fund	207,500	531,300	531,300
Department of Juvenile Corrections Local Cost Sharing Fund	0	12,000,000	12,000,000
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	1,600,700
SUBTOTAL - Other Appropriated Funds	2,583,100	16,132,100	16,132,100
SUBTOTAL - Appropriated Funds	43,345,400	43,116,700	42,116,700
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	43,950,600

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 Baseline includes \$42,116,700 and 738.5 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$25,984,600
Criminal Justice Enhancement Fund (CJEF)	531,300
Department of Juvenile Corrections (DJC) Local Cost Sharing Fund	12,000,000
State Charitable, Penal and Reformatory Institutions Land Fund	2,000,100
State Education Fund for Committed Youth	1,600,700

FY 2017 adjustments would be as follows:

Admission Changes

GF (1,000,000)

The Baseline includes a decrease of \$(1,000,000) from the General Fund in FY 2017 for reductions in the committed youth population within DJC. This reduction is part of the Legislature's 3-year spending plan that was part of the FY 2016 enacted budget.

The FY 2016 Criminal Justice Budget Reconciliation Bill (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.

The housed and parole populations within DJC have seen significant decreases in the past 10 years. As illustrated in *Table 2*, the housed population within DJC has decreased by (30)% from FY 2013 through October 2015. If the current October 2015 housed population persists through FY 2017, it would allow for an additional reduction of \$(679,400) due to decreased caseloads. This estimate assumes that 40% of DJC's budget is attributable to fixed costs and that the average cost per housed juvenile at Adobe Mountain Safe School is \$93,300 annually.

* * *

FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

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.

STATUTORY CHANGES

The Baseline would, as session law, continue to require counties to pay their proportional share of \$12,000,000 according to their population in the 2010 decennial census for cost sharing of DJC.

Other Issues

Fund Shift

The Baseline 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; however, it is estimated that the State Charitable, Penal and Reformatory Institutions Land Fund will have sufficient resources to continue this shift in FY 2017. At the end of FY 2015, the fund had an available balance of \$1,919,100. If revenues to the fund are flat in FY 2016, the fund will end the fiscal year with a balance of \$1,183,000 which, when combined with estimated continued flat revenues of \$1,264,000, will provide adequate monies to fund an appropriation at the continued level of \$2,000,100 in FY 2017.

Additionally, if voters approve the proposed increase of the State Land Trust distribution formula from the current 2.5% to the proposed 6.9% in May 2016, the State Charitable, Penal and Reformatory Institutions Land Fund may realize a \$1,330,100 increase in revenues to the fund in FY 2017.

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 Criminal Justice BRB requires that each county pay their proportional share of \$12,000,000 according to their population in the 2010 decennial census. *Table 1* displays the estimated payment by county; the Baseline would continue this provision in FY 2017.

Table 1
Allocation of Local Cost Sharing

County	FY 2017
Apache County	\$ 134,300
Cochise County	246,600
Coconino County	252,400
Gila County	100,600
Graham County	69,900
Greenlee County	15,800
La Paz County	38,500
Maricopa County	7,166,000
Mohave County	375,800
Navajo County	201,700
Pima County	1,840,300
Pinal County	705,400
Santa Cruz County	89,000
Yavapai County	396,200
Yuma County	367,500
TOTAL	\$12,000,000

October 2015 Special Session and Proposition 123

As a beneficiary of the Arizona State Land Trust, DJC 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 FY 2015, DJC received \$623,650 in monies distributed from its permanent fund.

Conditional upon voter approval in May 2016, Proposition 123 would increase the 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 would receive \$1,216,100 in additional funding beyond what it otherwise would in FY 2016 if the ballot proposition is approved. (Please see the Department of Education – Endowment Earnings section for more information.)

Population Counts

Table 2 lists the DJC population by category. The parole population has decreased significantly over the past few years. DJC reports that this is due to the decline in the number of committed youth, an increase in the age of the average offender resulting in shorter parole periods, and an increase in the recidivism rate.

	<u>FY 2013 Average Population</u>	<u>FY 2014 Average Population</u>	<u>FY 2015 Average Population</u>	<u>Population as of October 30, 2015</u>
Housed Population				
Adobe Mountain	347	351	321	267
Parole Population				
Parole	252	135	127	96
Interstate Compact (inside Arizona) ^{1/}	<u>139</u>	<u>120</u>	<u>114</u>	<u>112</u>
Total Parole Population	<u>391</u>	<u>255</u>	<u>241</u>	<u>208</u>
Total DJC Population	738	606	562	475

^{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 5 parolees on October 30, 2015.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Criminal Justice Enhancement Fund (DJA2281/A.R.S. § 41-2401)		Appropriated
Source of Revenue: Receives 1.61% of state Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% assessment added on to every fine, penalty and forfeiture collected by the courts for criminal offenses, and civil penalties imposed for traffic violations and motor vehicle violations.		
Purpose of Fund: For treatment and rehabilitation of youth who have committed drug-related offenses.		
Funds Expended	207,500	531,300
Year-End Fund Balance	1,149,100	1,151,900
Department of Juvenile Corrections Local Cost Sharing Fund (DJA3007/A.R.S. § 41-2833)		Appropriated
Source of Revenue: The FY 2016 Criminal Justice Budget Reconciliation Bill (Laws 2015, Chapter 17) created the Department of Juvenile Corrections Local Cost Sharing Fund with annual deposits from each county totaling \$12,000,000. The bill requires each county to pay a proportional share of the \$12,000,000 based on their share of the state population according to the 2010 decennial census.		
Purpose of Fund: To fund the operational costs of DJC.		
Funds Expended	0	12,000,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
DJC Career Technical Education Fund (DJA2326/A.R.S. § 41-2828)		Non-Appropriated
Source of Revenue: Proceeds generated by any department educational, vocational, treatment, training, or work program, including the sale of unneeded equipment or supplies.		
Purpose of Fund: To pay expenses that are required for any educational, vocational, treatment, training or work program established by the department.		
Funds Expended	0	0
Year-End Fund Balance	0	0
DJC Restitution Fund (DJA2476/A.R.S. § 41-2826)		Non-Appropriated
Source of Revenue: Federal, state, and local appropriations distributed by the director from the DJC Career Technical Education Fund, in addition to grants, gifts, and other donations from any public or private source.		
Purpose of Fund: For the payment of restitution and monetary assessments by youths who are ordered to make such payments but who are financially unable to pay. In a committed youth work program or a community work program, youth participate and receive payment through the Restitution Fund, a portion of which is distributed in the form of restitution payments to victims or the court.		
Funds Expended	0	0
Year-End Fund Balance	137,000	152,100
Employee Recognition Fund (DJA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs that recognize and award the performance, achievement, longevity or major life event of department employees.		
Funds Expended	2,100	2,100
Year-End Fund Balance	2,500	4,900
Federal Funds (DJA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Grants.		
Purpose of Fund: For the National School Breakfast and Lunch Program, Special Education, Job Training Partnership Act, substance abuse, and other federal programs.		
Funds Expended	1,565,000	1,678,100
Year-End Fund Balance	876,800	1,169,100
IGA and ISA Fund (DJA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency agreements.		
Purpose of Fund: To provide training to DJC staff in behavioral therapy, motivational interviewing, and child and family teams, and some supplemental funding for attainment of juvenile treatment goals.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (DJA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay department wide administrative and overhead costs.		
Funds Expended	0	0
Year-End Fund Balance	280,100	330,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Instructional Improvement Fund (DJA2492/A.R.S. § 15-979)		Non-Appropriated
Source of Revenue: Shared revenue from Indian gaming received through the Arizona Department of Education (ADE). The ADE Instructional Improvement Fund receives 56% of total shared revenue, as authorized by Proposition 202 from the 2002 General Election. (See ADE section for more information.)		
Purpose of Fund: To fund teacher compensation increases, class size reduction, dropout prevention, and instructional improvement.		
Funds Expended	0	0
Year-End Fund Balance	7,400	7,400
Juvenile Corrections Fund (DJA3024/A.R.S. § 41-2810)		Non-Appropriated
Source of Revenue: Donations by individuals and businesses, proceeds from vending machines, and fund-raising efforts.		
Purpose of Fund: For additional supplies and department conferences, for purposes agreed upon by donors and the agency Director, or for special student activities.		
Funds Expended	53,600	53,600
Year-End Fund Balance	72,900	94,200
State Charitable, Penal and Reformatory Institutions Land Fund (DJA3029/A.R.S. § 37-525)		Appropriated
Source of Revenue: Earnings on state lands and interest on the investment of the Permanent Land Fund.		
Purpose of Fund: To help defray costs of operating juvenile correctional facilities.		
Funds Expended	549,300	2,000,100
Year-End Fund Balance	1,919,100	1,208,300
State Education Fund for Committed Youth (DJA2323/A.R.S. § 15-1371)		Appropriated
Source of Revenue: The state's statutory K-12 Basic State Aid formula provides funding based on the DJC population.		
Purpose of Fund: To help provide for the education of committed youth.		
Funds Expended	1,826,300	1,600,700
Year-End Fund Balance*	68,900	(72,400)
State Education System for Committed Youth Classroom Site Fund (DJA2487/A.R.S. § 15-1373)		Non-Appropriated
Source of Revenue: Classroom Site Fund monies received from the ADE, pursuant to A.R.S. § 15-977. The Classroom Site Fund receives monies from a 0.6% sales tax approved by the voters in the November 2000 General Election (Proposition 301).		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases and employment related expenses (20%); and class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention, and teacher liability insurance premiums (40%).		
Funds Expended	90,000	90,000
Year-End Fund Balance	339,700	362,100
Statewide Donations Fund (DJA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs or for the specified purpose for which they were donated.		
Funds Expended	26,700	10,100
Year-End Fund Balance	15,200	11,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Training Institute Fund (DJA2001/A.R.S. § 41-2824)		Non-Appropriated
Source of Revenue: Monies received from grants, gifts, donations, services or other financial assistance.		
Purpose of Fund: To train tribal personnel who have limited access to training within their jurisdictions.		
Funds Expended	0	0
Year-End Fund Balance	0	0

* As reported by the agency. Actual ending balance will not be negative.

State Land Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	3,034,300
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	3,171,300
Equipment	645,900	180,000	180,000
OPERATING SUBTOTAL	14,303,400	15,158,100	15,158,100
SPECIAL LINE ITEMS			
CAP User Fees	705,700	737,800	737,800
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	563,100	650,000	650,000
Scanning and Digitizing Trust Land Records	1,006,200	0	0
AGENCY TOTAL	16,578,400	17,045,900	17,045,900
FUND SOURCES			
General Fund	12,507,700	12,520,500	12,520,500
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	500,000	500,000
Environmental Special Plate Fund	173,100	260,500	260,500
Trust Land Management Fund	3,897,600	3,764,900	3,764,900
SUBTOTAL - Other Appropriated Funds	4,070,700	4,525,400	4,525,400
SUBTOTAL - Appropriated Funds	16,578,400	17,045,900	17,045,900
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	17,845,900

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 the operators of 2 copper mines on state land.

Operating Budget

The Baseline includes \$15,158,100 and 129.7 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$11,392,700
Environmental Special Plate Fund	500
Trust Land Management Fund	3,764,900

These amounts are unchanged from FY 2016.

CAP User Fees

The Baseline includes \$737,800 from the General Fund in FY 2017 for Central Arizona Project (CAP) User Fees. This amount is unchanged from FY 2016.

This funding level assumes that the department will be billed for "capital charges" of \$23 per acre foot on 32,076 acre feet of water in FY 2017 for a total annual charge of \$737,800. This amount would equal the appropriation for CAP user fees 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 Baseline 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 Baseline includes \$650,000 in FY 2017 for Natural Resource Conservation Districts (NRCs). 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 NRCs. 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 NRC 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 NRCs be used to provide grants to NRC environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCs. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The appropriation includes \$737,800 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.

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.

New Footnotes

The state General Fund appropriation to the State Land Department is reduced by \$(7,303,600) in FY 2017 if Senate Concurrent Resolution 1018 or successor legislation is enacted by a vote of the people at the next general election. The sum of \$7,303,600 is appropriated to the State Land Department from the Trust Land Administration Fund in FY 2017 if Senate Concurrent Resolution 1018 or successor legislation is enacted by a vote of the people at the next general election. (Would revert seven-twelfths of General Fund appropriations if the agency’s self-funding ballot proposition passes, since General Fund funding would no longer be necessary for the 7-month period from December 2016 - June 2017. Would appropriate 7-months of funding from the newly-created Trust Land Administration Fund to offset the reduced General Fund support. Please see the Long-Term Budget Impacts section below for more information.)

STATUTORY CHANGES

The Baseline would:

- Modify the FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) to no longer repeal the Trust Land Management Fund in order to preserve the department’s ability to deposit and use fee monies, and, as permanent law, rename the Trust Land Management Fund as the Land Fee Fund.
- Modify permanent law to establish the Trust Land Administration Fund as a separate, rather than replacement, provision of law from the Trust Land Management Fund.

- As session law, allow Land Fee Fund monies to be used for non-trust land administration purposes for FY 2017.
- As permanent law, limit the Trust Land Administration Fund and the Land Fee Fund fiscal year-end balances each to 50% of the department's operating appropriation for the next fiscal year, rather than 200%.
- As session law, modify Laws 2015, Senate Concurrent Resolution 1018, to clarify that the Land Department Self-Funding plan will allow the department to proportionately withdraw from the permanent funds up to 10% of the permanent receipts total of the second prior fiscal year. *(Please see Self-Funding Agency in the Other Issues section for more information.)*

Other Issues

Long-Term Budget Impacts

As part of the FY 2016 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 fail, however, the 3-year plan did not score the General Fund savings until 2018. Consistent with that approach, the FY 2017 Baseline does not display any savings until FY 2018.

Contingent upon voter approval in November 2016, SCR 1018 could also generate savings to the General Fund in FY 2017. By substituting Land Trust proceeds for General Fund appropriations for the 7-month period from December 2016 to June 2017, the Legislature could reduce the FY 2017 General Fund appropriations \$(7,303,600) below the FY 2017 Baseline. In this case, General Fund monies would be reduced by an additional \$(5,216,900) in FY 2018 below the FY 2017 amount for a total reduction of \$(12,520,500). *(Please see Self-Funding Agency below and the New Footnotes section for more information.)*

Self-Funding Agency

In 2015, the Legislature approved SCR 1018, which will allow 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 repeal A.R.S. § 37-527, the authorizing language for the existing Trust Land Management Fund, and replace it with a new A.R.S. § 37-527 that creates the Trust Land Administration Fund.

The new Trust Land Administration Fund would be administered by the State Land Commissioner and would consist of up to 10% of the annual proceeds of each beneficiary's trust lands. The Land Commissioner would determine the actual withdrawal percentage in each year. The fund would be subject to legislative appropriation. On notice from the State Land Commissioner, the State Treasurer would invest and divest the monies in the fund pursuant to A.R.S. § 35-313.

Fees

Currently, revenues from application, sales administration, and other fees charged by the Land Department are deposited into the Trust Land Management Fund pursuant to A.R.S. § 37-107. In repealing this fund, however, the conditionally enacted language of the FY 2016 Environment BRB 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.

To maintain the department's ability to deposit fee revenues and utilize the existing balance of fee monies, the JLBC Staff recommends that the 2017 budget undo the conditional repeal of A.R.S. § 37-527, the authorizing language for the Trust Land Management Fund. This will allow the Land Department to continue depositing fee revenues and maintain the existing Trust Land Management Fund balance. The JLBC Staff also recommends renaming the Trust Land Management Fund as the Land Fee Fund to more clearly differentiate it from the Trust Land Administration Fund and to more accurately describe its revenue sources and uses.

As a second step, the Trust Land Administration Fund in A.R.S. § 37-527 in SCR 1018 would be re-designated as A.R.S. § 37-528, such that the Trust Land Administration Fund would complement, rather than replace the Trust Land Management Fund (which would be renamed, as described above). *(Please see Statutory Changes section for more information.)*

Permanent & Expendable Receipts

The constitutional amendments proposed in SCR 1018 leave ambiguous whether the Land Department has authority to use proceeds both from land sales and royalties ("permanent receipts") and from lease revenues

("expendable receipts") for the administration of trust lands. If interpreted to allow the use only of permanent receipts, the amendment could result in available funding that is lower than operating expenditures in years with low land sale proceeds.

Due to the volatility of land sale proceeds and the difficulty of accurately predicting their total in advance, the Land Department has proposed further amending the Arizona Constitution to explicitly grant the authority to use both expendable and permanent receipts for trust land administration.

Utilizing both permanent and expendable receipts would provide greater certainty that available resources would meet operating expenditures each year. Redirecting expendable receipts to trust land administration, however, would have a more immediate and pronounced effect on trust beneficiaries than redirecting permanent receipts alone. Each dollar of redirected permanent receipts reduces the annual amount that beneficiaries would receive in future years by the Treasurer's distribution rate, or 2.5 cents (6.9 cents if Proposition 123 receives voter approval). *(Please see October 2015 Special Session and Proposition 123 section for more information.)* Each dollar of redirected expendable receipts immediately reduces the amount that beneficiaries would receive in that year by the full dollar.

Withdrawal Calculation Base Year

A second issue needing clarification is the base year that is used for calculating trust land administration withdrawals. The existing SCR 1018 language bases the administrative withdrawal on the current year's land trust proceeds.

To allow the use of known—rather than projected—numbers during the budget development process, while ensuring adequate trust land administration funding with minimal budgetary disruptions to beneficiaries, the JLBC Staff recommends basing withdrawals to the Trust Land Administration Fund upon the permanent receipt total of 2 fiscal years prior, rather than the current fiscal year. The Land Commissioner would determine the actual withdrawal percentage in each year, not to exceed 10% of the total permanent receipts.

For example, for FY 2017, the Land Department could withdraw up to 10% of the \$136.3 million of FY 2015 permanent receipts, or \$13,634,800, into the Trust Land Administration Fund.

The \$13,634,800 starting balance would be reduced \$(7,303,600) by the FY 2017 Trust Land Administration Fund appropriation for the post-election period December 2016 – June 2017. *(Please see New Footnotes section*

above for more information.) The FY 2017 ending balance of \$6,331,200 would remain as non-lapsing monies available for future use if permanent receipts were subsequently insufficient to fully fund Trust Land Administration Fund appropriations.

Maximum Non-Lapsing Balance

As conditionally enacted by SRC 1018, Trust Land Administration Fund monies would be non-lapsing. If the balance in the fund at the end of any fiscal year exceeded 2 times the budget of the department for the administration of trust lands for the next fiscal year, however, the excess amount would be credited proportionately to each beneficiary's permanent fund based on the previous year's deposits.

The JLBC Staff recommends limiting the fiscal year-end balance to 50% of the department's operating appropriation for the next fiscal year, rather than 200%, in order to more quickly return funds to trust beneficiaries. In addition, this threshold will still allow the department to carry forward balances of up to approximately \$7.5 million in the Trust Land Administration Fund. Combined with the approximately \$7.5 million the department will be able to carry forward in the Land Fee Fund as well, this amount should be sufficient to supplement years with low cash flows. *(Please see Non-Trust Land Administration Funding section below for more information.)*

Non-Trust Land Administration Funding

The State Land Department is mandated by statute to conduct activities beyond trust land administration, but under the current self-funding plan, it may be unable to fund them.

Pursuant to A.R.S. § 37-173, for example, the department's Resource Analysis Division includes the Office of State Cartographer and must provide geographic information system (GIS) services to public institutions in the state. Currently, this function and other department activities such as the administration of NRCDs are partially funded by state General Fund monies. *(Please see the National Resource Conservation Districts section above for more information.)*

If state General Fund appropriations are eliminated under the self-funding plan, however, these activities may no longer have sufficient allowable funding sources, as the offsetting monies in the conditionally enacted Trust Land Administration Fund would be constitutionally restricted to trust land administration purposes. Pursuant to A.R.S. § 37-527, fee monies in the Trust Land Management Fund (which would be renamed as the Land Fee Fund as described above) are statutorily also restricted to trust land administration.

The department currently receives \$390,000 in state General Fund appropriations for NRCDs and also budgeted \$184,800 of state General Fund monies for GIS programs in FY 2016. The JLBC Staff is currently analyzing other functions that may rely on General Fund support that would require alternate funding sources if state General Fund monies are eliminated.

The Legislature has at least 3 options to ensure that these functions continue to receive adequate funding in FY 2017:

1. Allow application, sales administration, and other fees levied by the department to support non-trust land administration uses.
2. Maintain state General Fund appropriations for the department's non-trust land administration functions.
3. Instruct the department to institute new fees related to non-trust land administration functions.

Because programs such as the NRCDs may have difficulty in raising sufficient funds through added fees, the JLBC Staff recommends temporarily adopting option 1, such that Land Fee Fund monies could be used in FY 2017 to support these activities. To more closely align fee revenues and uses, however, or maintain state General Fund support, the Legislature may wish to consider alternatives as a long term solution.

Currently, if the fiscal year-end balance in the Trust Land Management Fund (Land Fee Fund) exceeds twice the department's budget for the administration of trust lands for the next fiscal year, the excess amount must be credited proportionately to each trust beneficiary's permanent fund based on the previous year's deposits.

The JLBC Staff recommends limiting the fiscal year-end balance of the Land Fee Fund to 50% of the department's operating appropriation for the next fiscal, as with the Trust Land Administration Fund. The fund's balance at the end of FY 2015 was \$7.8 million, and the department projects a FY 2016 ending balance of \$9.8 million. *(Please see Maximum Non-Lapsing Balance section above for more information.)*

October 2015 Special Session and Proposition 123

Conditional upon voter approval of Proposition 123 in May 2016, the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001) increases 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 would provide \$172,081,000 in incremental funds to K-12 schools in FY 2016, 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.)*

As Table 1 shows below, Proposition 123 would also increase distributions to other public institutions. Non-K-12 beneficiaries received \$5,745,100 in distributions under the 2.5% rate in FY 2015 and would receive \$18,176,200 under the 6.9% distribution rate in FY 2016. Over 10 years, non-K-12 beneficiaries would receive an estimated \$159,721,000 in additional distributions under Proposition 123.

Environmental Special Plate Fund

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.

	FY 2015 (2.5% Distribution)	FY 2016 (6.9% Distribution)	10-Year Incremental Distributions
Military Institute	12,800	38,600	280,200
Normal Schools ASU/NAU	82,100	256,600	2,128,700
A & M Colleges	228,000	695,200	5,220,000
School of Mines	258,000	786,000	5,896,400
University Fund	429,000	1,335,000	11,090,000
U of A Land - 1881	1,129,200	3,868,200	43,604,400
Universities Subtotal	2,139,100	6,979,600	68,219,700
State Hospital	138,400	431,100	3,510,900
Legal, Executive, & Judicial Buildings	185,200	566,900	4,360,400
Miners' Hospital (Pioneers' Home)	389,000	1,302,000	13,680,100
Penitentiaries (Dept. of Corrections)	282,500	906,300	8,486,500
School for Deaf & Blind	116,300	362,000	2,925,900
State Charitable (50% Pioneers' Home, 25% Dept. of Corrections, 25% Dept. of Juvenile Corrections)	2,494,600	7,628,300	58,537,500
Non-K-12 Beneficiaries Total	5,745,100	18,176,200	159,721,000

^{1/} Assumes 6.9% annual investment returns.
^{2/} Assumes \$11 million annual non-K-12 Land Trust sale proceeds.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
CAP Municipal and Industrial Repayment Fund (LDA2129/A.R.S. § 37-526)		Non-Appropriated
Source of Revenue: Reimbursements to the state for back water payments when cities assume their allocation of Central Arizona Project (CAP) water, legislative appropriations.		
Purpose of Fund: To make CAP water fee payments for urban state trust land. Monies remaining in the fund revert to the General Fund after the CAP subcontract obligations are met.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Due Diligence Fund (LDA2526/A.R.S. § 37-110)		Appropriated
Source of Revenue: Reimbursements from successful bidders on state lands for expenses incurred by the department to fund due diligence studies.		
Purpose of Fund: To prepare land for sales, leases, rights-of-ways, or other use-permits.		
Funds Expended	0	500,000
Year-End Fund Balance	41,800	41,800
Environmental Special Plate Fund (LDA2274/A.R.S. § 37-1015)		Appropriated
Source of Revenue: \$17 of the \$25 fee for environmental license plates.		
Purpose of Fund: To provide grants for environmental education projects. Funds Natural Resource Conservation Districts (NRCs) and the education centers they sponsor. An amount of \$5,000 is distributed to each NRC that sponsors an education center. Additionally, funds are distributed to NRCs and education centers based on appropriation.		
Funds Expended	173,100	260,500
Year-End Fund Balance*	48,000	(82,200)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Funds (LDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants for urban and rural forestry, resource conservation, development of forest lands, insect and disease control, fire training and protection of forests, and other forestry projects.		
Purpose of Fund: For resource conservation and development, in accordance with the requirements of each grant.		
Funds Expended	96,600	50,000
Year-End Fund Balance	0	0
 Federal Grants - American Recovery and Reinvestment Act (ARRA) (LDA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department for renewable energy and mapping projects.		
Funds Expended	602,300	0
Year-End Fund Balance	0	0
 Federal Reclamation Trust Fund (LDA2024/A.R.S. § 37-106)		Non-Appropriated
Source of Revenue: Reimbursements from lessees and interest.		
Purpose of Fund: To make payments for federal reclamation project assessments when state land lessees are delinquent.		
Funds Expended	0	0
Year-End Fund Balance	0	0
 Interagency Agreements Fund (LDA2212/A.R.S. § 35-148)		Non-Appropriated
Source of Revenue: Collections from other state agencies for services and products provided by the State Land Department.		
Purpose of Fund: To pay for joint projects based upon interagency agreements with other state agencies.		
Funds Expended	0	0
Year-End Fund Balance	148,200	160,200
 Off-Highway Vehicle Recreation Fund (LDA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: The Land Department receives 5% of the total Off-Highway Vehicle Fund revenue, which consists of fees for off-highway vehicle decals issued by the Department of Transportation and 0.55% of the motor fuel tax revenue.		
Purpose of Fund: To mitigate damage to land, to fund enforcement of off-highway vehicle laws, and for necessary environmental, historical, and cultural clearance or compliance activities.		
Funds Expended	365,800	365,000
Year-End Fund Balance	296,300	156,300
 Resource Analysis Division Revolving Fund (LDA4009/A.R.S. § 37-176)		Non-Appropriated
Source of Revenue: Receipts from the provision of Geographic Information Systems (GIS) products and services.		
Purpose of Fund: To offset the costs of GIS supplies and support.		
Funds Expended	17,600	110,000
Year-End Fund Balance	111,400	111,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
State Land Department Fund (LDA2451/A.R.S. § 37-107)		Non-Appropriated
Source of Revenue: Reimbursements from successful bidders on state trust lands for expenses incurred to advertise land sales and for zoning application fees.		
Purpose of Fund: To fund expenses incurred from the advertisement of state trust land sales and to pay zoning fees for new projects.		
Funds Expended	367,800	375,000
Year-End Fund Balance	2,566,800	2,576,800
Trust Land Administration Fund (LDA8908/A.R.S. § 37-527; Version 2)		Appropriated
Source of Revenue: The FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) repeals the Trust Land Management Fund and establishes the Trust Land Administration Fund in FY 2017, conditional upon voter approval of SCR 1018 in November 2016. Up to 10% of the proceeds from the sale of State Trust land and natural resources shall be deposited to the fund. The total balance of the fund is capped at 2 times the trust land administration budget for the following fiscal year.		
Purpose of Fund: To administer and dispose of State Trust lands as prescribed by law.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Trust Land Management Fund (LDA3146/A.R.S. § 37-527)		Appropriated
Source of Revenue: Fees charged by the department. The total balance of the fund is capped at 2 times the trust land management budget for the following fiscal year. The FY 2016 Environment BRB repeals the fund, conditional upon voter approval of SCR 1018 in November 2016. Conditional upon voter approval, the Trust Land Administration Fund will replace this fund.		
Purpose of Fund: To fund the management of the approximately 9 million acres of State Trust land throughout the state.		
Funds Expended	3,897,600	3,764,900
Year-End Fund Balance	7,795,300	9,815,700

*As reported by the agency. Actual ending balance will not be negative.

Legislature - Auditor General

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	4,210,600
Professional and Outside Services	499,100	499,100	499,100
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	1,125,200
Equipment	567,300	567,300	567,300
OPERATING SUBTOTAL	17,996,400	17,933,300	17,933,300
SPECIAL LINE ITEMS			
Independent Consultant	250,000	0	0
AGENCY TOTAL	18,246,400	17,933,300	17,933,300
FUND SOURCES			
General Fund	18,246,400	17,933,300	17,933,300
SUBTOTAL - Appropriated Funds	18,246,400	17,933,300	17,933,300
Other Non-Appropriated Funds	1,919,300	1,940,300	1,940,300
TOTAL - ALL SOURCES	20,165,700	19,873,600	19,873,600

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 Baseline includes \$17,933,300 and 184.8 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the lump sum appropriation is funding to pay state rent at the statewide rate.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Audit Services Revolving Fund (AUA2242/A.R.S. § 41-1279.06)		Non-Appropriated
Source of Revenue: Charges to state budget units, counties, community college districts or school districts for audits or accounting services performed by, or under the supervision of, the Auditor General. A majority of the amounts collected are for federal compliance audits required by the Single Audit Act, as such audited entities are reimbursed by the federal government.		
Purpose of Fund: To conduct audits required under federal law, special audits, or provide accounting services requested by state budget units, counties, community college districts or school districts. Monies in this fund may also be used to pay certified public accountants to conduct audits or provide accounting services.		
Funds Expended	1,919,300	1,940,300
Year-End Fund Balance	843,300	903,000

Legislature - House of Representatives

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	13,342,700	13,289,500	13,289,500
AGENCY TOTAL	13,342,700	13,289,500	13,289,500
FUND SOURCES			
General Fund	13,342,700	13,289,500	13,289,500
SUBTOTAL - Appropriated Funds	13,342,700	13,289,500	13,289,500
TOTAL - ALL SOURCES	13,342,700	13,289,500	13,289,500

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 Baseline includes \$13,289,500 from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

* * *

FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the Lump Sum appropriation of \$13,289,500 for FY 2017 is \$1,000 for the purchase of mementos and items for visiting officials.

Legislature - Joint Legislative Budget Committee

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	604,000
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	97,600
Equipment	900	2,000	2,000
AGENCY TOTAL	2,308,400	2,490,900	2,490,900
FUND SOURCES			
General Fund	2,308,400	2,490,900	2,490,900
SUBTOTAL - Appropriated Funds	2,308,400	2,490,900	2,490,900
TOTAL - ALL SOURCES	2,308,400	2,490,900	2,490,900

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 Baseline includes \$2,490,900 and 29 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Legislature - Legislative Council

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	49.0	49.0	49.0
Personal Services	2,572,000	2,785,000	2,785,000
Employee Related Expenditures	976,000	958,900	958,900
Professional and Outside Services	96,500	60,300	60,300
Other Operating Expenditures	394,400	353,100	353,100
Equipment	3,007,200	3,250,400	3,250,400
OPERATING SUBTOTAL	7,046,100	7,407,700	7,407,700
SPECIAL LINE ITEMS			
Ombudsman-Citizens Aide Office	811,500	825,600	825,600
AGENCY TOTAL	7,857,600	8,233,300	8,233,300
FUND SOURCES			
General Fund	7,857,600	8,233,300	8,233,300
SUBTOTAL - Appropriated Funds	7,857,600	8,233,300	8,233,300
TOTAL - ALL SOURCES	7,857,600	8,233,300	8,233,300

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 Baseline includes \$7,407,700 and 40 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Ombudsman-Citizens Aide Office

The Baseline includes \$825,600 and 9 FTE Positions from the General Fund in FY 2017 for the Ombudsman-Citizens Aide Office. These amounts are unchanged from FY 2016.

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.

The FY 2015 Revenue Budget Reconciliation Bill (Laws 2014, Chapter 9) requires Child Protective Services or its successor agency (now the Department of Child Safety, established by Laws 2014, 2nd Special Session, Chapter 1)

to establish a mechanism to direct complainants to the Ombudsman-Citizens Aide Office. It further requires the Ombudsman-Citizens Aide Office to process these complaints, and allows the Ombudsman-Citizens Aide after investigating a complaint to refer the matter to a Superior Court judge for further review and action. These requirements are repealed after June 30, 2016.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Dues for the Council of State Governments may be expended only on an affirmative vote of the Legislative Council.

Legislature - Senate

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	8,686,300	8,223,900	8,223,900
AGENCY TOTAL	8,686,300	8,223,900	8,223,900
FUND SOURCES			
General Fund	8,686,300	8,223,900	8,223,900
SUBTOTAL - Appropriated Funds	8,686,300	8,223,900	8,223,900
TOTAL - ALL SOURCES	8,686,300	8,223,900	8,223,900

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 Baseline includes \$8,223,900 from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

Included in the Lump Sum appropriation of \$8,223,900 for FY 2017 is \$1,000 for the purchase of mementos and items for visiting officials.

Department of Liquor Licenses and Control

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	734,900
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	543,600
Equipment	28,400	0	0
OPERATING SUBTOTAL	2,960,200	2,955,300	2,955,300
SPECIAL LINE ITEMS			
Licensing Replacement System	174,900	400,000	0
AGENCY TOTAL	3,135,100	3,355,300	2,955,300
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Liquor Licenses Fund	3,135,100	3,355,300	2,955,300
SUBTOTAL - Other Appropriated Funds	3,135,100	3,355,300	2,955,300
SUBTOTAL - Appropriated Funds	3,135,100	3,355,300	2,955,300
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	3,889,500

AGENCY DESCRIPTION — The department licenses, investigates and regulates the production, distribution, and sale of alcoholic beverages throughout the state.

Operating Budget

The Baseline includes \$2,955,300 and 45.2 FTE Positions from the Liquor Licenses Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Licensing Replacement System

The Baseline includes no funding in FY 2017 for a licensing and imaging system. FY 2017 adjustments would be as follows:

FY 2017

Remove One-Time Funding OF \$(400,000)

The Baseline 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.

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FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue to extend spending authority from the Liquor Licenses Fund for a licensing and imaging system through FY 2017.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Anti-Racketeering Revolving Fund (LLA2131/A.R.S. § 13-2314.01)		Non-Appropriated
<i>Source of Revenue:</i> Forfeitures of property and assets to satisfy judgments pursuant to state anti-racketeering statutes.		
<i>Purpose of Fund:</i> To investigate and prosecute any offense defined as racketeering pursuant to Arizona statutes.		
Funds Expended	14,800	0
Year-End Fund Balance	0	0
Audit Surcharge Fund (LLA3010/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$30 surcharge on liquor licenses for bars, retail stores, and restaurants.		
<i>Purpose of Fund:</i> To fund an auditor and support staff positions to review revenue requirements for restaurant liquor licenses.		
Funds Expended	139,200	171,000
Year-End Fund Balance	71,800	69,700
DPS-FBI Fingerprint Fund (LLA2159/A.R.S. § 4-112)		Non-Appropriated
<i>Source of Revenue:</i> Fingerprint fees collected as part of the application process.		
<i>Purpose of Fund:</i> Fingerprint fees are transferred to the Department of Public Safety.		
Funds Expended	0	0
Year-End Fund Balance	6,700	0
Enforcement Surcharge - Enforcement Unit Fund (LLA3012/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$20 surcharge on hotel and restaurant liquor licenses and \$35 on all other licenses.		
<i>Purpose of Fund:</i> For the costs of a neighborhood association interaction and liquor enforcement management unit. The unit works with neighborhood associations regarding liquor violations.		
Funds Expended	352,900	354,100
Year-End Fund Balance	105,400	117,400
Enforcement Surcharge - Multiple Complaints Fund (LLA3011/A.R.S. § 4-209)		Non-Appropriated
<i>Source of Revenue:</i> A \$35 surcharge on liquor license renewals.		
<i>Purpose of Fund:</i> To investigate licensees which have been the subject of multiple complaints from neighborhood associations, civic groups, and local governments.		
Funds Expended	408,700	409,100
Year-End Fund Balance	187,100	193,000
Federal Grants (LLA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal revenues received through the Governor's Office of Highway Safety.		
<i>Purpose of Fund:</i> To pay overtime expenses for special investigators investigating licensees reportedly serving alcohol to juveniles.		
Funds Expended	136,800	0
Year-End Fund Balance	0	0
Liquor Licenses Fund (LLA1996/A.R.S. § 4-120)		Appropriated
<i>Source of Revenue:</i> A portion of the state's liquor license fee revenues, not to exceed the appropriation of the Legislature.		
<i>Purpose of Fund:</i> To pay operating expenses for the Department of Liquor Licenses and Control. Any balance over \$700,000 shall revert to the General Fund at the end of each year.		
Funds Expended	3,135,100	3,355,300
Year-End Fund Balance	454,100	348,200

Arizona State Lottery Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	1,732,800
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	1,169,400
Equipment	118,400	0	0
OPERATING SUBTOTAL	7,616,700	8,389,400	8,389,400
SPECIAL LINE ITEMS			
Advertising	13,676,700	15,500,000	15,500,000
Charitable Commissions	443,000	1,105,200	1,215,800
Instant Tickets	10,474,600	22,056,300	23,671,800
On-Line Vendor Fees	7,080,500	7,344,200	8,062,600
Retailer Commissions	22,619,400	53,977,900	56,633,900
AGENCY TOTAL	61,910,900	108,373,000	113,473,500
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	61,910,900	108,373,000	113,473,500
SUBTOTAL - Other Appropriated Funds	61,910,900	108,373,000	113,473,500
SUBTOTAL - Appropriated Funds	61,910,900	108,373,000	113,473,500
Other Non-Appropriated Funds	488,728,000	514,176,300	539,989,200
TOTAL - ALL SOURCES	550,638,900	622,549,300	653,462,700

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 Baseline includes \$8,389,400 and 98.8 FTE Positions from the State Lottery Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Advertising

The Baseline includes \$15,500,000 from the State Lottery Fund in FY 2017 for Advertising. This amount is unchanged from FY 2016.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The Baseline includes \$1,215,800 from the State Lottery Fund in FY 2017 for Charitable Commissions. FY 2017 adjustments would be as follows:

Tab Ticket Increase	OF	FY 2017 \$110,600
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The Baseline 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 Baseline includes \$23,671,800 from the State Lottery Fund in FY 2017 for Instant Tickets. FY 2017 adjustments would be as follows:

Instant Ticket Sales Increase OF 1,615,500

The Baseline 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 Baseline includes \$8,062,600 from the State Lottery Fund in FY 2017 for On-Line Vendor Fees. FY 2017 adjustments would be as follows:

On-Line Vendor Fee Rate Increase OF 891,600

The Baseline 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.

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.

On-Line Sales Decrease OF (173,200)

The Baseline 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.)

Retailer Commissions

The Baseline includes \$56,633,900 from the State Lottery Fund in FY 2017 for Retailer Commissions. FY 2017 adjustments would be as follows:

Retailer Commissions Increase OF 2,656,000

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

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.

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.

STATUTORY CHANGES

The Baseline would, 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. Due to a delay in processing, these amounts were recorded as an FY 2015 administrative adjustment in the state’s accounting system.

Other Issues

Lottery Forecast and Distributions

The Baseline 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 Baseline 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.

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.

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 ABOR 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

Table 1

**Forecast of Lottery Revenue Distribution
(\$ in Millions)**

Sales	FY 2015	FY 2016	FY 2017
Instant Sales	\$547.2	\$612.7	\$657.6
On-Line Sales	202.8	198.5	193.8
Total Sales	\$750.0	\$811.2	\$851.4
<i>Less:</i>			
Operating Budget ^{1/}	\$ 61.9	\$ 108.4	\$ 113.5
Delayed Commissions ^{2/}	27.2	0.0	0.0
Gaming Distribution	0.3	0.3	0.3
Prizes ^{3/}	488.7	514.2	540.0
Net Profit ^{4/}	\$171.9	\$188.3	\$197.6
Profit Transfers ^{5/}			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{6/}	11.4	11.4	11.4
General Fund - Part 1 ^{7/}	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 ^{7/}	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 ^{7/}	3.9	3.5	11.1
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/} 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.
- ^{3/} Prizes are estimated by subtracting net profit, operating budget expenditures, and the Department of Gaming transfer from total Lottery sales.
- ^{4/} 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%.
- ^{5/} 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.
- ^{6/} 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.)
- ^{7/} 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
State Lottery Fund (LOA2122/A.R.S. § 5-571)		Partially-Appropriated
Source of Revenue: Sales of lottery tickets, retailer license fees, and interest earnings.		
Purpose of Fund: A portion of the fund is appropriated to pay for all costs of the Arizona State Lottery Commission. After all expenses are paid including the prize monies displayed below in the Non-Appropriated Funds Expended line, Lottery profits are distributed to a number of different functions.		
Appropriated Funds Expended	61,910,900	108,373,000
Non-Appropriated Funds Expended	488,728,000	514,176,300
Year-End Fund Balance*	47,093,500	16,496,400

*Expenses for commissions from January – June 2015 are to be funded from the FY 2015 ending balance. They are not included in the FY 2015 and FY 2016 appropriated expenditures listed above.

Board of Massage Therapy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	101,600
Professional and Outside Services	7,000	22,000	7,000
Travel - In State	500	500	500
Other Operating Expenditures	86,600	86,900	86,900
Equipment	3,700	3,700	3,700
AGENCY TOTAL	434,400	455,800	440,800

FUND SOURCES

Other Appropriated Funds

Board of Massage Therapy Fund	434,400	455,800	440,800
SUBTOTAL - Other Appropriated Funds	434,400	455,800	440,800
SUBTOTAL - Appropriated Funds	434,400	455,800	440,800
TOTAL - ALL SOURCES	434,400	455,800	440,800

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$440,800 and 5 FTE Positions from the Board of Massage Therapy Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF **FY 2017**
\$(15,000)

The Baseline includes a decrease of \$(15,000) from the Board of Massage Therapy Fund in FY 2017 to eliminate one-time funding for implementing online licensing.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Massage Therapy Fund (BMT2300/A.R.S. § 32-4205)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of massage therapists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate massage therapists, and for board administration.		
Funds Expended	434,400	455,800
Year-End Fund Balance	936,500	1,069,900

Arizona Medical Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	58.5	58.5	58.5
Personal Services	2,659,200	3,077,900	3,077,900
Employee Related Expenditures	942,300	1,154,200	1,154,200
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	892,500
Equipment	209,900	276,300	276,300
AGENCY TOTAL	5,764,200	6,426,000	6,426,000

FUND SOURCES

Other Appropriated Funds

Arizona Medical Board Fund	5,764,200	6,426,000	6,426,000
SUBTOTAL - Other Appropriated Funds	5,764,200	6,426,000	6,426,000
SUBTOTAL - Appropriated Funds	5,764,200	6,426,000	6,426,000
TOTAL - ALL SOURCES	5,764,200	6,426,000	6,426,000

AGENCY DESCRIPTION — The Arizona Medical Board licenses, regulates and conducts examinations of medical doctors and physician's assistants.

Operating Budget

The Baseline includes \$6,426,000 and 58.5 FTE Positions from the Arizona Medical Board Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

FOOTNOTES

Standard Footnotes

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.

STATUTORY CHANGES

The Baseline would, as session law, authorize the Arizona Medical Board to continue spending credentials verification monies in FY 2016. Notwithstanding the Arizona Department of Administration's (ADOA) authority to modify contracts with the state, the Baseline would prohibit the Arizona Medical Board from spending credentials verification monies after FY 2016. (Please see *Credentials Verification Service* section for more details.)

Other Issues

Credentials Verification Service

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 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 delays in contractor performance, the board continues to expend monies on credentials verification in FY 2016 via an exemption granted by ADOA pursuant to statute. As of November 2015, \$839,300 of the \$855,000 has been spent. The remaining \$15,700 is expected to be spent by March 2016. The Baseline includes a session law provision authorizing the continuing expenditures, but prohibiting any spending of credentials verification monies beyond FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Medical Board Fund (MEA2038/A.R.S. § 32-1406)		Appropriated
Source of Revenue: Monies collected by the Arizona Medical Board from the examination and licensing of physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate and regulate physicians, and for board administration costs.		
Funds Expended	5,764,200	6,426,000
Year-End Fund Balance	6,095,300	5,867,800

State Mine Inspector

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	217,700
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	167,200
Equipment	29,400	10,000	10,000
OPERATING SUBTOTAL	977,400	1,020,500	1,020,500
SPECIAL LINE ITEMS			
Abandoned Mines	175,500	194,700	194,700
Aggregate Mined Land Reclamation	21,600	112,800	112,800
AGENCY TOTAL	1,174,500	1,328,000	1,328,000
FUND SOURCES			
General Fund	1,152,900	1,215,200	1,215,200
<u>Other Appropriated Funds</u>			
Aggregate Mining Reclamation Fund	21,600	112,800	112,800
SUBTOTAL - Other Appropriated Funds	21,600	112,800	112,800
SUBTOTAL - Appropriated Funds	1,174,500	1,328,000	1,328,000
Federal Funds	543,000	344,200	344,200
TOTAL - ALL SOURCES	1,717,500	1,672,200	1,672,200

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 Baseline includes \$1,020,500 and 14 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Abandoned Mines

The Baseline 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.

Aggregate Mined Land Reclamation

The Baseline includes \$112,800 from the Aggregate Mining Reclamation Fund in FY 2017 for Aggregate Mined Land Reclamation. This amount is unchanged from FY 2016.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

All Aggregate Mining Reclamation Fund monies received by the State Mine Inspector in excess of \$112,800 in FY 2017 are appropriated to the Aggregate Mined Land Reclamation line item. Before the expenditure of any Aggregate Mining Reclamation Fund monies in excess of \$112,800 in FY 2017, the State Mine Inspector shall report the intended use of the monies to the Joint Legislative Budget Committee.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Abandoned Mines Safety Fund (MIA2408/A.R.S. § 27-131)		Non-Appropriated
<i>Source of Revenue:</i> Gifts, grants and contributions. The Legislature may appropriate matching monies.		
<i>Purpose of Fund:</i> To locate, inventory, classify and eliminate public safety hazards at abandoned mines.		
Funds Expended	0	0
Year-End Fund Balance	144,200	144,200
Aggregate Mining Reclamation Fund (MIA2511/A.R.S. § 27-1233)		Appropriated
<i>Source of Revenue:</i> Fees collected from exploration and aggregate mining operations.		
<i>Purpose of Fund:</i> To review aggregate mined land reclamation plans and to enforce compliance with the plans.		
Funds Expended	21,600	112,800
Year-End Fund Balance	139,000	64,200
Federal Education and Training Fund (MIA2400/A.R.S. § 27-123)		Non-Appropriated
<i>Source of Revenue:</i> Fees for education and training of mine employees required under federal regulation.		
<i>Purpose of Fund:</i> To provide mine safety training to mine employees in Arizona. All mine employees are required under federal regulations to receive initial and annual refresher safety training.		
Funds Expended	69,600	69,900
Year-End Fund Balance	243,900	251,900
Federal Grants (MIA2000/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants from the U.S. Department of Labor, Mine Safety and Health Administration and the Department of Interior, Bureau of Land Management (BLM).		
<i>Purpose of Fund:</i> To provide mine safety training to mine employees in Arizona. All mine employees are required under federal regulations to receive initial and annual refresher safety training. The state provides a 20% in-kind match. The BLM grant is for an inventory of abandoned mines on BLM lands.		
Funds Expended	473,400	274,300
Year-End Fund Balance*	(249,200)	(238,800)
IGA and ISA Fund (MIA2500/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Monies received through agreements with other state agencies.		
<i>Purpose of Fund:</i> To aid state agencies in securing abandoned mines on their properties.		
Funds Expended	0	0
Year-End Fund Balance	0	0

*As reported by the agency. Actual ending balance will not be negative.

Naturopathic Physicians Medical Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	11,400
Travel - In State	1,000	2,600	2,600
Other Operating Expenditures	33,100	38,600	38,600
AGENCY TOTAL	164,400	179,700	179,700

FUND SOURCES

Other Appropriated Funds

Naturopathic Physicians Medical Board Fund	164,400	179,700	179,700
SUBTOTAL - Other Appropriated Funds	164,400	179,700	179,700
SUBTOTAL - Appropriated Funds	164,400	179,700	179,700
TOTAL - ALL SOURCES	164,400	179,700	179,700

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 Baseline includes \$179,700 and 2 FTE Positions from the Naturopathic Physicians Medical Board Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Naturopathic Physicians Medical Board Fund (NBA2042/A.R.S. § 32-1505)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of naturopathic physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate naturopathic physicians, and naturopathic medical assistants and for board administration.		
Funds Expended	164,400	179,700
Year-End Fund Balance	262,200	145,600

Arizona Navigable Stream Adjudication Commission

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	31,000
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	326,600
FUND SOURCES			
General Fund	127,400	126,600	126,600
<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	326,600
TOTAL - ALL SOURCES	327,400	326,600	326,600

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 Baseline includes \$326,600 and 2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$126,600
Arizona Water Banking Fund	200,000

These amounts are unchanged from FY 2016.

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FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue to allow up to \$200,000 from the Water Banking Fund to be spent for the commission's unpaid legal obligations. This provision was included for FY 2016 in the Environment Budget Reconciliation Bill (Laws 2015, Chapter 13). In FY 2015, the commission spent \$200,000 from the Water Banking Fund for unpaid legal obligations.

Other Issues

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.

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.

As of October 2015, 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 a related 2012 U.S. Supreme Court ruling. The latter ruling requires the commission to resolve whether individual "segments" of the affected streambeds were navigable prior to statehood rather than making that determination only for each streambed as a whole. Hearings for the Salt River case are expected to continue into the 2016 calendar year. The commission is scheduled to sunset on June 30, 2020 pursuant to Laws 2015, Chapter 58.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Risk Management Revolving Fund (NSA4216/A.R.S. § 41-622)		Appropriated
Source of Revenue: Actuarial charges assessed to all state agencies, boards, and commissions insured under the state's risk management system, as well as recoveries by the state through litigation. The Environment Budget Reconciliation Bill (Laws 2014, Chapter 13) allowed up to \$80,000 from the fund to be spent for the commission's unpaid legal obligations in FY 2015.		
Purpose of Fund: To pay for the legal expenses associated with appeals filed against the commission.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Water Banking Fund (NSA2110/A.R.S. § 45-2425)		Appropriated
Source of Revenue: General Fund appropriations and fees associated with the purchase, lease, storage, accreditation, and delivery of Colorado River water to municipalities and industrial water users. Revenue also comes from a portion of the 4% property tax collected by CAWCD to pay for water storage. By law, each Active Management Area (AMA) has its own sub-account within the fund. This fund operates on the calendar year. Because fees and taxes are collected at the end of the fiscal year, the Year-End Fund Balances are not reflective of the calendar year-end balances. Pursuant to an interstate water banking agreement with Nevada, the fund received a combined total of \$100,000,000 in FY 2005 and FY 2006. In 2004, the Southern Nevada Water Authority (SNWA) agreed to pay the Arizona Water Banking Authority (AWBA) an additional \$230,000,000 for delivery and storage of water. Equal payments of \$23,000,000 per year from Nevada to the AWBA were to begin in 2009 and continue through 2018. The agreement was amended allowing SNWA to delay payment until FY 2015. The agreement was further amended in 2013 to remove the FY 2015 payment resumption date and allow SNWA to pay as water is stored. In FY 2010, the AWBA received \$12,685,000 for storage and delivery of Nevada's own water in lieu of water purchased from Arizona. Appropriations from this fund may include monies received through the water banking agreement with Nevada that are used for purposes outside of contractual agreement with Nevada (Laws 2009, Chapter 332). Laws 2015, Chapter 8 appropriates \$359,300 for a one-time supplemental from the Arizona Water Banking Fund in FY 2015 to address a shortfall in funding for outside legal counsel and related hearing expenses for the commission. The FY 2016 Environment Budget Reconciliation Bill (Laws 2015, Chapter 13) makes this supplemental and any other monies appropriated to it from the Arizona Water Banking Fund non-lapsing through 2016.		
Purpose of Fund: To purchase and store the unused portion of Arizona's Colorado River water allotment. The department provides administrative support for this fund, but control of expenditures is vested with AWBA. In addition, pursuant to an interstate water banking agreement with Nevada, to obtain, store, and retrieve water for Nevada.		
Funds Expended	200,000	200,000
Year-End Fund Balance*	(200,000)	(400,000)

*As reported by the agency. Actual ending balance will not be negative.

State Board of Nursing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	937,200
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	598,800
Equipment	69,600	42,400	42,400
OPERATING SUBTOTAL	4,247,300	4,265,900	4,265,900
SPECIAL LINE ITEMS			
Certified Nursing Assistant Credentialing Program	149,900	536,700	536,700
AGENCY TOTAL	4,397,200	4,802,600	4,802,600
FUND SOURCES			
General Fund	149,900	0	0
<u>Other Appropriated Funds</u>			
Board of Nursing Fund	4,247,300	4,802,600	4,802,600
SUBTOTAL - Other Appropriated Funds	4,247,300	4,802,600	4,802,600
SUBTOTAL - Appropriated Funds	4,397,200	4,802,600	4,802,600
Federal Funds	422,000	414,700	414,700
TOTAL - ALL SOURCES	4,819,200	5,217,300	5,217,300

AGENCY DESCRIPTION — The board licenses, regulates, conducts examinations and approves educational programs for nurses and nurse aides.

Operating Budget

The Baseline includes \$4,265,900 and 42.2 FTE Positions from the Board of Nursing Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

Certified Nursing Assistant Credentialing Program

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Nursing Fund (BNA2044/A.R.S. § 32-1611)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of nurses. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate nurses, and for board administration. Monies from the fund are also used to pay for the administrative and testing costs of the Nursing Aide Registration program. The program is mandated by the federal government and is funded through the Nursing Aide Training and Registration Fund, a non-appropriated subaccount of the Board of Nursing Fund.		
Funds Expended	4,247,300	4,802,600
Year-End Fund Balance	3,168,200	3,227,900
Nurse Aide Training and Registration (BNA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal monies passed through from the Department of Health Services (Medicare) and AHCCCS (Title XIX Medicaid), facility payments, and nurse aide fees.		
Purpose of Fund: To pay for the administrative and testing costs of the Nurse Aide Registration program as mandated by the federal government.		
Funds Expended	422,000	414,700
Year-End Fund Balance	0	0
Statewide Donations Fund (BNA2025/A.R.S. § 32-1606A11)		Non-Appropriated
Source of Revenue: Donations, gifts and private grants. Monies do not revert to the General Fund at the end of the fiscal year.		
Purpose of Fund: To assist in carrying out the purposes of the agency.		
Funds Expended	0	0
Year-End Fund Balance	21,500	21,500

Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	93,100
Professional and Outside Services	6,600	8,000	8,000
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	73,600
Equipment	1,500	4,600	4,600
AGENCY TOTAL	387,200	422,100	422,100

FUND SOURCES

Other Appropriated Funds

Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	387,200	422,100	422,100
SUBTOTAL - Other Appropriated Funds	387,200	422,100	422,100
SUBTOTAL - Appropriated Funds	387,200	422,100	422,100
TOTAL - ALL SOURCES	387,200	422,100	422,100

AGENCY DESCRIPTION — The board licenses, certifies, and regulates administrators of nursing care institutions and managers of adult care homes.

Operating Budget

FORMAT — Lump Sum by Agency

The Baseline includes \$422,100 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 are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund (NCA2043/A.R.S. § 36-446.08)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of nursing home administrators and assisted living facility managers. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate nursing home administrators and assisted living facility managers, and for board administration.		
Funds Expended	387,200	422,100
Year-End Fund Balance	316,300	274,100

Occupational Safety and Health Review Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
Lump Sum Appropriation	1,800	0	0
AGENCY TOTAL	1,800	0	0
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.

Operating Budget

The Baseline 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. The board currently has no cases pending, but cites 2 possible cases that might occur in FY 2016. Any unspent monies would be available for expenditure in FY 2017.

Board of Occupational Therapy Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	46,100
Travel - In State	900	1,300	1,300
Other Operating Expenditures	27,000	33,600	33,600
AGENCY TOTAL	165,000	172,000	172,000

FUND SOURCES

Other Appropriated Funds

Occupational Therapy Fund	165,000	172,000	172,000
SUBTOTAL - Other Appropriated Funds	165,000	172,000	172,000
SUBTOTAL - Appropriated Funds	165,000	172,000	172,000
TOTAL - ALL SOURCES	165,000	172,000	172,000

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$172,000 and 1.5 FTE Positions from the Occupational Therapy Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Occupational Therapy Fund (OTA2263/A.R.S. § 32-3405)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of occupational therapists and occupational therapy assistants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate occupational therapists and occupational therapy assistants, and for board administration.		
Funds Expended	165,000	172,000
Year-End Fund Balance	304,000	236,700

State Board of Dispensing Opticians

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	5,800
Travel - Out of State	1,800	1,800	1,800
Other Operating Expenditures	28,600	28,500	28,500
AGENCY TOTAL	133,800	136,800	136,800

FUND SOURCES

Other Appropriated Funds

Board of Dispensing Opticians Fund	133,800	136,800	136,800
SUBTOTAL - Other Appropriated Funds	133,800	136,800	136,800
SUBTOTAL - Appropriated Funds	133,800	136,800	136,800
TOTAL - ALL SOURCES	133,800	136,800	136,800

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$136,800 and 1 FTE Position from the Board of Dispensing Opticians Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Dispensing Opticians Fund (DOA2046/A.R.S. § 32-1686)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of opticians and optical establishments. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate opticians and optical establishments, and for board administration.		
Funds Expended	133,800	136,800
Year-End Fund Balance	249,600	267,300

State Board of Optometry

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	41,700
Professional and Outside Services	0	23,800	0
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	40,700
AGENCY TOTAL	195,700	230,200	206,400

FUND SOURCES

Other Appropriated Funds

Board of Optometry Fund	195,700	230,200	206,400
SUBTOTAL - Other Appropriated Funds	195,700	230,200	206,400
SUBTOTAL - Appropriated Funds	195,700	230,200	206,400
TOTAL - ALL SOURCES	195,700	230,200	206,400

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$206,400 and 2 FTE Positions from the Board of Optometry Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF **FY 2017**
\$(23,800)

The Baseline includes a decrease of \$(23,800) from the Board of Optometry Fund in FY 2017 to eliminate one-time funding for database upgrades.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Optometry Fund (OBA2023/A.R.S. § 32-1705)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of optometrists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate optometrists, and for board administration.		
Funds Expended	195,700	230,200
Year-End Fund Balance	212,300	222,800

Arizona Board of Osteopathic Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.7	6.7	6.7
Personal Services	368,400	383,700	383,700
Employee Related Expenditures	137,000	154,800	154,800
Professional and Outside Services	143,100	122,600	122,600
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	135,600
AGENCY TOTAL	774,200	803,700	803,700

FUND SOURCES

Other Appropriated Funds

Board of Osteopathic Examiners Fund	774,200	803,700	803,700
SUBTOTAL - Other Appropriated Funds	774,200	803,700	803,700
SUBTOTAL - Appropriated Funds	774,200	803,700	803,700
TOTAL - ALL SOURCES	774,200	803,700	803,700

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

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The Baseline includes \$803,700 and 6.7 FTE Positions from the Board of Osteopathic Examiners Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Osteopathic Examiners Fund (OSA2048/A.R.S. § 32-1805)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of osteopathic physicians. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate osteopathic physicians, and for board administration.		
Funds Expended	774,200	803,700
Year-End Fund Balance	1,505,400	1,619,000

Arizona Parents Commission on Drug Education and Prevention

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
FUND SOURCES			
Other Non-Appropriated Funds	4,929,100	4,641,700	4,641,700
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. The commission does not receive an appropriation from the Legislature.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Drug Treatment and Education Fund (PCA2277/A.R.S. § 13-901.02)		Non-Appropriated
Source of Revenue: Fifty percent of the Judiciary Drug Treatment and Education Fund. The Judiciary Drug Treatment and Education Fund receives 7% of tax revenue collected on spirituous liquors and 18% of tax revenue collected on vinous and malt liquor.		
Purpose of Fund: To fund programs that increase parental involvement and education regarding the problems caused by the abuse of alcohol and controlled substances.		
Funds Expended	4,929,100	4,641,700
Year-End Fund Balance	4,552,200	4,110,500

Arizona State Parks Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	163.0	163.0	163.0
Personal Services	4,257,200	4,928,400	4,928,400
Employee Related Expenditures	1,972,400	2,355,300	2,355,300
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	3,332,100
Equipment	324,300	0	0
OPERATING SUBTOTAL	10,230,400	10,622,800	10,622,800
SPECIAL LINE ITEMS			
Kartchner Caverns State Park	2,248,700	2,232,000	2,232,000
Yarnell Hill Memorial	346,900	0	0
AGENCY TOTAL	12,826,000	12,854,800	12,854,800
FUND SOURCES			
General Fund	346,900	0	0
<u>Other Appropriated Funds</u>			
State Parks Revenue Fund	12,479,100	12,854,800	12,854,800
SUBTOTAL - Other Appropriated Funds	12,479,100	12,854,800	12,854,800
SUBTOTAL - Appropriated Funds	12,826,000	12,854,800	12,854,800
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	29,621,200

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 Baseline includes \$10,622,800 and 127.2 FTE Positions from the State Parks Revenue Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Kartchner Caverns State Park

The Baseline includes \$2,232,000 and 35.8 FTE Positions from the State Parks Revenue Fund in FY 2017 for Kartchner Caverns State Park. These amounts are unchanged from FY 2016.

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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

STATUTORY CHANGES

The Baseline would, as session law, continue to allow the use of \$692,100 from the Off-Highway Vehicle Recreation Fund for agency operating costs in FY 2017.

Other Issues

Status of Parks

As of November 2015, 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).

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Trail Fund (PRA2525/A.R.S. § 41-511.15)		Non-Appropriated
Source of Revenue: Legislative appropriations and donations.		
Purpose of Fund: To maintain and preserve the Arizona trail.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal Funds (PRA2000/A.R.S. § 41-511.04)		Non-Appropriated
Source of Revenue: Federal grants from the Department of the Interior, National Park Service, and other federal entities.		
Purpose of Fund: To expand and maintain the National Register of Historic Places, and to identify, evaluate and protect other historic properties. Also, to implement the State Comprehensive Outdoor Recreation Plan.		
Funds Expended	1,906,500	6,209,400
Year-End Fund Balance	644,200	610,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Land Conservation Fund - Administration Account (PRA2432/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: Interest earnings from the Public Conservation Account, which received \$20,000,000 annually from the General Fund in FY 2001 through FY 2011, as approved by Arizona voters in November 1998. Unobligated amounts at the end of each fiscal year revert to the Public Conservation Account.		
Purpose of Fund: For operating expenses.		
Funds Expended	315,700	870,000
Year-End Fund Balance	0	0
Land Conservation Fund - Donation Account (PRA2432 B/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: Donations from public and private entities.		
Purpose of Fund: To match grants made to purchase state trust lands for conservation purposes. There are currently no estimates of donations that will be deposited to the account.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Land Conservation Fund - Public Conservation Account (PRA2432 C/A.R.S. § 41-511.23)		Non-Appropriated
Source of Revenue: As approved by Arizona voters in November 1998, the fund received \$20,000,000 annually from the General Fund in FY 2001 through 2011. Beginning in FY 2004, \$2,000,000 of this amount was deposited into the Livestock and Crop Conservation Fund, administered by the Department of Agriculture.		
Purpose of Fund: For grants to the state or any of its political subdivisions, non-profit organizations, individual landowners, and agricultural lessees of state or federal land. Grants are made to purchase or lease state trust lands that are classified as suitable for conservation purposes. The Conservation Acquisition Board will recommend appropriate grants to the Arizona State Parks Board.		
Funds Expended	738,100	0
Year-End Fund Balance	972,600	107,100
Off-Highway Vehicle Recreation Fund (PRA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: Transfer from the Motor Vehicle Fuel Tax, equivalent to 0.55% of the total license taxes on motor vehicle fuel.		
Purpose of Fund: To plan, administer, and enforce off-highway vehicle recreation, and to develop facilities consistent with the off-highway vehicle plan. Sixty percent of the monies collected are to be used by the Arizona State Parks Board for planning, administration, and facilities development; the remainder is transferred to the Arizona Game and Fish Department for enforcement. The FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) allows the use of \$692,100 for agency operating expenses.		
Funds Expended	1,330,700	3,040,100
Year-End Fund Balance	7,066,600	2,926,500
Partnership Fund (PRA2448/A.R.S. § 41-511.04)		Non-Appropriated
Source of Revenue: Revenues received from federal, state, and local government agencies through intergovernmental agreements; reimbursements from local and county recipients of federal Land and Water Conservation grants.		
Purpose of Fund: To provide trails stewardship with funds received from the USDA Forest Service and the Bureau of Land Management; for operating costs of the multi-use water safety center at Lake Havasu State Park with funds received from the U.S. Coast Guard, Lake Havasu City, Mohave County, and the Arizona Game and Fish Department; and to administer federal Land and Water Conservation grants. Grant recipients must provide 10% of the grant amount to the Parks Board for administration.		
Funds Expended	192,100	192,500
Year-End Fund Balance	435,600	393,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
State Lake Improvement Fund (PRA2105/A.R.S. § 5-382)		Non-Appropriated
Source of Revenue: Primarily a transfer from the Highway User Revenue Fund, based on a formula that estimates state gasoline taxes paid for boating purposes. Also included is a portion of the watercraft license tax collected by the Arizona Game and Fish Department.		
Purpose of Fund: To fund projects at boating sites, including launching ramps, parking areas, lake improvement and construction, campgrounds, and acquisition of property to provide access to boating sites. Project grant requests are reviewed by the Arizona Outdoor Recreation Coordinating Commission and approved by the Arizona State Parks Board. Approved projects must be reviewed by the Joint Committee on Capital Review (JCCR).		
Funds Expended - Capital	417,500	3,697,900
Funds Expended - Operating (amount includes local grants)	5,951,200	8,280,000
Year-End Fund Balance	8,237,500	4,159,600
State Parks Fund (PRA3117/A.R.S. § 41-511.11)		Non-Appropriated
Source of Revenue: Private gifts, grants, and donations. The City of Yuma allocates \$150,000 annually for the operation of the Yuma Crossing State Historic Park.		
Purpose of Fund: To meet the objectives of contributors, especially as they relate to acquisition, development, and preservation of the state's natural features.		
Funds Expended	87,700	286,800
Year-End Fund Balance	0	0
State Parks Revenue Fund (PRA5555/A.R.S. § 41-511.21)		Appropriated
Source of Revenue: State parks user fees and concession sales; sales of park posters, postcards, books and souvenirs; donations and legislative appropriations.		
Purpose of Fund: To fund parks operations, acquisition and development. Capital projects that are funded using these monies are subject to JCCR review. As permanent law, the FY 2012 Environment BRB (Laws 2011, Chapter 36) eliminated the State Parks Enhancement Fund, the Reservation Surcharge Revolving Fund and the Publications and Souvenir Revolving Fund, and consolidated their revenue sources into a new appropriated State Parks Revenue Fund in FY 2013. As session law, the FY 2016 Capital Outlay Bill (Laws 2015, Chapter 9) appropriated \$1,500,000 for capital improvement projects. The appropriation for Capital Outlay is reflected below.		
Funds Expended - Operating (Appropriated)	12,479,100	12,854,800
Funds Expended - Operating (Capital)	815,000	1,500,000
Year-End Fund Balance	8,578,300	7,056,900
Sustainable State Parks and Roads Fund		Non-Appropriated
(PRA3125/A.R.S. § 41-511.17 and A.R.S. § 43-622)		
Source of Revenue: Voluntary contributions from individual income taxpayers via a donation on the individual income tax return form.		
Purpose of Fund: To operate, maintain and make capital improvements to buildings, roads, parking lots, highway entrances and any related structure used to operate state parks.		
Funds Expended	0	50,000
Year-End Fund Balance	35,400	35,400

SUMMARY OF FUNDS

**FY 2015
Actual****FY 2016
Estimate**

Yarnell Hill Memorial Fund (PRA3124/A.R.S. § 41-519.02)**Non-Appropriated**

Source of Revenue: Legislative appropriations and donations to the fund. The FY 2015 Environment BRB included a one-time appropriation of \$500,000 from the General Fund in FY 2015 to establish Yarnell Hill Memorial State Park. The \$500,000 General Fund appropriation has been used in part for land acquisition and is not shown below to avoid double counting.

Purpose of Fund: The park is being created to honor 19 Prescott firefighters who were killed fighting a wildfire near Yarnell, Arizona. The FY 2015 Environment BRB establishes Yarnell Hill Memorial State Park. The FY 2015 Environment BRB creates 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 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. The FY 2016 Environment BRB clarified that the Yarnell Hill Memorial Site Board Fund can be used to purchase, design, and construct the Yarnell Hill Memorial.

Funds Expended

0 10,000

Year-End Fund Balance

2,100 2,100

State Personnel Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	46,500
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	36,300
Equipment	2,700	2,700	2,700
AGENCY TOTAL	312,200	375,700	375,700

FUND SOURCES

Other Appropriated Funds

Personnel Board Subaccount of the Personnel Division Fund	312,200	375,700	375,700
SUBTOTAL - Other Appropriated Funds	312,200	375,700	375,700
TOTAL - ALL SOURCES	312,200	375,700	375,700

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$375,700 and 3 FTE Positions from the Personnel Board Subaccount of the Personnel Division Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Personnel Board Subaccount of the Personnel Division Fund (PBA1107/A.R.S. § 41-750)		Appropriated
Source of Revenue: A 0.03% charge on the total payroll of each agency within the Arizona Department of Administration Personnel System. Only Personnel Division Fund monies in excess of \$500,000 revert to the State General Fund at the end of each fiscal year. The state comptroller pays any monies owed to the federal government from the Personnel Division Fund before calculating the reversion. Monies contributed by the Arizona State Retirement System and by the Public Safety Personnel Retirement System are separately accounted for, do not revert to the state General Fund, and are reverted to the Arizona State Retirement System, the Public Safety Personnel Retirement System, the Elected Officials Retirement Plan or the Corrections Officer Retirement Plan, as applicable.		
Purpose of Fund: To fund Personnel Board operations.		
Funds Expended	312,200	375,700
Year-End Fund Balance	679,300	787,300

Office of Pest Management

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	30.0	30.0	30.0
Personal Services	716,600	759,100	759,100
Employee Related Expenditures	359,700	398,800	398,800
Travel - In State	40,100	49,000	49,000
Travel - Out of State	400	0	0
Other Operating Expenditures	192,100	490,600	490,600
Equipment	20,300	2,000	2,000
AGENCY TOTAL	1,329,200	1,699,500	1,699,500
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Pest Management Fund	1,329,200	1,699,500	1,699,500
SUBTOTAL - Other Appropriated Funds	1,329,200	1,699,500	1,699,500
SUBTOTAL - Appropriated Funds	1,329,200	1,699,500	1,699,500
Federal Funds	77,800	113,500	113,500
TOTAL - ALL SOURCES	1,407,000	1,813,000	1,813,000

AGENCY DESCRIPTION — The agency licenses and regulates professional pest control companies and conducts examinations of applicators of structural pesticides.

Operating Budget

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FORMAT — Lump Sum by Agency

The Baseline includes \$1,699,500 and 30 FTE Positions from the Pest Management Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Funds (SBA2000/A.R.S. § 32-2304)		Non-Appropriated
Source of Revenue: Federal Environmental Protection Agency grants.		
Purpose of Fund: To support Pest Management's licensing and regulation activities. Includes education and training for employees as well as industry, information technology, hardware and software, and travel.		
Funds Expended	77,800	113,500
Year-End Fund Balance	27,400	27,400
Pest Management Fund (SBA2050/A.R.S. § 32-2305)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of professional pest control companies and applicators of structural pesticides. In FY 2012, FY 2013, and FY 2014 includes up to \$525,000 from increased fee authority pursuant to Laws 2011, Chapter 28, Laws 2012, Chapter 297, and Laws 2013, 1 st Special Session, Chapter 9. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, inspect, and regulate professional pest control companies and applicators of structural pesticides.		
Funds Expended	1,329,200	1,699,500
Year-End Fund Balance	2,684,600	2,352,600

Arizona State Board of Pharmacy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	402,400
Professional and Outside Services	99,200	112,200	112,200
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	289,800
Equipment	5,300	5,300	5,300
AGENCY TOTAL	1,940,300	2,020,500	2,020,500

FUND SOURCES

Other Appropriated Funds

Arizona State Board of Pharmacy Fund	1,940,300	2,020,500	2,020,500
SUBTOTAL - Other Appropriated Funds	1,940,300	2,020,500	2,020,500
SUBTOTAL - Appropriated Funds	1,940,300	2,020,500	2,020,500
Other Non-Appropriated Funds	710,300	710,500	710,500
TOTAL - ALL SOURCES	2,650,600	2,731,000	2,731,000

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

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$2,020,500 and 18 FTE Positions from the Arizona State Board of Pharmacy Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Controlled Substances Prescription Monitoring Program Fund		Non-Appropriated
(PMA2359/A.R.S. § 36-2605)		
Source of Revenue: Legislative appropriations, transfers from the Arizona State Board of Pharmacy Fund, and any grants, gifts, or donations. Up to \$395,795 can be transferred from the Arizona State Board of Pharmacy Fund each year, according to A.R.S. § 32-1907. The transfer is not displayed in the Arizona State Board of Pharmacy Fund expenditures to avoid double counting.		
Purpose of Fund: For program expenses, which include automated tracking of controlled substances, assisting law enforcement in identifying illegal use of controlled substances, and providing information to patients, medical practitioners, and pharmacists.		
Funds Expended	510,300	510,500
Year-End Fund Balance	54,100	91,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants (PMA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal reimbursements and grants.		
Purpose of Fund: Reimbursements for services provided to the federal government and one-time grant to help implement a prescription monitoring program.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Arizona State Board of Pharmacy Fund (PMA2052/A.R.S. § 32-1907)		Partially-Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of pharmacies and pharmacists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate pharmacies and pharmacists, and for board administration. Pursuant to A.R.S. § 32-1907 up to \$1,000,000 may be transferred to the Arizona Poison and Drug Information Center. Additionally, up to \$395,795 may be transferred to the Controlled Substance Prescription Monitoring Program Fund. The transfer is a "transfer out" and is not displayed in expenditures to avoid double counting.		
Appropriated Funds Expended	1,940,300	2,020,500
Non-Appropriated Funds Expended	200,000	200,000
Year-End Fund Balance	3,638,200	4,105,600

Board of Physical Therapy

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	81,400
Professional and Outside Services	52,500	114,000	57,600
Travel - In State	900	5,700	5,700
Other Operating Expenditures	50,900	66,000	66,000
Equipment	0	17,000	2,000
AGENCY TOTAL	396,300	480,400	409,000

FUND SOURCES

Other Appropriated Funds

Board of Physical Therapy Fund	396,300	480,400	409,000
SUBTOTAL - Other Appropriated Funds	396,300	480,400	409,000
SUBTOTAL - Appropriated Funds	396,300	480,400	409,000
TOTAL - ALL SOURCES	396,300	480,400	409,000

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

FORMAT — Lump Sum by Agency

The Baseline includes \$409,000 and 4 FTE Positions from the Board of Physical Therapy Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF **FY 2017**
\$(71,400)

The Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Physical Therapy Fund (PTA2053/A.R.S. § 32-2004)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of physical therapists, and physical therapy assistants. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate physical therapists, and physical therapy assistants, and for board administration.		
Funds Expended	396,300	480,400
Year-End Fund Balance	917,000	550,400

Arizona Pioneers' Home

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	1,750,000
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	900,900
Equipment	13,600	4,000	4,000
OPERATING SUBTOTAL	5,832,700	6,004,900	6,004,900
SPECIAL LINE ITEMS			
Prescription Drugs	130,500	200,000	200,000
AGENCY TOTAL	5,963,200	6,204,900	6,204,900
FUND SOURCES			
General Fund	1,599,200	0	0
<u>Other Appropriated Funds</u>			
Miners' Hospital Fund	1,857,100	2,040,000	2,040,000
State Charitable Fund	2,506,900	4,164,900	4,164,900
SUBTOTAL - Other Appropriated Funds	4,364,000	6,204,900	6,204,900
SUBTOTAL - Appropriated Funds	5,963,200	6,204,900	6,204,900
Other Non-Appropriated Funds	23,300	14,100	14,100
TOTAL - ALL SOURCES	5,986,500	6,219,000	6,219,000

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, on average, cares for 105 residents.

Operating Budget

The Baseline includes \$6,004,900 and 106.3 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
Miners' Hospital Fund	\$2,040,000
State Charitable Fund	3,964,900

These amounts are unchanged from FY 2016.

Prescription Drugs

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

Other Issues

October 2015 Special Session and Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona Pioneers' Home 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 FY 2015, the Arizona Pioneers’ Home received \$1,636,300 in monies distributed from its permanent fund.

Conditional upon voter approval in May 2016, Proposition 123 would increase the 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 would receive 3,262,500 in additional funding beyond what it otherwise would in FY 2016 if the ballot proposition is approved. *(Please see the Department of Education – Endowment Earnings section for more information.)*

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
IGA and ISA Fund (PIA2500/A.R.S. § 41-921)		Non-Appropriated
<i>Source of Revenue:</i> Intergovernmental agreements between the Arizona Pioneers' Home and other state and local entities.		
<i>Purpose of Fund:</i> To be used as specified in the grant or agreement.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Miners' Hospital Fund (PIA3130/A.R.S. § 37-525)		Appropriated
<i>Source of Revenue:</i> Interest on the Miners' Hospital Fund as established through Arizona's Enabling Act, Section 25, and monies derived from the rental of these lands and property.		
<i>Purpose of Fund:</i> To provide a continuous source of funds to benefit the Arizona Pioneers' Home.		
Funds Expended	1,857,100	2,040,000
Year-End Fund Balance	1,352,600	1,374,000
Pioneers' Home Fund (Cemetery Proceeds) (PIA3144/A.R.S. § 41-926)		Non-Appropriated
<i>Source of Revenue:</i> Cemetery proceeds from the sale of interment rights or the lease of cemetery land.		
<i>Purpose of Fund:</i> To defray expenses or work conducted by the Arizona Pioneers' Home and the Arizona Pioneers' Home Cemetery.		
Funds Expended	1,700	100
Year-End Fund Balance	57,400	107,300
Pioneers' Home Fund (Donations) (PIA3143/A.R.S. § 41-926)		Non-Appropriated
<i>Source of Revenue:</i> Donations or contributions from private sources.		
<i>Purpose of Fund:</i> To defray expenses or work conducted by the Arizona Pioneers' Home in serving its clientele.		
Funds Expended	16,800	9,000
Year-End Fund Balance	224,600	227,600
State Charitable Fund (PIA3129/A.R.S. § 37-525)		Appropriated
<i>Source of Revenue:</i> Earnings from the Pioneers' Home's share of the State Charitable, Penal and Reformatory Grant lands.		
<i>Purpose of Fund:</i> For the operation of the Pioneers' Home.		
Funds Expended	2,506,900	4,164,900
Year-End Fund Balance	2,624,400	2,424,400
Statewide Employee Recognition Gifts Fund (PIA2449/A.R.S. § 41-709)		Non-Appropriated
<i>Source of Revenue:</i> Donations, gifts, or contributions from public or private sources.		
<i>Purpose of Fund:</i> For the conduct of employee recognition programs.		
Funds Expended	4,800	5,000
Year-End Fund Balance	5,100	2,100

State Board of Podiatry Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	29,000
Equipment	0	3,500	3,500
AGENCY TOTAL	120,800	148,200	148,200

FUND SOURCES

Other Appropriated Funds

Podiatry Fund	120,800	148,200	148,200
SUBTOTAL - Other Appropriated Funds	120,800	148,200	148,200
SUBTOTAL - Appropriated Funds	120,800	148,200	148,200
TOTAL - ALL SOURCES	120,800	148,200	148,200

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

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The Baseline includes \$148,200 and 1 FTE Position from the Podiatry Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Podiatry Fund (POA2055/A.R.S. § 32-806)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of podiatrists. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate podiatrists, and for board administration.		
Funds Expended	120,800	148,200
Year-End Fund Balance	150,100	142,200

Commission for Postsecondary Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5.0	5.0	5.0
Personal Services	69,400	118,900	118,900
Employee Related Expenditures	33,000	53,000	53,000
Professional and Outside Services	16,100	0	0
Other Operating Expenditures	(2,800)	12,400	12,400
Equipment	1,000	0	0
OPERATING SUBTOTAL	116,700	184,300	184,300
SPECIAL LINE ITEMS			
Arizona College and Career Guide	100	21,300	21,300
Arizona Minority Educational Policy Analysis Center	13,300	100,000	100,000
Leveraging Educational Assistance Partnership	2,319,500	2,319,500	2,319,500
Math and Science Teacher Initiative	176,000	176,000	176,000
Twelve Plus Partnership	70,500	130,500	130,500
AGENCY TOTAL	2,696,100	2,931,600	2,931,600
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	1,534,800
SUBTOTAL - Other Appropriated Funds	1,299,300	1,534,800	1,534,800
SUBTOTAL - Appropriated Funds	2,696,100	2,931,600	2,931,600
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	3,664,700

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 Baseline includes \$184,300 and 4.5 FTE Positions from the Postsecondary Education Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Arizona College and Career Guide

The Baseline 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 Baseline 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 Baseline includes \$2,319,500 for the Leveraging Educational Assistance Partnership (LEAP) in FY 2017. This amount consists of:

	<u>FY 2017</u>
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.)

Math and Science Teacher Initiative

The Baseline 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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 this fund, 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.

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 monies that equals the amount of monies 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 monies in FY 2017.

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.

Other Issues

Status of Leveraging Educational Assistance Partnership

LEAP was originally created as a federal, state, and institution partnership to provide financial assistance to students demonstrating substantial financial need. However, federal funding and authority was eliminated in FY 2012 by Public Law 112-10, Department of Defense and Full-Year Continuing Appropriations Act, 2011. The program therefore now operates with state and institutional funding only. In FY 2014, awards were provided through 41 postsecondary institutions. Of the total funding distributed, 34% went to public universities,

53% to community colleges, and 13% to private institutions.

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 FY 2016 Higher Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 16), as permanent law, allows the commission to 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 FY 2016 Higher Education Budget BRB, as permanent law, allows the commission to 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 FY 2016 Higher Education BRB (Laws 2015, Chapter 16), allows the commission 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 will now directly receive FCSP fee revenues instead of the FCSP fee revenues passing through to the Postsecondary Education Fund.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Family College Savings Program Trust Fund (PEA3121/A.R.S. § 15-1873B)		Non-Appropriated
Source of Revenue: Fees paid by financial institutions which are contracted to serve as program managers of assets.		
Purpose of Fund: For operating expenses and administrative costs of the Arizona Family College Savings Program.		
Funds Expended	514,800	583,200
Year-End Fund Balance	326,400	371,200
Federal Grants (PEA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grant revenue.		
Purpose of Fund: Federal grant revenues to be used by the commission as specified by the grant(s).		
Funds Expended	34,300	10,000
Year-End Fund Balance	400	400
IGA/ISA Fund (PEA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Any monies received from state agencies for specialized projects.		
Purpose of Fund: For costs associated with approved projects. In FY 2014 the remaining balance of \$546,800 in the now repealed Early Graduation Scholarship Fund was transferred to the IGA/ISA Fund pursuant to the K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) to fund a one-year continuation of the Special Education Grant Program that provides forgivable student loans to students at private postsecondary institutions. Laws 2014, Chapter 17 then required the commission to transfer these monies into the Technology-Based Language Development and Literacy intervention Fund within the Arizona Department of Education.		
Funds Expended	546,800	0
Year-End Fund Balance	0	0
Mathematics, Science, and Special Education Teacher Student Loan Fund (PEA2358/A.R.S. § 15-1784)		Non-Appropriated
Source of Revenue: Legislative appropriations and repayments of principal and interest of issued loans.		
Purpose of Fund: To provide up to 5-year loans to eligible in-state students pursuing a teaching degree in mathematics, science, and special education at a state university and who agree to a service commitment to teach in a public school. General Fund expenditures are not displayed to avoid double counting.		
Funds Expended	0	0
Year-End Fund Balance	303,600	336,300
Postsecondary Education Fund (PEA2405/A.R.S. § 15-1853)		Partially-Appropriated
Source of Revenue: Monies appropriated by the Legislature, monies received from state agencies and political subdivisions of the state, monies received from the federal government, and/or private gifts, grants and donations. The commission must separately account for monies received from each source.		
Purpose of Fund: For designated purposes. Donations are used in accordance with the requests of the donor. Other private monies are used to carry out the duties and responsibilities of the commission.		
Appropriated Funds Expended	1,299,300	1,534,800
Non-Appropriated Funds Expended	70,000	139,900
Year-End Fund Balance	180,500	124,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Postsecondary Education Grant Program (PEA2530/A.R.S. § 15-1855) Non-Appropriated

Source of Revenue: Monies appropriated by the Legislature. Program has not been funded since FY 2011.

Purpose of Fund: For tuition grants awarded to full and part-time students enrolled at a private baccalaureate degree granting institution. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.

Funds Expended	0	0
Year-End Fund Balance	1,900	1,900

Private Postsecondary Education Student Financial Assistance Fund (PEA2128/A.R.S. § 15-1854) Non-Appropriated

Source of Revenue: Monies appropriated by the Legislature. Program has not been funded since FY 2011.

Purpose of Fund: For tuition vouchers awarded to eligible graduates of Arizona community colleges enabling them to obtain a bachelor's degree at a private college or university in the state. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.

Funds Expended	0	0
Year-End Fund Balance	33,900	21,800

Teachers Incentive Program Fund (PEA2249/A.R.S. § 15-1851) Non-Appropriated

Source of Revenue: Monies collected as repayment from students who do not meet the conditions of the loan program.

Purpose of Fund: To collect repayment monies from students who received a loan in prior years for teacher education and did not fulfill their teaching obligation. The students' teacher loan indebtedness to the State of Arizona is forgiven if the recipient of the monies completes a specified period of time teaching in designated school districts, which are identified as having high proportions of economically disadvantaged and at-risk pupils. Monies collected are reverted to the General Fund.

Funds Expended	0	0
Year-End Fund Balance	0	0

Arizona Power Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Hoover Uprating Fund (PAA1113/A.R.S. § 30-202)		Non-Appropriated
Source of Revenue: The sale of hydro-electricity from Hoover Dam to APA customers.		
Purpose of Fund: To purchase hydro-electricity from Hoover Dam for APA customers.		
Funds Expended	33,345,100	33,863,900
Year-End Fund Balance	0	0
Interest Income Fund (PAA1112/A.R.S. § 30-203)		Non-Appropriated
Source of Revenue: Interest income is received from investments with the Arizona State Treasurer.		
Purpose of Fund: To pay for the operating expenses of the Power Authority.		
Funds Expended	3,500	2,800
Year-End Fund Balance	0	0
Power Authority Fund (PAA9506/A.R.S. § 30-202)		Non-Appropriated
Source of Revenue: Energy sales to any of the authority's 39 customers.		
Purpose of Fund: To purchase supplemental energy on the open market (usually from Salt River Project) for APA customers and to fund special APA projects.		
Funds Expended	2,328,100	2,033,400
Year-End Fund Balance	3,239,500	3,441,400

State Board for Private Postsecondary Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	86,600
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	40,000
Equipment	1,900	5,800	5,800
OPERATING SUBTOTAL	364,000	396,300	396,300
SPECIAL LINE ITEMS			
Student Tuition Recovery Fund Deposit	0	600,000	0
AGENCY TOTAL	364,000	996,300	396,300
FUND SOURCES			
<i>Other Appropriated Funds</i>			
Board for Private Postsecondary Education Fund	364,000	996,300	396,300
SUBTOTAL - Other Appropriated Funds	364,000	996,300	396,300
SUBTOTAL - Appropriated Funds	364,000	996,300	396,300
Other Non-Appropriated Funds	197,200	322,700	223,600
TOTAL - ALL SOURCES	561,200	1,319,000	619,900

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 Baseline includes \$396,300 and 4 FTE Positions from the Board for Private Postsecondary Education Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Student Tuition Recovery Fund Deposit

The Baseline includes no funding from the Board for Private Postsecondary Education Fund in FY 2017 for the Student Tuition Recovery Fund Deposit. FY 2017 adjustments would be as follows:

FY 2017
Eliminate One-Time Transfer OF \$(600,000)

The Baseline 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.

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FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Board for Private Postsecondary Education Fund (PVA2056/A.R.S. § 32-3004) Appropriated

Source of Revenue: Monies collected by the board from the examination and licensing of private postsecondary institutions. The board retains 90% of these monies and deposits 10% in the General Fund.

Purpose of Fund: To examine, license, investigate, and regulate private postsecondary institutions. Monies are also used for board administration costs.

Funds Expended	364,000	996,300
Year-End Fund Balance	887,100	382,800

Student Tuition Recovery Fund (PVA3027/A.R.S. § 32-3072) Non-Appropriated

Source of Revenue: Assessments on prepaid tuition paid by newly-enrolled students at private postsecondary institutions. Pursuant to A.R.S. § 32-3072, if the fiscal year-end fund balance exceeds \$500,000, only newly or provisionally licensed institutions pay the assessment.

Purpose of Fund: To compensate persons suffering damages as the result of a private postsecondary institution ceasing operations.

Funds Expended	197,200	322,700
Year-End Fund Balance	445,300	733,600

State Board of Psychologist Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	96,500
Professional and Outside Services	10,900	30,000	18,000
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	86,200
Equipment	3,400	3,000	3,000
AGENCY TOTAL	389,400	448,500	436,500

FUND SOURCES

Other Appropriated Funds

Board of Psychologist Examiners Fund	389,400	448,500	436,500
SUBTOTAL - Other Appropriated Funds	389,400	448,500	436,500
SUBTOTAL - Appropriated Funds	389,400	448,500	436,500
TOTAL - ALL SOURCES	389,400	448,500	436,500

AGENCY DESCRIPTION — The board licenses and regulates psychologists and behavior analysts.

Operating Budget

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The Baseline includes \$436,500 and 4 FTE Positions from the Board of Psychologist Examiners Fund in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

FORMAT — Lump Sum by Agency

Remove One-Time Funding OF **FY 2017**
\$(12,000)

The Baseline includes a decrease of \$(12,000) from the Board of Psychologist Examiners Fund in FY 2017 to eliminate one-time funding for rulemaking.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Psychologist Examiners Fund (SYA2058/A.R.S. § 32-2065)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of psychologists. A separate account has been established within the Board of Psychologist Examiners Fund consisting of licensing and other fees for behavior analysts. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate psychologists and behavior analysts, and for board administration.		
Funds Expended	389,400	448,500
Year-End Fund Balance	1,082,300	759,100

Department of Public Safety

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,907.7	1,907.7	1,908.7
Personal Services	98,717,900	98,384,600	98,384,600
Employee Related Expenditures	69,383,000	79,321,300	79,321,300
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	32,512,600
Equipment	9,913,900	10,074,400	10,074,400
OPERATING SUBTOTAL	209,108,800	223,182,000	223,318,200
SPECIAL LINE ITEMS			
ACTIC	0	1,450,000	1,450,000
GIITEM	20,762,000	22,172,900	22,172,900
GIITEM Subaccount	2,113,600	2,390,000	2,390,000
Public Safety Equipment	2,534,400	2,890,000	2,890,000
Motor Vehicle Fuel	3,134,300	5,454,600	5,454,600
AGENCY TOTAL	237,653,100	257,539,500	257,675,700
FUND SOURCES			
General Fund	85,779,000	93,374,800	93,511,000
<u>Other Appropriated Funds</u>			
Automated Fingerprint Identification System Fund	2,820,600	2,910,500	2,910,500
Automation Operations Fund	287,500	0	0
Concealed Weapons Permit Fund	966,100	1,391,400	1,391,400
Crime Laboratory Assessment Fund	871,300	870,300	870,300
Crime Laboratory Operations Fund	13,306,500	14,660,600	14,660,600
Criminal Justice Enhancement Fund	2,873,400	2,864,400	2,864,400
Deoxyribonucleic Acid (DNA) Identification System Fund	6,013,800	6,297,300	6,297,300
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount	2,113,600	2,390,000	2,390,000
Highway Patrol Fund	18,908,700	20,397,100	20,397,100
Highway User Revenue Fund	89,255,000	96,409,200	96,409,200
Motorcycle Safety Fund	205,000	205,000	205,000
Parity Compensation Fund	1,950,100	2,115,500	2,115,500
Public Safety Equipment Fund	2,534,400	2,893,000	2,893,000
Risk Management Revolving Fund	1,233,700	1,228,100	1,228,100
Safety Enforcement and Transportation Infrastructure Fund	1,090,500	1,559,100	1,559,100
State Aid to Indigent Defense Fund	700,000	700,000	700,000
State Highway Fund	6,743,900	7,273,200	7,273,200
SUBTOTAL - Other Appropriated Funds	151,874,100	164,164,700	164,164,700
SUBTOTAL - Appropriated Funds	237,653,100	257,539,500	257,675,700
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	345,552,200

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.

Operating Budget

The Baseline includes \$223,318,200 and 1,771.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$66,203,900
Automated Fingerprint Identification System (AFIS) Fund	2,910,500
Concealed Weapons Permit Fund	1,391,400
Crime Laboratory Assessment Fund (CLAF)	870,300
Crime Laboratory Operations Fund (CLOF)	14,660,600
Criminal Justice Enhancement Fund (CJEF)	2,730,100
Deoxyribonucleic Acid (DNA) Identification System Fund	6,297,300
Highway Patrol Fund	20,098,700
Highway User Revenue Fund (HURF)	95,771,500
Motorcycle Safety Fund	205,000
Parity Compensation Fund	2,115,500
Public Safety Equipment Fund	3,000
Risk Management Revolving Fund	1,228,100
Safety Enforcement and Transportation Infrastructure Fund (SETIF)	1,559,100
State Highway Fund	7,273,200

FY 2017 adjustments would be as follows:

Moving Program Shift	GF	136,200
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The Baseline 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.

ACTIC

The Baseline 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.

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.

The State Aid to Indigent Defense Fund has been used since FY 2014 to fund the Attorney General’s budget for capital postconviction prosecutions for the state. Since FY 2015, this fund has also been used to support the operational costs of ACTIC.

The Arizona Criminal Justice Commission, which administers the State Aid to Indigent Defense Fund, has projected that the fund will have insufficient monies to support both agencies in FY 2017. *(Please see the Other Issues section for more information.)*

GIITEM

The Baseline includes \$22,172,900 and 136.8 FTE Positions from the General Fund in FY 2017 for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). These amounts are unchanged from FY 2016.

The GIITEM line item is comprised of monies for the following GIITEM functions, including: 1) \$9,155,300 for gang enforcement, investigation, and interdiction; 2) \$9,814,200 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 Baseline 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 2016 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 18, 2015 meeting, the JLBC gave a favorable review to the proposed GIITEM Subaccount expenditure plan for FY 2016. The plan includes \$565,000 for detention liaison officers, \$425,000 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.)*

Public Safety Equipment

The Baseline includes \$2,890,000 from the Public Safety Equipment Fund in FY 2017 for Public Safety Equipment. 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 Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Of the \$22,172,900 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.

Of the \$22,172,900 appropriated to GIITEM, \$9,814,200 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 law 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.

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.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to notwithstanding the statutory spending cap of \$10,000,000 for HURF.
- As session law, continue to require DPS to receive JLBC review of the expenditure plan for the GIITEM Subaccount FY 2017 appropriation prior to its expenditure.
- As session law, continue to allow DPS to expend monies from the State Aid to Indigent Defense Fund for ACTIC operating expenses.
- As session law, continue the previously approved \$30.0 million HURF shift in FY 2018.

Other Issues

State Aid to Indigent Defense Fund Appropriation

The State Aid to Indigent Defense Fund has been used since FY 2014 to fund the Attorney General's budget for capital postconviction prosecutions for the state. Since FY 2015, this fund has also been used to support the Department of Public Safety's (DPS) operational costs

associated with the Arizona Counter Terrorism Information Center (ACTIC).

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, the Arizona Criminal Justice Commission was required to distribute the Indigent Defense monies to each county based on a formula. Since that time, the fund has been used for other purposes.

FY 2015 revenues to the State Aid to Indigent Defense Fund totaled \$876,800, representing a (5.0)% decrease year over year, which, when matched against FY 2015 expenditures of \$1.5 million, resulted in a structural deficit of \$(623,200). Carry-forward monies from prior years covered this deficit. Revenues to the fund are projected to decrease by (3.6)% in FY 2016 which will create another structural shortfall of \$(654,600). If available surplus monies are utilized to cover the shortfall, the fund will have no remaining balance at the end of FY 2016. As a result, the fund will not have sufficient monies to cover current operations in FY 2017. If the Legislature decides to continue funding these programs at the same levels, an alternative funding source for at least 1 program will be necessary.

Long-Term Budget Impacts: HURF Funding

The Baseline 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*.

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/}	396.1
Counties	10.0	246.8
Controlled Access	4.0 ^{2/}	98.4
State Highway		
Construction	0.0	50.1
Total	30.0	791.4

^{1/} Includes \$1.6 million for Phoenix, Tucson, and Mesa.
^{2/} These monies are for distribution to Maricopa and Pima Counties.

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 Baseline assumes the continuation of this \$30.0 million shift in FY 2018.

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 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	96.4	7.3	103.7

Table 3

State Immigration Enforcement
Assistance to Local Governments

DPS GIITEM Local Immigration Enforcement Grant Expenditures 1/

<u>Agency</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Estimate 2/</u>
Pima County Sheriff's Department	\$825,400	-	-	-	-	-
Phoenix Police Department	584,400	342,100	-	-	-	-
Border Detention Liaison Officers (See Chart Below)	438,800	397,000	-	-	-	-
Border County Officers (See Chart Below)	384,900	351,200	-	-	-	-
Maricopa County Sheriff's Office	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
DPS Expenditures in Support of Local Grants	378,500	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
TOTAL	\$4,212,000	\$3,886,100	\$2,427,900	2,528,800	2,231,700	2,603,400

Year of Appropriation of Funding

FY 2010	2,332,300	-	-	-	-	-
FY 2011 4/	1,879,700 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
TOTAL	\$4,212,000	\$3,930,000	\$2,427,900	\$2,528,800	\$2,231,700	\$2,603,400

Detention Liaison Officer Grants 4/

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>
Cochise County Sheriff's Office	\$34,098	\$33,100	\$39,800	\$5,500	\$40,500	\$40,600
Graham County Sheriff's Office	31,209	21,100	31,200	15,200	-	37,300
Maricopa County Sheriff's Office	-	-	-	-	44,100	41,300
Pima County Sheriff's Office	44,015	43,900	44,500	56,700	91,900	94,000
Pinal County Sheriff's Office	56,213	46,300	58,700	-	40,000	46,300
Santa Cruz County Sheriff's Office	44,139	18,600	-	24,800	30,400	30,000
Yuma County Sheriff's Office	41,101	41,000	42,400	35,800	43,200	45,300
Department of Corrections	188,054	237,400	180,400	263,000	205,400	230,200
Total	\$438,829	\$441,400	\$397,000	\$401,000	\$495,500	\$565,000

Table 3 (Continued)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual	Actual	Actual	Actual	Actual	Estimate
Border County Officers 4/						
Benson Police	\$59,147	\$63,700	\$63,000	\$36,300	-	-
Cochise County Sheriff's Office	-	-	-	-	41,600	77,000
Coolidge Police	66,298	46,600	62,900	66,200	44,300	56,000
Douglas Police	117,818	123,700	124,800	102,600	115,000	120,000
Oro Valley Police	59,581	62,200	54,800	47,300	63,300	48,000
Pinal County Sheriff's Office	57,649	54,500	45,700	89,700	-	64,000
Yuma County Sheriff's Office	24,367	-	-	47,900	56,100	60,000
Total	\$384,861	\$350,700	\$351,200	\$390,000	\$320,300	\$425,000
Border Security and Law Enforcement Grants 4/						
Apache County Sheriff's Office	-	-	-	\$11,600	\$11,500	\$12,000
Cochise County Sheriff's Office	-	-	-	20,800	20,900	500,000
Coconino County Sheriff's Office	-	-	-	-	-	22,000
Gila County Sheriff's Office	-	-	-	8,400	8,600	10,000
Graham County Sheriff's Office	-	-	-	-	-	18,500
Greenlee County Sheriff's Office	-	-	-	-	1,700	2,000
La Paz County Sheriff's Office	-	-	-	3,200	3,300	3,500
Maricopa County Sheriff's Office	-	-	-	627,700	629,400	100,000
Mohave County Sheriff's Office	-	-	-	32,200	32,500	33,000
Navajo County Sheriff's Office	-	-	-	16,900	17,300	18,000
Pima County Sheriff's Department	-	-	-	156,600	158,900	50,000
Pinal County Sheriff's Office	-	-	-	61,100	62,800	100,000
Santa Cruz Sheriff's Office	-	-	-	7,500	7,900	34,000
Yavapai County Sheriff's Office	-	-	-	33,600	34,000	35,000
Yuma County Sheriff's Office	-	-	-	-	33,400	112,000
Total	\$0	\$0	\$0	\$979,600	\$1,022,200	\$1,050,000

GIITEM Subaccount Expenditures 5/6/7/8/9/

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual	Actual	Actual	Actual	Actual	Estimate
Agency						
Pima County Sheriff	-	\$500,000	\$500,000	\$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
Border County Officers (See Chart Above)	-	-	351,200	390,000	320,300	425,000
Border Security and Law Enforcement Grants (See Chart Above)	-	-	-	979,600	1,022,200	1,050,000
TOTAL	-	\$1,500,000	\$1,248,200	\$2,120,600	\$2,188,000	\$2,390,000

Table 3 (Continued)

County Assistance <u>10/</u>		FY 2011		FY 2012		FY 2013		FY 2014		FY 2015		FY 2016	
Agency	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Estimate	Estimate
Pinal County Sheriff	-	\$1,000,000	-	-	-	-	-	-	-	-	-	-	-
TOTAL	-	\$1,000,000	-	-	-	-	-	-	-	-	-	-	-

County Attorney Immigration Enforcement Distributions 11/12/

Agency	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
	Actual <u>13/</u>	Actual <u>14/</u>	Actual <u>14/</u>	Actual <u>14/</u>	Actual <u>15/</u>	Actual <u>12/</u>
Maricopa County Attorney	\$1,213,200	\$200,000	\$200,000	\$200,000	-	-
Maricopa County Sheriff	-	500,000	500,000	500,000	-	-
Pima County Attorney	-	97,687	97,687	97,687	97,687	-
Pima County Sheriff	-	97,687	97,687	-	-	-
Pinal County Attorney	-	37,447	37,447	37,447	37,447	-
Pinal County Sheriff	-	37,447	37,447	37,447	-	-
Yavapai County Attorney	-	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	-
Mohave County Sheriff	-	19,949	19,949	-	-	-
Yuma County Attorney	-	19,507	19,507	19,507	19,507	-
Yuma County Sheriff	-	19,507	19,507	-	-	-
Cochise County Attorney	-	13,089	13,089	13,089	-	-
Cochise County Sheriff	-	13,089	13,089	-	-	-
Coconino County Attorney	-	13,396	13,396	13,396	-	-
Coconino County Sheriff	-	13,396	13,396	13,396	-	-
Navajo County Attorney	-	10,708	10,708	10,708	-	-
Navajo County Sheriff	-	10,708	10,708	10,708	-	-
Apache County Attorney	-	7,127	7,127	7,127	7,127	-
Apache County Sheriff	-	7,127	7,127	-	-	-
Gila County Attorney	-	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	-	-
Santa Cruz County Sheriff	-	4,726	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	-
La Paz County Sheriff	-	2,042	2,042	-	-	-
Greenlee County Attorney	-	841	841	-	-	-
Greenlee County Sheriff	-	841	841	-	-	-
Unallocated	-	-	-	236,793	981,777	-
TOTAL	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$1,213,200	\$0

- 1/ Funded from non-lapsing \$2.6 million General Fund appropriation, which is part of a \$21.3 million total GIITEM General Fund appropriation to DPS in FY 2013 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/ Estimate provided by DPS.
- 3/ Includes \$1,003,200 in other GIITEM SLU monies in FY 2011.
- 4/ Funding for the Detention Liaison Officer Grants and the Border County Officers in FY 2011 and 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/ Funded from a \$2.1 million GIITEM Fund appropriation. 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 \$2,361,700 in FY 2014. 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/ 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.
- 11/ Funded by a General Fund appropriation.
- 12/ Funding for this line item was not continued in FY 2016.
- 13/ The FY 2011 budget required the Department of Administration (ADOA) to distribute \$1,213,200 to the County Attorney in a county with a population greater than 1.5 million.
- 14/ 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. 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.
- 15/ These figures represent the FY 2015 proposed distribution that received a favorable review at the December 17, 2014 meeting of the JLBC.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Anti-Racketeering Revolving Fund (PSA3123/A.R.S. § 13-2314.01)		Non-Appropriated
Source of Revenue: Any monies obtained as a result of a Department of Public Safety (DPS) seizure and forfeiture by the Attorney General are deposited into this fund. The forfeitures are made under the Racketeering Influenced and Corrupt Organization (RICO) laws.		
Purpose of Fund: For the investigation and prosecution of any offense relating to racketeering. These funds may also be used for gang prevention programs, substance abuse prevention programs and substance abuse education programs.		
Funds Expended	3,911,400	8,250,600
Year-End Fund Balance	9,192,400	5,971,800
Automated Fingerprint Identification System Fund (PSA2286/A.R.S. § 41-2414)		Appropriated
Source of Revenue: A 6.46% allocation from the Criminal Justice Enhancement Fund (CJEF). CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For operation and maintenance of the Arizona Automated Fingerprint Identification System.		
Funds Expended	2,820,600	2,910,500
Year-End Fund Balance*	448,000	(92,400)
Automation Operations Fund (ADA4230/A.R.S. § 41-711)		Appropriated
Source of Revenue: Charges to agencies and other political entities for information technology products and services. The fund has continuously appropriated sub-accounts for agreements made with other states and the Arizona Health Care Cost Containment System.		
Purpose of Fund: To provide agencies and other political entities data processing and information technology consulting services and to maintain the integrity and security of state information.		
Funds Expended	287,500	0
Year-End Fund Balance	18,700	18,700
Capitol Police Administrative Towing Fund (PSA1999/A.R.S. § 41-1725)		Non-Appropriated
Source of Revenue: Penalties and fees collected for parking violations on state property.		
Purpose of Fund: For Capitol Police Department law enforcement purposes.		
Funds Expended	0	0
Year-End Fund Balance	8,600	7,700
Concealed Weapons Permit Fund (PSA2518/A.R.S. § 41-1722)		Appropriated
Source of Revenue: Fees for the application, renewal, and replacement of concealed weapons permits. These fees range from \$10 for a replacement permit to \$60 for a new permit.		
Purpose of Fund: Funds the costs associated with administering the concealed weapons permit process.		
Funds Expended	966,100	1,391,400
Year-End Fund Balance	1,162,200	1,986,400
Conferences, Workshops and Other Education Fund (PSA2700/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Conference registration fees.		
Purpose of Fund: To cover expenditures of conferences held by the Governor's Office of Highway Safety.		
Funds Expended	0	0
Year-End Fund Balance	8,800	8,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Crime Laboratory Assessment Fund (PSA2282/A.R.S. § 41-2415)		Appropriated
Source of Revenue: A 2.3% allocation of CJEF. DPS retains 55% of this fund and distributes the remaining funds to political subdivisions that operate crime laboratories.		
Purpose of Fund: To provide enhanced crime lab services, purchase and maintain scientific equipment, and train crime lab forensic scientists.		
Funds Expended	871,300	870,300
Year-End Fund Balance	287,100	260,700
Crime Laboratory Operations Fund (PSA2394/A.R.S. § 41-1772)		Appropriated
Source of Revenue: The fund includes the first \$10,400,000 generated each year resulting from a \$45 surcharge for all persons who elect to take a defensive driving course in lieu of paying the civil traffic violation fine. Any revenues in excess of that amount are deposited into the General Fund. In addition, DPS is authorized to receive 9% of CJEF revenues that were previously deposited into the General Fund. These additional funds are exempt from distribution to political subdivisions. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To fund crime laboratory or other department operations.		
Funds Expended	13,306,500	14,660,600
Year-End Fund Balance*	847,100	(147,500)
Criminal Justice Enhancement Fund (PSA3702/A.R.S. § 41-2401)		Partially-Appropriated
Source of Revenue: An 85% allocation of an 8.56% distribution from CJEF. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For operational expenses of the Criminal Justice Information System and the Arizona Automated Fingerprint Identification System (appropriated) and for grants to local law enforcement agencies to help prevent residential and commercial burglaries, control street crime and street gangs, and locate missing children (non-appropriated).		
Appropriated Funds Expended	2,873,400	2,864,400
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	639,500	446,100
Deoxyribonucleic Acid (DNA) Identification System Fund (PSA2337/A.R.S. § 41-2419)		Appropriated
Source of Revenue: A 15% allocation of an 8.56% distribution from CJEF, monies collected from individuals subjected to DNA testing who have the financial ability to pay for tests, and contributions from any other sources. CJEF consists of a 47% penalty assessment on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations. The fund also receives revenues from a separate 6% surcharge on all fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To implement, operate and maintain DNA testing and administrative costs.		
Funds Expended	6,013,800	6,297,300
Year-End Fund Balance*	181,500	(662,200)
DPS Administration Fund (PSA2322/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: State and local grants and donations.		
Purpose of Fund: For administering state and local grants such as Emergency Medical Services Communications, Arizona Criminal Justice Commission, Forensics, Fines Management and the DPS Criminal Justice Enhancement Fund project, as well as for operational costs of the Criminal Justice Information System.		
Funds Expended	1,827,200	1,733,700
Year-End Fund Balance	1,422,600	1,088,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
DPS Licensing Fund (PSA2490/A.R.S. § 32-2408)		Non-Appropriated
Source of Revenue: Fees collected from Private Investigator and Security Guard license applicants.		
Purpose of Fund: For the operational and equipment costs of regulating the private investigator and security guard industry.		
Funds Expended	1,081,700	1,184,000
Year-End Fund Balance	354,300	430,600
Driving Under the Influence Abatement Fund (PSA2422/A.R.S. § 28-1304)		Non-Appropriated
Source of Revenue: A fee of \$250 to be paid by every offender convicted of an extreme driving under the influence (DUI) offense. An extreme DUI violation is defined as a person possessing a blood alcohol concentration of 0.15 or greater.		
Purpose of Fund: To fund DUI-related programs. The Oversight Council on Driving or Operating Under the Influence Abatement distributes 25% of the revenues to fund pilot programs that use emerging technologies to deter occurrences of driving under the influence, and at least 70% of the monies to fund subdivisions and tribal governments that apply for monies for enforcement and alcohol abuse treatment services. The Arizona Criminal Justice Commission staffs the Council. The Arizona Department of Transportation and DPS receive grant funds from the Council. Not more than 5% of the monies are to be used for administrative purposes of the Oversight Council on Driving or Operating Under the Influence Abatement or payment of the costs of notification.		
Funds Expended	1,248,800	1,252,700
Year-End Fund Balance	1,493,500	1,743,100
Families of Fallen Police Officers Special Plate Fund (PSA2386/A.R.S. § 41-1721)		Non-Appropriated
Source of Revenue: Receives \$17 of the \$25 fee paid for an original or renewal of a Family of Fallen Police Officer Special License Plate.		
Purpose of Fund: For a nonprofit corporation in the state that demonstrates a commitment to helping in the healing of family survivors of police officers who died in the line of duty in this state, to provide survivor victimization training to law enforcement personnel, and to educate the public on the need to support law enforcement personnel and the families of fallen officers.		
Funds Expended	191,000	230,000
Year-End Fund Balance	23,500	18,600
Federal Grants and Reimbursements (PSA2000/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Federal grants.		
Purpose of Fund: To administer Federal Highway Administration grants, various Homeland Security grants, the High Intensity Drug Trafficking Area program, organized crime financial investigations, the Rocky Mountain Information Network, the Motor Carrier Safety Assistance program, and the Department of Justice Victims of Crime Act monies.		
Funds Expended	35,168,700	52,467,000
Year-End Fund Balance	2,045,500	1,476,600
Fingerprint Clearance Card Fund (PSA2433/A.R.S. § 41-1758.06)		Non-Appropriated
Source of Revenue: Fees charged to applicants or contract providers for a fingerprint clearance card.		
Purpose of Fund: To centralize fingerprinting services for state agencies. Revenues pay for the processing and issuance of fingerprint clearance cards.		
Funds Expended	6,862,300	4,170,500
Year-End Fund Balance*	2,445,200	(999,800)
Board of Fingerprinting Fund (PSA2435/A.R.S. § 41-619.56)		Non-Appropriated
Source of Revenue: Fees paid by fingerprint clearance card applicants.		
Purpose of Fund: To fund the Board of Fingerprinting, which conducts good cause exception hearings for personnel who require a fingerprint clearance card.		
Funds Expended	549,200	594,000
Year-End Fund Balance	1,626,100	1,732,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Gang and Immigration Intelligence Team Enforcement Mission Border Security and Law Enforcement Subaccount (PSA2396/A.R.S. § 41-1724)		Appropriated
Source of Revenue: A \$4 criminal fee assessed on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: To provide funding to county sheriffs and municipal police departments for law enforcement purposes relating to border security including border personnel.		
Funds Expended	2,113,600	2,390,000
Year-End Fund Balance	2,625,300	2,612,800
Gang and Immigration Intelligence Team Enforcement Mission Fund (PSA2396/A.R.S. § 41-1724)		Appropriated
Source of Revenue: A penalty assessed against law enforcement agencies in the state that are not enforcing current illegal immigration statutes and \$2,603,400 in General Fund monies deposited into the fund per a General Appropriation Act footnote. The fine can be no less than \$500 and no more than \$5,000 a day for as long as the law enforcement agency is in non-compliance. Expenditures from this fund are not displayed below to avoid double counting.		
Purpose of Fund: These monies can be used for enforcement of gang and immigration statutes, border security, human and drug smuggling laws, the employer sanctions law and for county jail reimbursement, resulting from costs attributed to illegal immigration. A.R.S. § 41-1724 mandates that the first \$1,600,000 in revenues be distributed to the Maricopa County Sheriff and the next \$500,000 to the Pinal County Sheriff for immigration enforcement. Any entity receiving monies from the fund shall provide 25% of the cost of services with DPS providing the remaining 75%.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Highway Patrol Fund (PSA2032/A.R.S. § 41-1752)		Appropriated
Source of Revenue: A 0.43% premium tax paid by vehicle insurers, miscellaneous service fees, rewards, awards, insurance recoveries, and receipts from the sale or disposal of property held by the Highway Patrol. This fund also includes deposits of fees collected from towing impound hearings.		
Purpose of Fund: To administer the provisions of law relating to the Highway Patrol and Highway Patrol Reserve and for the costs associated with impounding vehicles.		
Funds Expended	18,908,700	20,397,100
Year-End Fund Balance	11,184,200	6,403,900
Highway User Revenue Fund (PSA3113/A.R.S. § 28-6533)		Appropriated
Source of Revenue: Revenues collected from various highway-related taxes and fees, including the motor vehicle license tax.		
Purpose of Fund: To fund a portion of Highway Patrol costs.		
Funds Expended	89,255,000	96,409,200
Year-End Fund Balance	0	0
IGA and ISA Fund (PSA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Monies received through intergovernmental and interagency agreements.		
Purpose of Fund: To execute intergovernmental and interagency service agreements.		
Funds Expended	8,080,800	8,884,300
Year-End Fund Balance	3,569,700	2,158,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Indirect Cost Recovery Fund (PSA9000/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Charges made to interagency agreements and monies transferred from the department's appropriated and non-appropriated funds.		
Purpose of Fund: To pay departmentwide administrative and overhead costs.		
Funds Expended	1,624,600	2,271,000
Year-End Fund Balance	2,671,300	1,511,100
Motor Carrier Safety Revolving Fund (PSA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material, substances or waste, as required by A.R.S. Title 28; and monies received from private grants or donations.		
Purpose of Fund: DPS conducts motor carrier safety investigations, the Motor Vehicle Division of ADOT administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	1,400	3,000
Year-End Fund Balance	6,900	7,200
Motorcycle Safety Fund (PSA2479/A.R.S. § 28-2010)		Appropriated
Source of Revenue: Receives \$1 of each motorcycle registration fee.		
Purpose of Fund: To implement and support voluntary motorcycle safety, education and awareness programs.		
Funds Expended	205,000	205,000
Year-End Fund Balance	380,700	555,700
Parity Compensation Fund (PSA2510/A.R.S. § 41-1720)		Appropriated
Source of Revenue: Receives 1.51% of the portion of vehicle license tax revenues that otherwise would be deposited in the State Highway Fund.		
Purpose of Fund: To fund salary and benefit adjustments for law enforcement personnel.		
Funds Expended	1,950,100	2,115,500
Year-End Fund Balance	2,459,700	3,244,200
Peace Officers' Training Fund (PSA2049/A.R.S. § 41-1825)		Non-Appropriated
Source of Revenue: Receives 16.64% of CJEF. CJEF is composed of a 47% penalty on fines and forfeitures imposed by the courts for criminal and civil motor vehicle statute violations.		
Purpose of Fund: For training costs, including the operation of the Arizona Law Enforcement Officers' Academy, grants to state agencies, cities and towns, and counties for training law enforcement officers and the operation of the Peace Officer Standards and Training Board.		
Funds Expended	6,711,700	6,149,600
Year-End Fund Balance	1,151,400	1,108,700
Public Safety Equipment Fund (PSA2391/A.R.S. § 41-1723)		Partially-Appropriated
Source of Revenue: Revenues from a \$4 criminal fee on fines, violations, forfeitures and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations per A.R.S. § 12-116.04 as well as an additional \$4 per citation issued by DPS. These 2 revenue sources are appropriated. In addition, revenues include the first \$1,200,000 generated by additional assessments of up to \$1,500 to be paid by every offender convicted of driving or operating under the influence (DUI or OUI) offenses, except for boating related offenses. These assessments are not subject to appropriation.		
Purpose of Fund: To fund purchases of protective body armor, electronic stun gun devices, vehicles, and other safety equipment.		
Appropriated Funds Expended	2,534,400	2,893,000
Non-Appropriated Funds Expended	893,000	1,200,000
Year-End Fund Balance	15,209,400	14,929,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Records Processing Fund (PSA2278/A.R.S. § 41-1750)		Non-Appropriated
Source of Revenue: Fees charged to other agencies and local political subdivisions for costs of processing department reports and photographs of traffic accident scenes and processing criminal and non-criminal justice fingerprint cards through the federal government.		
Purpose of Fund: For fingerprint processing and department administrative costs.		
Funds Expended	4,800,000	4,923,500
Year-End Fund Balance	886,600	1,186,100
Risk Management Revolving Fund (PSA4216/A.R.S. § 41-1713)		Appropriated
Source of Revenue: Transfer from the Arizona Department of Administration Risk Management Fund.		
Purpose of Fund: For the costs of a disaster recovery program for the DPS mainframe data center.		
Funds Expended	1,233,700	1,228,100
Year-End Fund Balance	219,400	219,400
Safety Enforcement and Transportation Infrastructure Fund (PSA2108/A.R.S. § 28-6547)		Appropriated
Source of Revenue: Monies are transferred from the ADOT administered fund and include fees for commercial vehicle permits collected at southern ports of entry on the border with Mexico and interest earnings.		
Purpose of Fund: To fund commercial vehicle enforcement officers along the border, particularly in Yuma, Douglas and Nogales. <i>(See the Arizona Department of Transportation Summary of Funds section for other purposes of this fund.)</i>		
Funds Expended	1,090,500	1,559,100
Year-End Fund Balance	0	0
State Aid to Indigent Defense Fund (PSA2445/A.R.S. § 11-588)		Appropriated
Source of Revenue: Legislative appropriations, 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 20.53% allocation of a 5% portion of fines and fees collected by the Supreme Court and Court of Appeals.		
Purpose of Fund: To provide state aid to county public defenders, legal defenders and contract indigent counsel for the processing of criminal cases. ACJC administers the fund and distributes the monies to each county based on a composite index formula using felony filings and population. The FY 2016 Criminal Justice BRB (Laws 2015, Chapter 17) permits DPS to utilize monies in the fund for the operational costs of the Arizona Counter Terrorism Information Center.		
Funds Expended	700,000	700,000
Year-End Fund Balance	0	0
State Highway Fund (PSA2030/A.R.S. § 28-6991)		Appropriated
Source of Revenue: Monies appropriated by the Legislature, a portion of the Highway User Revenue Fund, fees, penalties and revenue derived from traffic and vehicle regulation.		
Purpose of Fund: To fund a portion of Highway Patrol costs and cover expenses of state enforcement of traffic laws and state administration of traffic safety programs.		
Funds Expended	6,743,900	7,273,200
Year-End Fund Balance*	(318,200)	(318,200)
State Highway Work Zone Safety Fund (PSA2480/A.R.S. § 28-710)		Non-Appropriated
Source of Revenue: A 50% allocation of the additional assessment levied for civil traffic violations committed in a highway work zone.		
Purpose of Fund: To establish and maintain a public education campaign for highway work zone safety.		
Funds Expended	0	0
Year-End Fund Balance	247,400	260,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Statewide Donations (PSA2025/A.R.S. § 41-1713)		Non-Appropriated
Source of Revenue: Donations from outside entities.		
Purpose of Fund: To fund the costs of special events and other purposes determined by the Governor's Office of Highway Safety.		
Funds Expended	0	0
Year-End Fund Balance	7,400	7,400
State Traffic and Parking Control Fund (ADA2453/A.R.S. § 41-796)		Non-Appropriated
Source of Revenue: Penalties and fees collected for traffic and parking violations on state property.		
Purpose of Fund: To post signs, markings, and notices for the regulation of vehicles on state property, as well as to maintain state parking lots and structures.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Victims' Rights Enforcement Fund (PSA2519/A.R.S. § 41-1727)		Non-Appropriated
Source of Revenue: A \$2 surcharge on criminal offenses and civil traffic violations and up to \$100,000 annually from the revenues of lottery games that are sold from vending machines. Laws 2015, Chapter 245 added lottery games that are sold from vending machine revenues to the fund and allowed for lottery game revenues to be backfilled by unclaimed lottery prize monies in the event that they do not reach the \$100,000 threshold.		
Purpose of Fund: To provide grants to non-profit entities that can demonstrate a 5-year history of providing legal representation and social services to crime victims. Up to 5% of the revenues into the fund can be used for administrative costs of the fund.		
Funds Expended	2,500	1,013,300
Year-End Fund Balance	284,300	262,600

* As reported by the agency. Actual ending balance will not be negative.

Public Safety Personnel Retirement System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
SPECIAL LINE ITEMS			
EORP Fund Deposit	5,000,000	5,000,000	5,000,000
Prescott Fire Employer Group Deposit	1,000,000	1,000,000	1,000,000
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 Baseline 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 payments. (See the Consolidated Retirement Report section for more information.)

Prescott Fire Employer Group Deposit

The Baseline 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. A September 2013 actuarial study estimates the total multi-year liability to the employer account of the Prescott Fire Department associated with these 3 additional enrollees is approximately \$1.9 million.

See the Consolidated Retirement Report section for more information on PSPRS membership and actuarial data.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Fire Fighter, Peace Officer, and Corrections Officer Cancer Insurance Policy Program		Non-Appropriated
Account (No Fund Number/A.R.S. § 38-643)		
Source of Revenue: Consists of employer contributions of \$180 per fire fighter participating in the Public Safety Personnel Retirement System (PSPRS) as of June 30 of each year.		
Purpose of Fund: The account allows the Fund Manager to obtain a group cancer insurance policy to provide coverage to fire fighters, peace officers, and correction officers for expenses incurred in the treatment of cancer that was first diagnosed after membership in PSPRS. The Fund Manager may use up to 10% of the monies deposited in the account for administrative expenses.		
Funds Expended	32,900	29,400
Year-End Fund Balance	0	0
Investment and Administrative Expenses (No Fund Number/A.R.S. § 38-843; 38-802; 38-882; 38-840.02)		Non-Appropriated
Source of Revenue: Public Safety Personnel Retirement Fund; Elected Officials' Retirement Fund; Correctional Officer Retirement Fund; Elected Officials' Defined Contribution Disability Program Trust Fund.		
Purpose of Fund: A 5-member governing board called the Fund Manager administers PSPRS, the Elected Officials' Retirement Plan (EORP), the Elected Officials' Defined Contribution Retirement System (EODC System), and the Correctional Officer Retirement Plan (CORP). Authority is granted in statute for the Fund Manager to spend monies from each fund to pay for necessary administration and investment expenses. FY 2015 and FY 2016 expenditures exclude \$128,862,400 and \$123,707,900, respectively, of net fees applied to investments.		
Funds Expended	12,092,200	10,856,000
Year-End Fund Balance	0	0

Arizona Department of Racing

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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 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 Boxing Regulation is 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 (BRB) (Laws 2015, Chapter 19) merged the Department of Racing into the Department of Gaming, effective 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 2015 actual expenditures for the Department of Racing are displayed in the table above. *(Please see the Department of Gaming for more information.)*

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Breeders' Award Fund (GMA2206/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
Purpose of Fund: To award the breeder of every winning horse, greyhound foaled or whelped, statewide.		
Funds Expended	0	0
Year-End Fund Balance	15,400	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
DPS-FBI Fingerprint Fund (GMA2159/A.R.S. § 41-1750)		Non-Appropriated
Source of Revenue: Revenues include fees collected from fingerprint clearance cards.		
Purpose of Fund: Revenues are transferred to the Department of Public Safety to process fingerprint clearance cards.		
Funds Expended	0	0
Year-End Fund Balance	2,000	0
Greyhound and Retired Racehorse Adoption Fund (GMA2015/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: License fees collected from dog breeders, racing kennels, and other operations where greyhounds are raised for dog racing. Additional monies are collected by the horse adoption surcharge that receives 5% of all horse racing related fines.		
Purpose of Fund: To provide funding for grants to non-profit organizations for the promotion and adoption of retired racing greyhounds and horses.		
Funds Expended	2,200	0
Year-End Fund Balance	500	0
Racing Administration Fund (GMA2018/A.R.S. § 5-113)		Non-Appropriated
Source of Revenue: General Fund appropriations. Expenditures are not displayed to avoid double counting the General Fund.		
Purpose of Fund: To administer the Arizona County Fairs Racing Betterment Fund, the Arizona Breeders' Award Fund, the Arizona Stallion Award Fund, and the Greyhound Adoption Fund.		
Funds Expended	0	0
Year-End Fund Balance	23,700	0
Racing Commission Bond Deposit Fund (GMA3720/A.R.S. § 5-107)		Non-Appropriated
Source of Revenue: The fund holds bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing also deposits all racing and boxing applicant or licensee payments submitted in excess of the amount due into this fund.		
Purpose of Fund: To hold bonds posted by commercial racing permit holders until the permittee withdraws their permit. The Division of Racing requires racing permittees to post a bond with the Division of Racing each year, which is refunded when the permittee withdraws their permit. Forfeited bonds are deposited into the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	55,600	0
Racing Investigation Fund (GMA2369/A.R.S. § 41-705)		Non-Appropriated
Source of Revenue: Monies collected from persons, partnerships, associations or corporations that hold a permit for a racing meeting under Title 5.		
Purpose of Fund: To cover the cost of racing investigations by the Arizona Department of Racing. The fund is administered by the Department of Administration and disbursements are made pursuant to instructions from the Director of the Department of Racing.		
Funds Expended	17,900	0
Year-End Fund Balance	23,700	0
Racing Regulation Fund (GMA2556/A.R.S. § 5-113.01)		Appropriated
Source of Revenue: License fees and regulatory assessments established by the Arizona Department of Racing and the Boxing Commission, pari-mutuel taxes from wagering at horse and dog racing facilities and donations or grants received by the department.		
Purpose of Fund: To support the mission of the department.		
Funds Expended	2,848,000	0
Year-End Fund Balance	1,042,900	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Racing Regulation Fund - Mixed Martial Arts Account (GMA2393/A.R.S. § 5-225)		Non-Appropriated
Source of Revenue: Fees established by the Boxing Commission for unarmed combat events.		
Purpose of Fund: To pay for the administration and regulation of unarmed combat.		
Funds Expended	29,800	0
Year-End Fund Balance	51,300	0

Radiation Regulatory Agency

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	33.5	34.5	34.5
Personal Services	847,900	847,900	847,900
Employee Related Expenditures	354,900	354,900	354,900
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	322,200
Equipment	31,900	37,300	37,300
OPERATING SUBTOTAL	1,622,500	1,626,500	1,626,500
SPECIAL LINE ITEMS			
Nuclear Emergency Management Fund	695,200	819,700	789,700
AGENCY TOTAL	2,317,700	2,446,200	2,416,200
FUND SOURCES			
General Fund	1,466,500	1,595,000	1,565,000
Other Appropriated Funds			
Radiation Regulatory Fee Fund	578,700	578,700	578,700
State Radiologic Technologist Certification Fund	272,500	272,500	272,500
SUBTOTAL - Other Appropriated Funds	851,200	851,200	851,200
SUBTOTAL - Appropriated Funds	2,317,700	2,446,200	2,416,200
Other Non-Appropriated Funds			
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	2,717,300

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 Baseline includes \$1,626,500 and 29 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$775,300
Radiation Regulatory Fee Fund	578,700
State Radiologic Technologist Certification Fund	272,500

These amounts are unchanged from FY 2016.

Nuclear Emergency Management Fund

The Baseline includes \$789,663 and 5.5 FTE Positions from the General Fund in FY 2017 for the Nuclear Emergency Management Fund (NEMF). FY 2017 adjustments would be as follows:

NEMF Decrease

GF

(30,000)

The Baseline 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 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.

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FORMAT — Lump Sum by Agency

STATUTORY CHANGES

The Baseline would, as session law, continue 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants (AEA2000/A.R.S. § 30-654)		Non-Appropriated
Source of Revenue: Federal grants and miscellaneous revenue.		
Purpose of Fund: To track radiation levels, assess and reduce radon levels, and monitor x-ray facilities in the state.		
Funds Expended	268,200	268,200
Year-End Fund Balance	19,300	42,000
Laser Safety Fund (AEA2388/A.R.S. § 32-3234)		Non-Appropriated
Source of Revenue: Fees collected from the authorization of certificates to individuals that operate lasers of Intense Pulsed Light (IPL) devices for health and cosmetic related purposes.		
Purpose of Fund: To fund the costs of issuing licenses to individuals that operate lasers or IPL devices for health related purposes.		
Funds Expended	32,900	32,900
Year-End Fund Balance	7,100	11,200
Nuclear Emergency Management Fund (AEA2138/A.R.S. § 26-306.02)		Non-Appropriated
Source of Revenue: An assessment levied against a consortium of corporations that operate the Palo Verde Nuclear Generating Station.		
Purpose of Fund: To administer and enforce the state plan for off-site response to an emergency caused by an accident at a commercial nuclear generating station. Expenditures from this fund are not displayed to avoid double counting of appropriated funds.		
Funds Expended	0	0
Year-End Fund Balance	6,500	6,500
Radiation Regulatory Fee Fund (AEA2554/A.R.S. § 30-658)		Appropriated
Source of Revenue: Includes fees collected for licensing, inspection, and registration fees for individuals and other entities utilizing radiological materials.		
Purpose of Fund: To provide funding for the operating expenses of the agency.		
Funds Expended	578,700	578,700
Year-End Fund Balance	15,600	31,500
State Radiologic Technologist Certification Fund (AEA2061/A.R.S. § 32-2823)		Appropriated
Source of Revenue: License fees paid by x-ray technologists.		
Purpose of Fund: To provide for the licensing of x-ray technologists and the investigation of complaints.		
Funds Expended	272,500	272,500
Year-End Fund Balance	7,400	42,800

State Real Estate Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	656,200
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	458,600
Equipment	60,600	61,100	61,100
AGENCY TOTAL	2,452,800	2,985,200	2,985,200
FUND SOURCES			
General Fund	2,452,800	2,985,200	2,985,200
SUBTOTAL - Appropriated Funds	2,452,800	2,985,200	2,985,200
Other Non-Appropriated Funds	59,500	185,100	185,100
TOTAL - ALL SOURCES	2,512,300	3,170,300	3,170,300

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.

Operating Budget

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The Baseline includes \$2,985,200 and 37 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Education Revolving Fund (REA4011/A.R.S. § 32-2107)		Non-Appropriated
Source of Revenue: Sale of the department's educational publications, primarily the <i>Real Estate Lawbook</i> .		
Purpose of Fund: To cover the department's costs of printing real estate regulation books and other public information publications, and to cover the department's costs for other educational efforts, including sponsoring and holding the educational seminars or workshops for educators and other licensees. All monies in excess of \$25,000 at the end of the fiscal year shall revert to the General Fund.		
Funds Expended	11,000	15,000
Year-End Fund Balance	25,600	21,300

SUMMARY OF FUNDS

**FY 2015
Actual****FY 2016
Estimate**

Recovery Fund (REA3119/A.R.S. § 32-2186)**Non-Appropriated**

Source of Revenue: A fee of \$20 for brokers and \$10 for salespersons, paid upon application for an original real estate or cemetery license. A surcharge on license renewals is assessed if the fund balance on June 30 of any year falls below \$600,000. The fund also consists of restitution paid by persons convicted of real estate fraud and ordered to repay a judgment awarded out of the Recovery Fund.

Purpose of Fund: To compensate persons who have been defrauded in a real estate transaction and subsequently suffered monetary losses. Those persons may seek a court order for an award from the Recovery Fund if the person who committed the fraud has no assets. Monies also provide for the department's cost of administering the fund.

Funds Expended

48,500

170,100

Year-End Fund Balance

944,300

856,200

Residential Utility Consumer Office

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	245,800
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	168,500
OPERATING SUBTOTAL	996,400	1,190,000	1,190,000
SPECIAL LINE ITEMS			
Professional Witnesses	28,700	145,000	145,000
AGENCY TOTAL	1,025,100	1,335,000	1,335,000

FUND SOURCES

Other Appropriated Funds

Residential Utility Consumer Office Revolving Fund	1,025,100	1,335,000	1,335,000
SUBTOTAL - Other Appropriated Funds	1,025,100	1,335,000	1,335,000
SUBTOTAL - Appropriated Funds	1,025,100	1,335,000	1,335,000
TOTAL - ALL SOURCES	1,025,100	1,335,000	1,335,000

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 Baseline includes \$1,190,000 and 11 FTE Positions from the RUCO Revolving Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Monies in this line item are used to fund expert witness testimony at utility rate hearings.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

Professional Witnesses

The Baseline includes \$145,000 from the RUCO Revolving Fund in FY 2017 for Professional Witnesses. This amount is unchanged from FY 2016.

FOOTNOTES

Standard Footnotes

Monies in the Professional Witnesses Special Line Item are a continuing appropriation and are exempt from provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Residential Utility Consumer Office Revolving Fund (UOA2175/A.R.S. § 40-409)		Appropriated
Source of Revenue: An assessment levied on public service corporations with annual residential revenues in excess of \$250,000, as defined by A.R.S. § 40-401.01.		
Purpose of Fund: To operate the Residential Utility Consumer Office.		
Funds Expended	1,025,100	1,335,000
Year-End Fund Balance	571,300	422,000

Board of Respiratory Care Examiners

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	79,200
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	39,000
Equipment	1,200	1,100	1,100
AGENCY TOTAL	264,800	300,100	300,100

FUND SOURCES

Other Appropriated Funds

Board of Respiratory Care Examiners Fund	264,800	300,100	300,100
SUBTOTAL - Other Appropriated Funds	264,800	300,100	300,100
SUBTOTAL - Appropriated Funds	264,800	300,100	300,100
TOTAL - ALL SOURCES	264,800	300,100	300,100

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

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FORMAT — Lump Sum by Agency

The Baseline includes \$300,100 and 4 FTE Positions from the Board of Respiratory Care Examiners Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Board of Respiratory Care Examiners Fund (RBA2269/A.R.S. § 32-3505)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of respiratory care practitioners. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate respiratory care practitioners, and for board administration.		
Funds Expended	264,800	300,100
Year-End Fund Balance	229,700	200,200

Arizona State Retirement System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	5,118,800
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	2,790,300
Equipment	435,200	651,100	389,500
OPERATING SUBTOTAL	23,488,200	25,711,600	25,495,000
SPECIAL LINE ITEMS			
ASRS Plan Design Changes	40,900	0	0
Automation Upgrades	1,736,300	2,270,000	2,070,000
Laws 2011, Ch. 26 Rate Change Administration Procedures	18,100	0	0
Laws 2013, Ch. 216 Public Retirement Systems; Ineligible Employees	82,800	0	0
AGENCY TOTAL	25,366,300	27,981,600	27,565,000
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	24,765,000
SUBTOTAL - Other Appropriated Funds	25,366,300	27,981,600	27,565,000
SUBTOTAL - Appropriated Funds	25,366,300	27,981,600	27,565,000
Other Non-Appropriated Funds	84,258,500	87,805,200	78,165,000
TOTAL - ALL SOURCES	109,624,800	115,786,800	105,730,000

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 Baseline includes \$25,495,000 and 250.9 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
State Retirement System Administration Account	\$22,695,000
Long-Term Disability (LTD) Trust Fund Administration Account	2,800,000

FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (216,600)

The Baseline 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.

Automation Upgrades

The Baseline includes \$2,070,000 from the State Retirement System Administration Account in FY 2017 for Automation Upgrades. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (200,000)

The Baseline 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 Baseline funding matches estimated project costs in Year 4.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Monies in the Automation Upgrades Line Item are a continuing appropriation and are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

Other Issues

(Please see the Consolidated Retirement Report for more information.)

See the Consolidated Retirement Report section for more information on ASRS membership and actuarial data.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Administrative Account - Investment Expenses (RSA1407/A.R.S. § 38-721)		Non-Appropriated
Source of Revenue: Transfer from the State Retirement Fund.		
Purpose of Fund: Investment management fees and related consulting fees, actuarial consulting fees, rent, and retiree payroll. Funding is subject to Retirement Board approval. Excludes \$156,377,000 and \$163,716,400 of net fees applied to investments in FY 2015 and FY 2016, respectively.		
Funds Expended	84,258,500	87,805,200
Year-End Fund Balance	0	0
Long-Term Disability Trust Fund Administration Account (RSA1408/A.R.S. § 38-797.02)		Partially-Appropriated
Source of Revenue: Long-Term Disability (LTD) Trust Fund.		
Purpose of Fund: To pay for the cost of administering the LTD program.		
Appropriated Funds Expended	2,287,300	2,800,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
State Retirement System Administration Account (RSA1401/A.R.S. § 38-721)		Appropriated
Source of Revenue: Transfer from the State Retirement Fund.		
Purpose of Fund: To pay the Arizona State Retirement System's administrative expenses.		
Funds Expended	23,079,000	25,181,600
Year-End Fund Balance	0	0

Department of Revenue

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	880.8
Personal Services	30,453,400	28,451,200	28,451,200
Employee Related Expenditures	13,545,900	12,503,000	12,503,000
Professional and Outside Services	6,292,000	9,570,100	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	10,691,700
Equipment	2,772,900	2,071,300	2,071,300
OPERATING SUBTOTAL	62,685,600	63,694,300	63,694,300
SPECIAL LINE ITEMS			
BRITS Operational Support	6,014,400	7,538,900	7,538,900
Income Tax Fraud Prevention	0	3,150,000	3,150,000
TPT Information Technology	0	1,230,700	0
TPT Simplification	1,000,000	990,600	990,600
Unclaimed Property Administration and Audit	1,070,500	1,218,500	1,218,500
AGENCY TOTAL	70,770,500	77,823,000	76,592,300
FUND SOURCES			
General Fund	45,637,600	30,338,600	30,338,600
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	24,215,700	46,407,500	45,176,800
Liability Setoff Program Revolving Fund	378,600	398,000	398,000
Tobacco Tax and Health Care Fund	538,600	678,900	678,900
SUBTOTAL - Other Appropriated Funds	25,132,900	47,484,400	46,253,700
SUBTOTAL - Appropriated Funds	70,770,500	77,823,000	76,592,300
Other Non-Appropriated Funds	4,011,200	3,017,100	3,017,100
TOTAL - ALL SOURCES	74,781,700	80,840,100	79,609,400

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.

Operating Budget

The Baseline includes \$63,694,300 and 810.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$24,152,400
DOR Administrative Fund	38,465,000
Liability Setoff Program Revolving Fund	398,000
Tobacco Tax and Health Care Fund	678,900

These amounts are unchanged from FY 2016.

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The Baseline includes \$7,538,900 and 51 FTE Positions in FY 2017 for operational support of BRITS. These amounts consist of:

General Fund	2,045,600
DOR Administrative Fund	5,493,300

These amounts are unchanged from FY 2016.

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 Baseline 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 will be 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 Baseline includes no funding from the DOR Administrative Fund in FY 2017 for programming changes to TAS. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (1,230,700)

The Baseline 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 has yet to determine when the system will be available.

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 Baseline includes \$990,600 and 19 FTE Positions from the General Fund in FY 2017 for TPT simplification

responsibilities. These amounts are unchanged from FY 2016.

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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

New Footnotes

The department may not transfer any monies from the Income Tax Fraud Prevention line item without prior review by the Joint Legislative Budget Committee.

The department shall report the results of private fraud prevention investigation services during FY 2016 to the Joint Legislative Budget Committee by November 1, 2016. The report shall include the total number of fraudulent returns prevented and the total dollar amount of fraudulent returns prevented during FY 2016.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the FY 2017 appropriation for the Department of Revenue including a \$3,150,000 General Fund increase for contracting for private fraud prevention investigation services. The footnote also required DOR to make a request for proposal for these services. These funds have been moved to a separate line item and DOR has already awarded the contract.

The Baseline would delete the footnote requiring the Department of Revenue to report on the amount of individual income tax credits claimed in FY 2015. The Baseline would make this footnote permanent law. *(Please see the Statutory Changes section for more information regarding this permanent law.)*

STATUTORY CHANGES

The Baseline would:

- As permanent law, require 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 claimed for a given fiscal year within 3 months of the end of a fiscal year. This report was previously included as a footnote in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8).
- As permanent law, retroactively extend the allocation of luxury tax revenues to the Corrections Fund beyond the June 30, 2015 expiration date. 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. The Baseline would permanently extend this allocation and specify this change is retroactive to July 1, 2015. Without a statutory change, the luxury tax revenues that would have been allocated the Corrections Fund will instead be distributed to the General Fund.

Other Issues

Tobacco Tax/Master Settlement Agreement

The Baseline 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 Budget Reconciliation Bill (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 Baseline General Fund revenue projections have been reduced accordingly to account for this lack of revenue.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Department of Revenue Administrative Fund (RVA1993/A.R.S. § 42-1116.01)		Appropriated
Source of Revenue: The sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Each year, \$24,500,000 in unclaimed property proceeds are deposited into this fund. In addition, pursuant to A.R.S. § 42-5041, this fund receives cost assessments paid by local governments for DOR operating costs.		
Purpose of Fund: To cover the Department of Revenue's operating costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property.		
Funds Expended	24,215,700	46,407,500
Year-End Fund Balance	2,969,600	1,817,900
Escheated Estates Fund (RVA3745/A.R.S. § 12-885)		Non-Appropriated
Source of Revenue: The fund consists of monies from the sale of escheated estates. Property escheats, or reverts to the state, after 5 years when there is no will to transmit the property and there are no legal heirs to inherit it.		
Purpose of Fund: To deposit proceeds from the sale of escheated property and hold them in the fund for 12 months, from which payment of claims may be made, before being transferred to the Permanent State School Fund. There were no transfers made in FY 2015.		
Funds Expended	0	0
Year-End Fund Balance	365,300	365,300
Estate and Unclaimed Property Fund (RVA1520/A.R.S. § 44-301)		Non-Appropriated
Source of Revenue: The fund consists of monies from the sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Notwithstanding the title of this fund, it no longer includes the proceeds of escheated estates. Those funds are deposited to the department's Escheated Estates Fund.		
Purpose of Fund: To pay allowed claims. The department retains not less than \$100,000 of the fund while the state attempts to locate abandoned property owners. Once monies are determined to be "unreturnable" they are disbursed as follows: Monies associated with unclaimed utility deposits are transferred to the Utility Assistance Fund. Monies from unclaimed shares and dividends of Arizona corporations and unclaimed property in a self-storage unit are transferred to the Permanent State School Fund. Unclaimed victim restitution monies are transferred to the Arizona Criminal Justice Commission's Victim Compensation and Assistance Fund. A.R.S. § 44-313 requires that the first \$2,000,000 in unclaimed property proceeds be deposited into the Seriously Mentally Ill Housing Trust Fund, the next \$2,500,000 into the Housing Trust Fund, the next \$24,500,000 into the DOR Administrative Fund and all remaining monies be redirected to the General Fund.		
Funds Expended	0	0
Transfer to Unclaimed Property Refunds	42,673,900	43,000,000
Year-End Fund Balance	5,466,700	5,466,700
I Didn't Pay Enough Fund (RVA6001/A.R.S. § 43-211)		Non-Appropriated
Source of Revenue: Voluntary contributions from taxpayers.		
Purpose of Fund: Up to 10% of annual deposits may be used by DOR to administer the fund. Any unexpended monies revert to the General Fund at the close of the fiscal year.		
Funds Expended	0	0
Year-End Fund Balance	19,800	29,800
IGA and ISA Fund (RVA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Transfer of funds from Arizona Early Childhood Development and Health Board. The fund also receives all transfers relating to the Automation Projects Fund projects. In addition, the FY 2016 Revenue BRB deposited \$0.76 per resident fee from Non-Program cities to fund sales tax related IT projects.		
Purpose of Fund: To execute various intergovernmental and interagency service agreements.		
Funds Expended	4,011,200	3,017,100
Year-End Fund Balance	4,321,900	4,704,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Liability Setoff Program Revolving Fund (RVA2179/A.R.S. § 42-1122)		Appropriated
Source of Revenue: Fees collected from agencies, political subdivisions or taxpayers utilizing the setoff procedure. The Department of Revenue withholds taxpayer refunds to satisfy debts owed by the taxpayers to certain state and local agencies, such as delinquent child support payments owed to the Department of Economic Security.		
Purpose of Fund: To cover the Department of Revenue's costs of administering the Liability Setoff program.		
Funds Expended	378,600	398,000
Year-End Fund Balance	2,262,600	2,950,900
Revenue Publications Revolving Fund (RVA2166/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: Receipts from the sale of department tax-related publications.		
Purpose of Fund: To offset costs of publishing and distributing tax-related publications.		
Funds Expended	0	0
Year-End Fund Balance	35,500	60,500
Special Collections Fund (RVA2168/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: This fund consists of all monies received pursuant to contingent fee contracts to collect delinquent state taxes, penalties and interest due under A.R.S. Title 43 (taxation of income) and Title 42, Chapter 5, Article 1 (transaction privilege taxes).		
Purpose of Fund: To pay all fees and court costs provided for in contingent fee collection contracts authorized by A. R. S. § 42-1004B3. The remainder of the collected amounts is distributed to the state or political subdivisions according to the distribution proportions for the tax collected.		
Funds Expended	0	0
Year-End Fund Balance	1,834,000	1,834,000
Statewide Employee Recognition Gifts/Donations Fund (RVA2449/A.R.S. § 35-149)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity or major life event of department employees.		
Funds Expended	0	0
Year-End Fund Balance	2,200	4,700
Tobacco Tax and Health Care Fund (RVA1306/A.R.S. § 36-771)		Appropriated
Source of Revenue: The fund consists of tobacco taxes retained by the department to administer the Tobacco Tax program.		
Purpose of Fund: To monitor and enforce tobacco tax laws.		
Funds Expended	538,600	678,900
Year-End Fund Balance	6,200	6,200
Waste Tire Fund (RVA2356/A.R.S. § 44-1305)		Non-Appropriated
Source of Revenue: Collections from a fee on new tire purchases and penalties for violations.		
Purpose of Fund: Up to 3.5% of the monies in the fund are transferred quarterly to the Department of Environmental Quality (DEQ) to monitor and enforce the requirements of A.R.S. Title 44, Chapter 9, Article 8, Waste Tire Disposal. The remainder is distributed quarterly to counties to establish and implement waste tire programs. Monies in the fund are exempt from lapsing under A.R.S. § 35-190.		
Funds Expended	0	0
Year-End Fund Balance	0	0

School Facilities Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	336,400
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	166,500
Equipment	35,200	0	0
OPERATING SUBTOTAL	1,629,600	1,672,500	1,672,500
SPECIAL LINE ITEMS			
Access Our Best Public Schools Fund Deposit	0	23,900,000	21,500,000
Access Our Best Public Schools Funding	0	23,900,000	21,500,000
Building Renewal Grants	15,128,600	16,667,900	16,667,900
New School Facilities	858,200	2,249,600	1,174,600
New School Facilities Debt Service	160,739,300	172,388,100	170,006,600
AGENCY TOTAL	178,355,700	240,778,100	232,521,600
FUND SOURCES			
General Fund	178,355,700	216,878,100	211,021,600
<u>Other Appropriated Funds</u>			
Access Our Best Public Schools Fund	0	23,900,000	21,500,000
SUBTOTAL - Other Appropriated Funds	0	23,900,000	21,500,000
SUBTOTAL - Appropriated Funds	178,355,700	240,778,100	232,521,600
Other Non-Appropriated Funds	87,743,500	90,646,800	89,073,400
TOTAL - ALL SOURCES	266,099,200	331,424,900	321,595,000

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.

Operating Budget

The Baseline includes \$1,672,500 and 17 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Access Our Best Public Schools Fund Deposit

The Baseline includes \$21,500,000 from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit. FY 2017 adjustments would be as follows:

General Fund Deposit	GF	FY 2017
		\$(2,400,000)

The Baseline includes a decrease of \$(2,400,000) from the General Fund in FY 2017 for the Access Our Best Public Schools Fund Deposit. This FY 2017 funding level is

consistent with the 3-year budget projections associated with the enacted FY 2016 budget.

The Access Our Best Public Schools (AOBPS) Fund was created in FY 2016. The fund consists 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.

Monies in the fund are to be made available to public schools that are members of the Arizona Public School Achievement District.

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 Baseline includes \$21,500,000 from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. FY 2017 adjustments would be as follows:

AOBPS Fund Decrease OF (2,400,000)

The Baseline includes a decrease of \$(2,400,000) from the AOBPS Fund in FY 2017 for Access Our Best Public Schools Funding. This adjustment corresponds to the reduced AOBPS General Fund Deposit.

An FY 2016 General Appropriation Act footnote and the FY 2016 K-12 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 new 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 has not yet come before 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 Baseline includes \$16,667,900 from the General Fund in FY 2017 for Building Renewal Grants. This amount is unchanged from FY 2016.

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 end of FY 2016, 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 Baseline includes \$1,174,600 from the General Fund in FY 2017 for New School Facilities. FY 2017 adjustments would be as follows:

New School Construction GF (1,075,000)

The Baseline includes a decrease of \$(1,075,000) from the General Fund in FY 2017 for New School Construction.

The Baseline includes \$1,174,600 in funding in FY 2017 to continue construction of a new 17,190 square foot school with capacity for 191 students at Benson Unified School District (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.)

Agua Fria Unified High School District (UHSD) and Chandler Unified School District (USD) may qualify for new construction projects in FY 2017 totaling \$35.7 million excluding land costs if formally approved by SFB before March 1, 2016. The Agua Fria UHSD project would cost \$33.4 million (\$11.0 million in FY 2017, \$19.0 million in FY 2018, and \$3.4 million in FY 2019) and would fund 200,000 square feet of additional space in the district. The Chandler USD project would cost \$2.3 million in FY 2017 and would fund 15,420 square feet of additional space in the Chandler USD. Neither project has been formally approved by the board.

Enrollment at Agua Fria UHSD and Chandler USD has previously been short of the Average Daily Membership (ADM) levels needed to officially qualify for new school construction. The districts may become eligible during the next cycle of SFB reviews which will occur December 2015 through March 1, 2016.

Type of School	Square Feet Per Student	Funding Per Square Foot ^{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 Baseline includes \$170,006,600 from the General Fund in FY 2017 for New School Facilities Debt Service. FY 2017 adjustments would be as follows:

Lease-Purchase Payment **GF** **(128,500)**
The Baseline 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 **GF** **(2,253,000)**
The Baseline includes a decrease of \$(2,253,000) 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 will reduce SFB’s lease-purchase payments by a combined total of \$15,100,000 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 \$736,867,700.

The FY 2017 Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes
The monies appropriated to the Access Our Best Public Schools Funding line item shall be deposited in the Access Our Best Public Schools Fund, established by A.R.S. § 15-2042. Monies in the fund may not be expended until the

Executive Branch submits an expenditure plan to the Joint Legislative Budget Committee for review. Monies in the Access Our Best Public Schools Fund are appropriated for the purpose of developing mechanisms that an Arizona Public School Achievement District could use to assist in the expansion of member schools or the construction of new facilities for member schools, including mechanisms for this state to act as the guarantor for debt financing for member schools. The Executive Branch shall recommend proposed legislation to codify the mechanisms developed.

Pursuant to A.R.S. § 15-2041, the amount appropriated for New School Construction shall be used only for a facility that is to be constructed for a school district that received final approval from the School Facilities Board on or before March 1, 2015.

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 shall be deposited in or revert to the state General Fund.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the \$1,000,000 transfer in FY 2015 from the Building Renewal Grants line item to the Emergency Deficiencies Correction Fund.

POTENTIAL STATUTORY CHANGES

The Legislature may also consider modifying A.R.S. § 15-2011 to reduce the current 25% excluded space threshold for locally funded school district projects.

When analyzing new school construction, SFB first calculates a district's minimum square footage requirement, which is the current number of pupils multiplied by the statutory requirement (such as 90 sq. ft. per student for K-6 schools). This minimum standard is then compared to a district's square footage, which is determined by taking into account all square footage required by law and then excluding space which is specifically listed in statute. If a district's square footage is below the minimum statutory guidelines, the district is awarded a new school.

These excluded spaces are as follows:

- 1) All square footage used for district administration;
- 2) Square footage that is used for non-academic purposes (such as storage);
- 3) Locally funded space paid with Class B bonds that were approved after the creation of SFB. This locally funded space is excluded to the extent that this space

is less than 25% of the district's minimum square footage requirement. Once the locally funded space exceeds the 25% threshold, the space above 25% is included in the SFB calculations.

Exclusion #3 (the "25% excluded space threshold") was originally intended to give school districts the flexibility to construct a limited amount of locally funded space to meet district needs without being penalized in future SFB awards. If certain amounts of locally funded space were not excluded from future SFB calculations, this would make the district less likely to qualify for new school construction awards in the future.

However, under current practice, the 25% threshold allows some larger districts to exclude a large amount of locally funded space from SFB new construction award calculations. In certain circumstances, this can lead to significant new school construction awards even in cases where the district is not over capacity when factoring in all available space (state and locally funded).

For example, under the current policy Agua Fria UHSD is allowed to exclude 130,641 square feet of locally funded space from SFB new construction calculations. This level of excluded space is approximately 18.3% of Agua Fria UHSD's minimum square footage requirements.

As noted above in the New School Facilities line item section, Agua Fria USHD may be awarded a 200,000 square foot project in the next several months. If the Legislature were to reduce the 25% excluded space threshold, SFB would count more locally funded space towards meeting the state's minimum guidelines. This, in turn, would mitigate the need for a substantial new school award to Agua Fria USHD.

One option is for the Legislature to adopt a lower threshold, such as 10%. Under this option, 59,248 square feet (or enough space for 474 pupils) for Agua Fria USHD would become "visible" during SFB calculations. This space would accommodate 2 additional years of student growth before requiring an award based on current enrollment patterns.

However, such a revision may require further study. Lowering the excluded space threshold may have a very different impact on large versus small districts. A large district below a 10% threshold could still qualify for funding from the state for New School Construction after building a new locally funded school. Whereas, a small district would likely be unable to qualify for funding from the state after building a new locally funded school if a 10% threshold is used.

Other Issues

Long-Term Budget Impacts

As part of the Baseline’s 3-year spending plan, SFB’s General Fund costs are projected to decrease by \$(1,419,500) in FY 2018 below FY 2017 and \$(35,474,500) in FY 2019 below FY 2018. These estimates are based on:

Access Our Best Public Schools Fund – The long-term estimates assume the Access Our Best Public Schools Deposit funding would remain unchanged in FY 2018 and FY 2019.

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 Benson USD K-4 space. In FY 2018, new school construction spending would then decline by \$(1,174,600) with the completion of the Benson USD project.

Long-term budget estimates are subject to change depending on SFB’s future awards of new school construction.

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.

FY 2016 Ex-Appropriation

The FY 2017 Baseline 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.)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Access Our Best Public Schools Fund (SFA1111/A.R.S. § 15-2042)		Appropriated
Source of Revenue: Legislative appropriations, grants, gifts, and donations.		
Purpose of Fund: To distribute monies to public schools that are members of the Arizona Public School Achievement District to construct new school facilities or to expand existing school facilities or to serve as a guarantee for debt financing. At least 50% of the projects that receive monies from the fund shall be in low socioeconomic areas. Monies in the fund that are grants, gifts, or donations are continuously appropriated.		
Funds Expended	0	23,900,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Building Renewal Grant Fund (SFA2392/A.R.S. § 15-2032)		Non-Appropriated
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To provide grants to school districts for maintaining the adequacy of existing school facilities. To prevent double counting, FY 2015 and FY 2016 expenditures exclude \$16,667,900 and \$16,667,900, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	28,391,600	0
Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)		Non-Appropriated
Source of Revenue: Monies transferred from the Building Renewal Grants Fund or New School Facilities Fund. \$1,000,000 was transferred from the Building Renewal Grants Fund in FY 2015.		
Purpose of Fund: To provide school districts monies for facility emergencies.		
Funds Expended	142,000	1,569,900
Year-End Fund Balance	1,569,900	0
Land Trust Bond Debt Service Fund (SFA5030/Laws 2003, Chapter 264)		Non-Appropriated
Source of Revenue: Monies credited to the fund from the Permanent State School Fund (A.R.S. § 37-521.B1).		
Purpose of Fund: To pay the debt service on \$246,600,000 in State Land Trust Revenue bonds.		
Funds Expended	23,294,000	24,905,000
Year-End Fund Balance	22,761,400	22,762,800
Lease to Own Debt Service Fund (SFA2373/A.R.S. § 15-2004)		Non-Appropriated
Source of Revenue: Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation proceeds.		
Purpose of Fund: To pay the debt service on any lease-to-own agreements entered into by SFB to finance the costs of new school construction. To prevent double counting, FY 2015 and FY 2016 expenditures exclude \$160,739,300 and \$172,388,100, respectively, from the General Fund.		
Funds Expended	105,700	14,600
Year-End Fund Balance	351,100	336,500
New School Facilities Fund (SFA2460/A.R.S. § 15-2041)		Non-Appropriated
Source of Revenue: Appropriated monies, monies received by the State Land Department from the lease of state public school land, and proceeds from lease-to-own agreements. To prevent double counting, FY 2015 and FY 2016 expenditures exclude \$858,200 and \$2,249,600, respectively, from the General Fund.		
Purpose of Fund: To provide school districts with monies for constructing new school facilities, and to pay for the following: construction project management services, school building structural assessments, and land acquisition services.		
Funds Expended	6,100	9,300
Year-End Fund Balance	540,700	253,900
School Improvement Revenue Bond Debt Service Fund (SFA5020/A.R.S. § 15-2084)		Non-Appropriated
Source of Revenue: Revenues from a 0.6% increase in the state Transaction Privilege Tax (as approved under Proposition 301 in the 2000 General Election) and monies credited to the fund from the Permanent State School Fund.		
Purpose of Fund: To pay the debt service on \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 in QZAB revenue bonds.		
Funds Expended	64,195,700	64,148,000
Year-End Fund Balance	14,515,900	17,047,800

Department of State - Secretary of State

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	141.1	141.1	141.1
Personal Services	4,910,500	4,568,800	4,568,800
Employee Related Expenditures	2,203,500	1,985,400	1,985,400
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	3,650,200
Equipment	41,500	100,800	100,800
OPERATING SUBTOTAL	10,997,900	10,573,700	10,573,700
SPECIAL LINE ITEMS			
Election Services	3,537,500	4,426,400	4,426,400
Help America Vote Act (HAVA)	1,714,600	2,941,500	2,941,500
Special Election	0	9,300,000	0
Library Grants-in-Aid	530,000	651,400	651,400
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
AGENCY TOTAL	16,877,000	27,990,000	18,690,000
FUND SOURCES			
General Fund	14,468,900	24,306,500	15,006,500
<u>Other Appropriated Funds</u>			
Election Systems Improvement Fund	1,714,600	2,941,500	2,941,500
Records Services Fund	693,500	742,000	742,000
SUBTOTAL - Other Appropriated Funds	2,408,100	3,683,500	3,683,500
SUBTOTAL - Appropriated Funds	16,877,000	27,990,000	18,690,000
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	32,968,700	23,668,700

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 Baseline includes \$10,573,700 and 131.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$9,831,700
Record Services Fund	742,000

These amounts are unchanged from FY 2016.

Election Services

The Baseline includes \$4,426,400 and 10 FTE Positions from the General Fund in FY 2017 for Election Services. These amounts are unchanged from FY 2016.

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.

This line item includes \$1,035,600 from the General Fund for the Personal Services and Employee Related Expenditures of SOS elections staff for FY 2016.

Additionally, this line item includes funding for the Presidential Preference Election (PPE) to be held on March 22, 2016 in FY 2016 and the Primary Election to be held on August 30, 2016 and General Election to be held on November 8, 2016 in FY 2017.

In FY 2016, SOS has chosen 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 \$213,500 and be completed 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.

Per statute, SOS reimburses counties at a rate of \$1.25 per active registered voter for PPE elections. The cost of reimbursing counties for the PPE would be \$4,141,300 using an SOS projected statewide voter registration of 3,313,060.

In addition, SOS is required to provide certain state-level funding for the PPE, such as mailing out sample ballots. These services are estimated to cost \$736,600.

In total, PPE costs of the \$1.25 reimbursement to counties and state level expenditures are 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.

After accounting for the staff and automation costs for FY 2016, the Legislature could 1) provide SOS with supplemental funding of \$2,190,600 to backfill the difference between available funding and the PPE costs at the \$1.25 level or 2) fund county reimbursement at a rate of \$0.59 per voter to remain within the available appropriation, which would require a Budget Reconciliation Bill provision. *(Please see the Other Issues section for more information on PPE Elections.)*

Help America Vote Act (HAVA)

The Baseline includes \$2,941,500 from the Election Systems Improvement Fund in FY 2017 for the Help America Vote Act (HAVA) (P.L. 107-252). This amount is unchanged from FY 2016.

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 Baseline includes no funding from the General Fund in FY 2017 for a statewide special election. FY 2017 adjustments would be as follows:

Special Election	GF	(9,300,000)
The Baseline 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 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.

Library Grants-in-Aid

The Baseline 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 Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Included in the operating lump sum appropriation of \$10,573,700 for FY 2017 is \$5,000 for the purchase of mementos and items for visiting officials.

Any transfer to or from the amount appropriated for the Election Services line item shall require review by the Joint Legislative Budget Committee.

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.

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.

The \$651,400 appropriation from the General Fund for the Library-Grants-In-Aid Special Line Item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

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. The FY 2016 Government BRB returned the reimbursement rate to \$1.25 per active registered voter, the rate established in statute prior to Laws 2012, Chapter 361.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Address Confidentiality Program Fund (STA2557/A.R.S. § 41-169)		Non-Appropriated
Source of Revenue: An assessment of \$50 imposed on all persons convicted of domestic violence, stalking, or certain sexual offenses.		
Purpose of Fund: To administer the Address Confidentiality Program. This program allows the Secretary of State to establish an alternate public address to protect victims of domestic violence, stalking, and sexual offenses.		
Funds Expended	161,000	151,100
Year-End Fund Balance	217,200	306,100

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Blue Book Revolving Fund (STA2006/A.R.S. § 41-131)		Non-Appropriated
Source of Revenue: Proceeds from the sales of Arizona Blue Books and legislative appropriations.		
Purpose of Fund: To publish the Arizona Blue Book, which contains information about the state's Executive, Legislative, and Judicial Branches.		
Funds Expended	0	0
Year-End Fund Balance	11,200	11,200
Data Processing Acquisition Fund (STA2265/A.R.S. § 41-127)		Non-Appropriated
Source of Revenue: A special recording fee on Uniform Commercial Code and other filings.		
Purpose of Fund: To defray the cost of improving data processing within the Office of the Secretary of State. Any uncommitted monies in excess of \$250,000 at the close of the calendar year revert to the General Fund.		
Funds Expended	83,600	268,500
Year-End Fund Balance	240,600	122,100
Election Systems Improvement Fund (STA2357/A.R.S. § 41-129)		Appropriated
Source of Revenue: Monies received from the United States government, matching monies from state, county or local governments, legislative appropriations, gifts, grants, and donations.		
Purpose of Fund: To implement the provisions of the Help America Vote Act (HAVA) (P.L. 107-252). HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections, including replacement of all punch-card and lever voting machines, implementation of a statewide voter registration database, and implementation of a voting system that meets federal standards.		
Funds Expended	1,714,600	2,941,500
Year-End Fund Balance	5,561,700	2,657,400
Election Training Fund (STA2521/A.R.S. § 16-407)		Non-Appropriated
Source of Revenue: Receives money from cities and towns whose employees take election training courses.		
Purpose of Fund: To provide election training to officials from cities and towns.		
Funds Expended	0	0
Year-End Fund Balance	5,900	7,400
Federal Grants (LAA2000/A.R.S. § 41-151.06)		Non-Appropriated
Source of Revenue: Federal grants awarded to the state for library purposes.		
Purpose of Fund: Prescribed by the federal grantor for statewide library purposes.		
Funds Expended	2,783,500	3,727,700
Year-End Fund Balance*	717,000	(514,900)
IGA and ISA Fund (STA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Intergovernmental Agreements and Internal Service Agreements with other state agencies.		
Purpose of Fund: To record and manage Intergovernmental Agreements and Internal Service Agreements.		
Funds Expended	0	0
Year-End Fund Balance	5,400	5,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Museum Gift Shop Revolving Fund (LAA4008/A.R.S. § 41-151.24)		Non-Appropriated
<i>Source of Revenue:</i> Proceeds from the sale of merchandise at the Capitol Museum Gift Shop.		
<i>Purpose of Fund:</i> To provide for state-related inventory to be sold at the Capitol Museum Gift Shop.		
Funds Expended	112,300	97,700
Year-End Fund Balance	78,300	57,100
Notary Bond Fund (STA2387/A.R.S. § 41-314)		Non-Appropriated
<i>Source of Revenue:</i> The fund receives a portion of the fee collected from the processing of notary bonds.		
<i>Purpose of Fund:</i> To defray the cost associated with the processing and administration of notary bonds.		
Funds Expended	89,100	100,000
Year-End Fund Balance	121,000	188,300
Professional Employer Organization Fund (STA2520/A.R.S. § 23-576)		Appropriated
<i>Source of Revenue:</i> Professional Employer Organization (PEO) registration and renewal fees.		
<i>Purpose of Fund:</i> To pay the costs of administering PEO registration and investigating any allegations of malfeasance. The FY 2014 Government Budget Reconciliation Bill (Laws 2013, 1 st Special Session, Chapter 2) delayed the implementation of the PEO registration program until the end of FY 2023.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Records Services Fund (LAA2431/A.R.S. § 41-151.12)		Appropriated
<i>Source of Revenue:</i> Fees collected from state agencies, political subdivisions, and other governmental units for records storage services.		
<i>Purpose of Fund:</i> To help defray costs of preserving and managing the state of Arizona's public records.		
Funds Expended	693,500	742,000
Year-End Fund Balance	369,600	203,500
Standing Political Committee Administrative Fund (STA2426/A.R.S. § 41-128)		Non-Appropriated
<i>Source of Revenue:</i> Filing fees paid by standing political committees.		
<i>Purpose of Fund:</i> To pay the costs of administering and enforcing the campaign finance laws relating to standing political committees.		
Funds Expended	0	0
Year-End Fund Balance	63,500	83,500
State Library Fund (LAA2115/A.R.S. § 41-151.06)		Non-Appropriated
<i>Source of Revenue:</i> Private donations, private grants and monies collected through charges for reproduction of materials in the Research Division.		
<i>Purpose of Fund:</i> To improve statewide library service.		
Funds Expended	198,000	633,700
Year-End Fund Balance	1,213,400	596,100

* As reported by the agency. Actual ending balance will not be negative.

State Boards' Office

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3.0	3.0	3.0
Personal Services	70,000	132,900	132,900
Employee Related Expenditures	30,900	46,500	46,500
Professional and Outside Services	10,400	1,100	1,100
Other Operating Expenditures	43,300	35,300	35,300
Equipment	200	0	0
AGENCY TOTAL	154,800	215,800	215,800

FUND SOURCES

Other Appropriated Funds

Special Services Revolving Fund	154,800	215,800	215,800
SUBTOTAL - Other Appropriated Funds	154,800	215,800	215,800
SUBTOTAL - Appropriated Funds	154,800	215,800	215,800
TOTAL - ALL SOURCES	154,800	215,800	215,800

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

* * *

FORMAT — Lump Sum by Agency

The Baseline includes \$215,800 and 3 FTE Positions from the Special Services Revolving Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

The breakdown of the FY 2017 State Boards' Office charges by agency is reflected in *Table 1*.

Board	FY 2015	FY 2016	FY 2017
Acupuncture Board of Examiners	\$ 12,900	\$ 17,900	\$ 17,900
Barbers, Board of	1,100	1,500	1,500
Funeral Directors & Embalmers, State Board of	24,900	34,700	34,700
Homeopathic and Integrated Medicine Examiners, Board of	9,900	13,800	13,800
Massage Therapy, Board of	28,900	40,300	40,300
Naturopathic Physicians Medical Board	12,300	17,200	17,200
Nursing Care Inst. Admin. & Assisted Living Facility Mgrs.	17,500	24,500	24,500
Opticians, State Board of Dispensing	16,400	23,000	23,000
Optometry, State Board of	15,800	22,000	22,000
Physical Therapy, Board of	100	100	100
Podiatry Examiners, State Board of	15,000	20,800	20,800
Total	\$154,800	\$215,800	\$215,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Special Services Revolving Fund (ADA4208/A.R.S. § 35-193.02)		Appropriated
Source of Revenue: Monies are collected from 11 small regulatory boards residing in the State Boards' Office. This is the appropriated portion of a larger fund within the Department of Administration (ADOA). <i>(See the ADOA Section for additional fund information.)</i>		
Purpose of Fund: To provide centralized office services, printing, and other administrative or management services.		
Funds Expended	154,800	215,800
Year-End Fund Balance *	2,000	(50,600)

*As reported by the agency. Actual ending balance will not be negative.

State Board of Tax Appeals

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	42,400
Equipment	2,800	0	0
AGENCY TOTAL	263,900	266,400	266,400
FUND SOURCES			
General Fund	263,900	266,400	266,400
SUBTOTAL - Appropriated Funds	263,900	266,400	266,400
TOTAL - ALL SOURCES	263,900	266,400	266,400

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 Baseline includes \$266,400 and 4 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

* * *

FORMAT — Lump Sum by Agency

State Board of Technical Registration

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	410,200
Professional and Outside Services	127,600	309,100	309,100
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	397,500
Equipment	4,600	0	0
AGENCY TOTAL	1,844,400	2,122,600	2,122,600

FUND SOURCES

Other Appropriated Funds

Technical Registration Fund	1,844,400	2,122,600	2,122,600
SUBTOTAL - Other Appropriated Funds	1,844,400	2,122,600	2,122,600
SUBTOTAL - Appropriated Funds	1,844,400	2,122,600	2,122,600
Other Non-Appropriated Funds	16,300	20,400	20,400
TOTAL - ALL SOURCES	1,860,700	2,143,000	2,143,000

AGENCY DESCRIPTION — The agency licenses, investigates, and conducts examinations of architects, assayers (assessors of mineral value), engineers, geologists, home inspectors, land surveyors, and landscape architects.

Operating Budget

* * *

The Baseline includes \$2,122,600 and 25 FTE Positions from the Technical Registration Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Technical Registration Fund (TEA2070/A.R.S. § 32-109)		Appropriated
Source of Revenue: Monies collected by the board from examinations and licensing of architects, assayers (assessors of mineral value), engineers, geologists, land surveyors, landscape architects, and home inspectors. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate architects, assayers, engineers, geologists, land surveyors, landscape architects, and home inspectors, and for board administration.		
Funds Expended	1,844,400	2,122,600
Year-End Fund Balance	2,023,400	2,189,000
Technical Registration Board of Investigations Fund (TEA2072/A.R.S. § 32-128)		Non-Appropriated
Source of Revenue: Court assessments, fines, forfeitures and other penalties.		
Purpose of Fund: To fund the cost of disciplinary investigations relating to fraudulent or misrepresented certifications, negligence or other misconduct.		
Funds Expended	16,300	20,400
Year-End Fund Balance	223,400	316,700

Office of Tourism

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	1,979,800
Equipment	25,200	1,400	1,400
OPERATING SUBTOTAL	7,103,700	7,110,400	7,110,400
SPECIAL LINE ITEMS			
Arizona Promotion	2,000,000	0	0
AGENCY TOTAL	9,103,700	7,110,400	7,110,400
FUND SOURCES			
General Fund	9,103,700	7,110,400	7,110,400
SUBTOTAL - Appropriated Funds	9,103,700	7,110,400	7,110,400
Other Non-Appropriated Funds	15,606,600	13,779,000	13,779,000
TOTAL - ALL SOURCES	24,710,300	20,889,400	20,889,400

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

statewide tourism promotion. (For further details on agency revenues, please see Table 1.)

The Baseline includes \$7,110,400 and 28 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

* * *

FORMAT — Lump Sum in the form of a deposit to the Tourism Fund

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

Table 1

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	\$7,110,400
<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</u> ^{2/}	<u>6,631,400</u> ^{2/}
Total		\$22,949,300	\$21,090,800	\$22,092,200

^{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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Tourism Fund (TOA2236/A.R.S. § 41-2306)		Non-Appropriated
Source of Revenue: The Tourism Fund receives a transfer from the Arizona Sports and Tourism Authority (AZSTA) to be used for tourism promotion in Maricopa County. AZSTA receives revenue derived from a 1% increase in the bed tax and a 3.25% increase in the car rental tax. Of this amount, AZSTA is to transfer \$4,000,000 in FY 2002 and increase the transfer amount each year by 5% to the Tourism Fund. The fund also receives a portion of tribal gaming contributions, pursuant to Proposition 202 from 2002. Finally, A.R.S. § 41-2306 allows the Tourism Fund to receive General Fund appropriations. General Fund appropriation expenditures are not displayed to avoid double counting of appropriations.		
Purpose of Fund: To pay for all costs associated with Office of Tourism activities.		
Funds Expended	15,606,600	13,779,000
Year-End Fund Balance	2,794,000	2,794,000

Department of Transportation

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,548.0	4,548.0	4,552.0
Personal Services	99,780,600	106,835,400	106,976,500
Employee Related Expenditures	45,780,000	47,928,900	48,005,200
Professional and Outside Services	6,030,700	5,781,000	5,782,600
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	40,632,900	40,639,900
Equipment	4,679,200	3,694,000	3,695,400
OPERATING SUBTOTAL	202,758,500	205,692,200	205,925,700
SPECIAL LINE ITEMS			
Attorney General Legal Services	2,895,600	2,895,600	2,895,600
Fraud Investigation	766,600	767,000	767,000
Highway Maintenance	135,915,000	138,882,700	138,882,700
New Third-Party Funding	570,600	631,800	631,800
Vehicles and Heavy Equipment	18,507,000	18,545,500	18,545,500
AGENCY TOTAL	361,413,300	367,414,800	367,648,300
FUND SOURCES			
General Fund	900	50,400	50,400
<u>Other Appropriated Funds</u>			
Air Quality Fund	67,900	74,200	74,200
Driving Under the Influence Abatement Fund	88,500	153,200	153,200
Highway User Revenue Fund	528,900	652,700	652,700
Motor Vehicle Liability Insurance Enforcement Fund	1,690,700	1,082,600	1,316,100
Safety Enforcement and Transportation Infrastructure Fund	1,878,700	1,875,500	1,875,500
State Aviation Fund	1,623,500	1,622,900	1,622,900
State Highway Fund	335,576,400	341,899,700	341,899,700
Transportation Department Equipment Fund	18,507,000	18,545,500	18,545,500
Vehicle Inspection and Title Enforcement Fund	1,450,800	1,458,100	1,458,100
SUBTOTAL - Other Appropriated Funds	361,412,400	367,364,400	367,597,900
SUBTOTAL - Appropriated Funds	361,413,300	367,414,800	367,648,300
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	476,304,600	476,538,100

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 Baseline includes \$205,925,700 and 3,390 FTE Positions in FY 2017 for the operating budget. These amounts consist of:		Driving Under the Influence Abatement Fund	153,200
		Highway User Revenue Fund	454,000
		Motor Vehicle Liability Insurance Enforcement Fund	1,216,600
		Safety Enforcement and Transportation Infrastructure Fund	1,315,500
		State Aviation Fund	1,622,900
		State Highway Fund	199,667,900
		Vehicle Inspection & Title Enforcement Fund	1,371,000
General Fund	FY 2017 \$50,400		
Air Quality Fund	74,200		

FY 2017 adjustments would be as follows:

Vehicle for Hire Program OF 233,500

The Baseline includes an increase of \$233,500 and 4 FTE Positions from the Motor Vehicle Liability Insurance 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 Legal Services

The Baseline includes \$2,895,600 from the State Highway Fund in FY 2017 for Attorney General Legal Services. This amount is unchanged from FY 2016.

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 Baseline 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 Baseline includes \$138,882,700 and 932 FTE Positions in FY 2017 for Highway Maintenance. These amounts consist of:

Safety Enforcement and Transportation Infrastructure Fund	560,000
State Highway Fund	138,322,700

These amounts are unchanged from FY 2016.

In addition to the \$138,882,700 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 Baseline includes \$631,800 and 20 FTE Positions in FY 2017 for New Third-Party Funding. These amounts consist of:

Highway User Revenue Fund	198,700
Motor Vehicle Liability Insurance Enforcement Fund	99,500
State Highway Fund	246,500
Vehicle Inspection & Title Enforcement Fund	87,100

These amounts are unchanged from FY 2016.

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.

Vehicles and Heavy Equipment

The Baseline includes \$18,545,500 and 200 FTE Positions from the Transportation Department Equipment Fund in FY 2017 for Vehicles and Heavy Equipment. These amounts are unchanged from FY 2016.

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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Of the total amount appropriated, \$138,882,700 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.

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.

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.

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.

New Footnotes

The Department of Transportation shall contract with an independent third-party consultant for the duration of the Motor Vehicle Division legacy system replacement project. Within 30 days after the last day of each calendar quarter, the independent third-party consultant shall submit a quarterly progress report to Director of the Joint Legislative Budget Committee throughout the life of the project. The quarterly report shall evaluate and assess the project's success in meeting and incorporating the tenets of the project investment justification, including but not limited to 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.

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.

Annually, on or before August 1, the department shall report to the Director of the Joint Legislative Budget Committee on the amount of savings generated from the renegotiation of the Service Arizona contract in the prior fiscal year.

Using cost savings generated from the renegotiation of the Service Arizona contract, ADOT has begun a multi-year \$56.0 million project to modernize the Motor Vehicle Division legacy system. These footnotes would require the use of an independent third-party consultant, consistent with current state law requiring third-party review of any automation project exceeding \$5,000,000. Because the legacy system replacement project began prior to the enactment of the third-party review requirement, these footnotes are necessary. For accountability purposes, the footnotes would also require ADOT to report on the indirect costs of the new system on non-ADOT entities and the savings generated from the renegotiation of the Service Arizona contract.

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 prior to expenditure. *(ADOT has been using monies from the operating budget to supplement its Attorney General Legal Services funding. This footnote would consolidate all Attorney General expenditures into the proper line item.)*

STATUTORY CHANGES

Potential Statutory Changes

The JLBC Staff recommends that the Legislature consider, as permanent law, a provision amending A.R.S. § 28-5101G to require the deposit of any savings generated from the renegotiation of the Service Arizona contract into the State Highway Fund.

Other Issues

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.

The Director of the Arizona Department of Administration will submit a succession plan to the Joint Legislative Budget Committee for review by March 1, 2016. *(Please see the Department of Weights and Measures and the Arizona Department of Agriculture for more information.)*

As of October 2015, the Department of Weights and Measures has completed the agency consolidation process through a series Interagency Service Agreements with the Arizona Department of Agriculture, the Arizona Department of Public Safety, 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 requires 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 (DHS) granted Arizona an extension and will accept existing Arizona driver licenses until October 10, 2016. Once DHS determines that Arizona's new travel ID meets federal standards, the extension will be lengthened to 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 50 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. Of the special plates listed, only the Don't Tread on Me plate has yet to be implemented.

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
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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Air Quality Fund (DTA2226/A.R.S. § 49-551) Appropriated

Source of Revenue: An annual \$1.50 air quality fee collected for each vehicle at the time of registration. ADOT is appropriated monies from the Air Quality Fund in the Department of Environmental Quality.

Purpose of Fund: For tracking the availability and sales of oxygenated fuels to ensure that a sufficient supply is available for non-attainment areas of the state.

Funds Expended	67,900	74,200
Year-End Fund Balance	45,900	46,200

Arizona Highways Magazine Fund (DTA2031/A.R.S. § 28-7315) Non-Appropriated

Source of Revenue: Sales of subscriptions, maps, pamphlets, and other materials, Arizona Highways special plate donations, and interest earnings. The fund can also consist of monies appropriated by the Legislature from the State Highway Fund, not to exceed \$500,000 annually. There are no current appropriations.

Purpose of Fund: For production and sales of subscriptions, maps, pamphlets, etc. Remaining balances in this revolving fund at the end of a fiscal year shall not revert to the State General or State Highway Fund and expenditures are exempt from statutory allotment provisions.

Funds Expended	4,751,200	4,637,500
Year-End Fund Balance	3,394,600	3,743,100

Bicycle Safety Fund (DTA3080/A.R.S. § 28-818) Appropriated

Source of Revenue: Federal Funds, donations, monies from this state or any agency of this state for the Bicycle Safety Fund.

Purpose of Fund: A.R.S. § 28-818 establishes a Bicycle Safety Fund to plan, engineer, construct, and maintain bicycle paths. Subject to legislative appropriation, monies in the Bicycle Safety Fund may be used to match federal or local monies spent for these purposes or for safety programs.

Funds Expended	0	0
Year-End Fund Balance	0	0

Cash Deposits Fund (DTA2266/A.R.S. § 28-363) Non-Appropriated

Source of Revenue: Deposits from individuals either bidding at auction on department property or renting department property.

Purpose of Fund: To hold deposits from individuals bidding on excess land and property for sale at auction, which are either applied against their purchase price or are returned to the individual if their bid is unsuccessful. Also, to hold deposits from individuals who rent department property. Their money is either refunded at the end of their tenancy or is used to offset repairs, if needed.

Funds Expended	12,900	13,000
Year-End Fund Balance	459,700	463,200

Contract Counsel Fund (DTA4212/A.R.S. § 28-6925) Non-Appropriated

Source of Revenue: An amount of \$30,000 was originally appropriated from the State Highway Fund to the Contract Counsel Fund. The Arizona Department of Administration replenishes expended monies from State Highway Fund monies appropriated for construction of state highways, as ADOT submits itemized statements detailing their expenditures from the Contract Counsel Fund.

Purpose of Fund: To reimburse the Attorney General for attorneys' services for rights-of-way condemnation cases on federal aid projects.

Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Driving Under the Influence Abatement Fund (DTA2422/A.R.S. § 28-1304)		Appropriated
Source of Revenue: A fee of \$250 to be paid by every offender convicted of an extreme driving under the influence (DUI) offense. An extreme DUI violation is defined as a person possessing a blood alcohol concentration of 0.15 or greater. Another portion of monies is from civil penalties against an ignition interlock manufacturer or installer who fails to properly report ignition interlock data to the ADOT Director.		
Purpose of Fund: To fund DUI-related programs. The Oversight Council on Driving or Operating Under the Influence Abatement distributes 25% of the revenues to fund pilot programs that use emerging technologies to deter occurrences of driving under the influence, and at least 70% of the monies to fund subdivisions and tribal governments for enforcement purposes and alcohol abuse treatment services. The Arizona Criminal Justice Commission staffs the Council. ADOT and the Department of Public Safety (DPS) receive grant funds from the Council. Not more than 5% of the monies are to be used for administrative purposes.		
Funds Expended	88,500	153,200
Year-End Fund Balance	65,400	67,400
Economic Strength Project Fund (DTA2244/A.R.S. § 28-7282)		Non-Appropriated
Source of Revenue: The fund receives \$1,000,000 each June 15 from the Highway User Revenue Fund and interest from investment of inactive balances.		
Purpose of Fund: For "economic strength" highway projects recommended by the Arizona Commerce Authority and approved by the State Transportation Board. These are projects that will retain or increase a significant number of jobs, lead to significant capital investment, or make a significant contribution to the economy of this state or within a local authority. Monies remaining in the Economic Strength Project Fund at the end of a fiscal year do not revert to the General Fund. <i>(See the ADOT Capital Outlay Budget section for expenditures.)</i>		
Funds Expended	0	0
Year-End Fund Balance	4,556,400	1,020,100
Federal Grants (DTA2097/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Federal grants, other than aviation federal grants.		
Purpose of Fund: For federal highway construction and maintenance; assistance to elderly and handicapped; rural public transit; technical studies; rail planning and rehabilitation; other planning; highway statistical reporting; fatal accident reporting; safety; commercial driver's license; library updates; and fuel tax evasion. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	1,827,800	1,441,000
Year-End Fund Balance	1,027,700	1,147,700
Highway Expansion and Extension Loan Program Fund (DTA2417/A.R.S. § 28-7674)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; monies received from the federal government, state agencies, political subdivisions and Indian tribes; interest; and public or private gifts, grants or donations.		
Purpose of Fund: To create a state infrastructure bank under the Federal State Infrastructure Bank Act to provide financial assistance to political subdivisions, Indian tribes and state agencies for eligible transportation projects. The fund makes loans to ADOT, cities, and other entities to accelerate highway construction projects. The loans are repaid from future programmed funds for those projects. The fund may be used to pay costs to administer the fund and shall pay costs of an annual financial audit of the fund.		
Funds Expended	21,400	58,000,000
Year-End Fund Balance	78,748,800	1,224,800
Highway User Revenue Fund (DTA3113/A.R.S. § 28-6533)		Appropriated
Source of Revenue: Transportation-related licenses, taxes, fees, penalties and interest such as the motor vehicle fuel tax, vehicle license tax, vehicle registration, driver's license, interest earnings, and others.		
Purpose of Fund: For various highway related purposes in the state, including distributions to the State Highway Fund which is the primary source for the department's operating budget and to political subdivisions for highway purposes. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	528,900	652,700
Year-End Fund Balance	692,346,200	722,863,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona International Development Authority Fund (DTA1994/A.R.S. § 41-4505)		Non-Appropriated
Source of Revenue: The fund consists of monies received from the federal government, tolls, fees, gifts, grants, donations from any public or private source, interest earnings, and any other monies received by the Arizona International Development Authority (AIDA).		
Purpose of Fund: To pay costs associated with the administration of the fund and to carry out the requirements of AIDA. Monies in the fund can also be used to provide grants or loans for international transportation and infrastructure projects. ADOT is required to provide staff support to AIDA including general administrative, office, equipment and staff support, using earnings from the fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Local Agency Deposits Fund (DTA3701/A.R.S. § 28-363)		Non-Appropriated
Source of Revenue: Monies received from local jurisdictions.		
Purpose of Fund: To pay for locally sponsored secondary road construction projects. Any money left after the project is closed out is returned to the local entity. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	1,158,600	207,000
Year-End Fund Balance	121,592,100	106,000,000
Maricopa Regional Area Road Fund (DTA2029/A.R.S. § 28-6302)		Non-Appropriated
Source of Revenue: The fund consists of all transportation excise taxes collected pursuant to A.R.S. § 42-1482 and A.R.S. § 42-1482.01 that are designated for deposit in the Regional Area Road Fund in Maricopa County, plus proceeds from the sale of bonds, rents, and interest earnings.		
Purpose of Fund: For bond related expenses and for the design, purchase of right-of-way or construction of controlled access highways which are included in the county's regional transportation plan and accepted into the state highway system. Figures exclude expenditures for capital highway construction projects.		
Funds Expended	45,112,000	42,927,500
Year-End Fund Balance	456,239,500	107,088,500
Motor Carrier Safety Revolving Fund (DTA2380/A.R.S. § 28-5203)		Non-Appropriated
Source of Revenue: The fund consists of monies appropriated by the Legislature; fines; forfeitures; fees and taxes applied to all manufacturers, shippers, motor carriers and drivers who transport or cause the transportation of hazardous material; and monies received from private grants or donations.		
Purpose of Fund: To carry out the provisions of the chapter. DPS conducts investigations, the Motor Vehicle Division administers hearings, and the Attorney General enforces civil penalties.		
Funds Expended	0	0
Year-End Fund Balance	45,700	49,400
Motor Vehicle Liability Insurance Enforcement Fund (DTA2285/A.R.S. § 28-4151)		Appropriated
Source of Revenue: Fees received by the department pursuant to A.R.S. Title 28, Chapter 9, Article 4 (mandatory motor vehicle insurance), such as fees to reinstate drivers' licenses and vehicle registrations canceled due to lack of insurance.		
Purpose of Fund: For the department to enforce mandatory motor vehicle liability insurance laws.		
Funds Expended	1,690,700	1,082,600
Year-End Fund Balance	1,071,900	892,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Railroad Corridor Acquisition Fund (DTA2493/Laws 2007, Chapter 267, Section 13)		Non-Appropriated
Source of Revenue: Legislative appropriation.		
Purpose of Fund: To contract studies related to the development of high-speed rail corridors within Arizona. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Rental Tax and Bond Deposit Fund (DTA3737/A.R.S. § 28-371)		Non-Appropriated
Source of Revenue: Cash deposits from motor carrier and use fuel taxpayers, and portions of rent that the department collects.		
Purpose of Fund: To hold cash deposits from motor carrier and use fuel taxpayers who choose to make cash deposits instead of providing surety bonds to guarantee their fee payments. Any money remaining in a taxpayer's account would be returned to the taxpayer. To hold the county property tax portion of rent on department properties, which is forwarded to the appropriate county tax office. Also, to hold the privilege tax portion of rent on the department's commercial properties, which is forwarded to the Department of Revenue.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Safety Enforcement and Transportation Infrastructure Fund (DTA2108/A.R.S. § 28-6547)		Appropriated
Source of Revenue: Fees for commercial vehicle permits collected at southern ports of entry on the border with Mexico and interest earnings.		
Purpose of Fund: To enforce vehicle safety requirements by DPS and ADOT, and maintain and construct transportation facilities within 25 miles of the Arizona-Mexico border. To improve vehicle congestion at Mexican border ports of entry, and obtain Federal Funds for Safety Enforcement and Transportation Infrastructure Fund (SETIF) purposes. Also to maintain and construct transportation facilities in the Canada to Mexico (CANAMEX) trucking and trade corridor, which came about as a result of the North American Free Trade Agreement (NAFTA) between Canada, the United States and Mexico. In addition, ADOT may provide SETIF monies to the Arizona-Mexico Commission, Arizona Department of Homeland Security, and AIDA for certain SETIF-related purposes.		
Funds Expended	1,878,700	1,875,500
Year-End Fund Balance*	(18,800)	(217,200)
Shared Location and Advertising Agreements Expense Fund (DTA2414/A.R.S. § 28-409)		Non-Appropriated
Source of Revenue: The fund consists of monies received from agreements with public and private entities for services located in department offices or to advertise those entities' goods and services.		
Purpose of Fund: To partially offset the department's cost of providing a location or advertising. The fund is exempt from A.R.S. § 35-190, relating to lapsing of appropriations.		
Funds Expended	34,500	39,300
Year-End Fund Balance	39,300	0
State Aviation Fund (DTA2005/A.R.S. § 28-8202)		Appropriated
Source of Revenue: Flight property tax, aircraft registration fees, license taxes, fuel taxes, the sale of abandoned aircraft, receipts from airports operated by the department, and interest earnings.		
Purpose of Fund: For the administration of aviation laws, the operation and maintenance of state-owned airports, and capital projects at publicly-owned and operated airports of political subdivisions, which includes Indian reservations.		
Funds Expended	1,623,500	1,622,900
Year-End Fund Balance	27,175,700	3,078,300

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
State Highway Fund (DTA2030/A.R.S. § 28-6991)		Appropriated
Source of Revenue: Monies distributed from the Highway User Revenue Fund, certain vehicle fees which are deposited directly to the State Highway Fund, interest earnings, appropriations by the Legislature, and donations.		
Purpose of Fund: For the department's operating budget, the acquisition of right-of-way, construction and maintenance of state highways and roads, and other highway related projects. The expended funds only reflect operating expenses. <i>(Please see the Highway User Revenue Fund Distribution chart in the ADOT Capital section for non-operating expenditures.)</i>		
Funds Expended	335,576,400	341,899,700
Year-End Fund Balance	473,493,700	272,234,900
Statewide Employee Recognition Gifts/Donations Fund (DTA2449/A.R.S. § 35-149)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity, or major life event of department employees.		
Funds Expended	22,300	22,500
Year-End Fund Balance	22,300	22,500
Statewide Special Plates Fund (DTA2650/A.R.S. § 35-131)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal of the special plate fees, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue special plates. Up to 10% of annual deposits may be used by ADOT to administer the fund. ADOT is to annually allocate fund monies, excluding administrative fees, through a statutorily designated entity.		
Funds Expended	1,623,200	1,602,000
Year-End Fund Balance	1,601,800	1,602,000
Transportation Department Equipment Fund (DTA2071/A.R.S. § 28-7006)		Appropriated
Source of Revenue: Equipment rental, sale at auction, insurance recoveries, donations, interest earnings, and monies appropriated by the Legislature (for purchase, repairs and maintenance).		
Purpose of Fund: For ownership, maintenance, service or repair of equipment and consumable material including administrative expenses.		
Funds Expended	18,507,000	18,545,500
Year-End Fund Balance	598,600	388,500
Underground Storage Tank Revolving Fund (DTA3728/A.R.S. § 28-6007)		Non-Appropriated
Source of Revenue: The fund consists of Underground Storage Tank taxes paid by persons liable for motor/aviation fuel taxes; or persons who refine, manufacture or produce compounds, blend or import diesel (liquid petroleum).		
Purpose of Fund: For department administrative expenses. The department retains only administrative costs as determined by an intergovernmental agreement between ADOT and the Department of Environmental Quality.		
Funds Expended	0	0
Year-End Fund Balance	74,200	0
Vehicle Inspection and Title Enforcement Fund (DTA2272/A.R.S. § 28-2012)		Appropriated
Source of Revenue: Fees of \$20 and \$50 for performing more detailed level 2 and level 3 inspections of vehicle identification numbers, before issuing restored salvage titles on repaired salvage and similar vehicles.		
Purpose of Fund: To defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement and other enforcement related issues. A portion of the revenues are transferred to DPS for investigations concerning automobile theft.		
Funds Expended	1,450,800	1,458,100
Year-End Fund Balance	909,000	1,146,000

*As reported by the agency. Actual ending balance will not be negative.

State Treasurer

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	717,400
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	2,848,100
SPECIAL LINE ITEMS			
Virtual Border Fence	0	12,100	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	6,237,000
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	79,700
State Treasurer's Management Fund	197,600	196,600	196,600
State Treasurer's Operating Fund	2,541,400	2,571,800	2,571,800
SUBTOTAL - Other Appropriated Funds	4,673,000	5,044,000	5,031,900
SUBTOTAL - Appropriated Funds	5,878,100	6,249,100	6,237,000
Other Non-Appropriated Funds	4,495,400	4,495,400	4,495,400
TOTAL - ALL SOURCES	10,373,500	10,744,500	10,732,400

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 Baseline includes \$2,848,100 and 30.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
State Treasurer Empowerment Scholarship Account Fund	\$79,700
State Treasurer's Management Fund	196,600
State Treasurer's Operating Fund	2,571,800

These amounts are unchanged from FY 2016.

The State Treasurer Empowerment Scholarship Account 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 Empowerment Scholarship Account 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 Baseline includes no funding in FY 2017 for the development of a fence along the Arizona-Mexico border. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (12,100)

The Baseline 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 Baseline 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 Baseline 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 allocation is included in *Table 1*. The distribution is less than the appropriation due to insufficient revenues.

Table 1

Allocation of LEBSF Grants

<u>County</u>	<u>FY 2015</u>	<u>FY 2016 Thru October 14</u>
Apache	\$ 54,900	\$ 15,200
Coconino	182,400	49,000
Gila	181,600	50,200
La Paz	336,700	94,000
Maricopa	352,400	98,500
Mohave	538,800	148,500
Navajo	62,700	17,400
Yuma	<u>184,400</u>	<u>51,100</u>
Total	\$1,893,900	\$523,900

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FORMAT — Operating Lump Sum with Special Line Items by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Border Security Trust Fund (TRA2549/A.R.S. § 41-113)		Appropriated
Source of Revenue: Public and private donations.		
Purpose of Fund: To provide funding for the construction of a physical or virtual fence along the Arizona-Mexico border.		
Funds Expended	0	12,100
Year-End Fund Balance	270,100	275,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Criminal Justice Enhancement Fund (TRA3702/A.R.S. § 41-2401)		Non-Appropriated
Source of Revenue: The fund receives 11.7% of Criminal Justice Enhancement Fund (CJEF) monies. CJEF consists of a penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses and civil motor vehicle statute violations.		
Purpose of Fund: For distribution to counties for the training of detention officers and county jail operational enhancement.		
Funds Expended	4,495,400	4,495,400
Year-End Fund Balance	0	0
Law Enforcement and Boating Safety Fund (TRA2111/A.R.S. § 5-383)		Appropriated
Source of Revenue: A portion of watercraft licensing taxes and fines for operating motorized watercraft while under the influence.		
Purpose of Fund: To provide grants to county law enforcement agencies for water and boating safety programs. The Treasurer distributes grants based on a formula determined by the Arizona Game and Fish Commission.		
Funds Expended	1,894,000	2,183,800
Year-End Fund Balance	0	0
Public Deposit Administration Fund (TRA2574/A.R.S. § 35-1212)		Non-Appropriated
Source of Revenue: Pro Rata fees assessed to participants in the Statewide Collateral Pool and interest.		
Purpose of Fund: Funds the administration of the Statewide Collateral Pool. The Statewide Collateral Pool serves as a centralized fund for collateral that banks hold against public deposits in the event of a default.		
Funds Expended	0	0
Year-End Fund Balance	0	0
State Treasurer Empowerment Scholarship Account Fund (TRA2570/A.R.S. § 15-2402)		Appropriated
Source of Revenue: Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C.		
Purpose of Fund: To fund the State Treasurer's cost of administering the Empowerment Scholarship Accounts program authorized by A.R.S. § 15-2402. The Arizona Department of Education (ADE) also transfers monies to the State Treasurer each quarter for funding Empowerment Scholarship Accounts for individual students. Those monies are not displayed to avoid double counting of the General Fund (see also the "Department of Education Empowerment Scholarship Account Fund" in the Summary of Funds for ADE).		
Funds Expended	40,000	79,700
Year-End Fund Balance	0	0
State Treasurer's Management Fund (TRA3799/A.R.S. § 35-326.01)		Appropriated
Source of Revenue: A portion of management fees paid by the General Fund, state agencies, cities, towns, tribal governments, counties and political subdivisions of the state, not to exceed the amount appropriated by the Legislature.		
Purpose of Fund: To provide funding for the administrative expenses associated with managing LGIP.		
Funds Expended	197,600	196,600
Year-End Fund Balance	340,200	340,200
State Treasurer's Operating Fund (TRA3795/A.R.S. § 35-316)		Appropriated
Source of Revenue: A portion of management fee collections not to exceed 0.06% from the earnings on investment pools other than permanent endowment funds.		
Purpose of Fund: To provide funding for the operating expenses of the agency.		
Funds Expended	2,541,400	2,571,800
Year-End Fund Balance	333,000	333,000

Arizona Board of Regents

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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
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
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.

Operating Budget

The Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline includes a footnote that would require 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 2016 budgets 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. *(Please see Resident Student Funding in the Other Issues section for more information.)*

Student Financial Assistance

The Baseline 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 Baseline would continue 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 7 for additional information on financial aid.)*

Western Interstate Commission Office

The Baseline 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 Baseline 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, occupational therapy, osteopathy, podiatry, or veterinary medicine, PSEP allows interested students to enroll in these programs at private in-state institutions or other public western universities. The University of Arizona (UA) plans to begin offering a veterinary medicine degree in the 2016-2017 school year. Once UA's program is fully accredited, then Arizona students not already enrolled in a veterinarian program will be ineligible to apply for veterinary medicine subsidies through PSEP.

In FY 2016, ABOR is providing subsidies to 169 Arizona students, which is the same as 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Performance Funding

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.

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.

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. *(ABOR did not comply with this footnote, which was also included in the FY 2016 General Appropriation Act. Instead of using its adopted performance model in submitting its FY 2017 budget request, ABOR requested state funding based on the number of resident students enrolled at each campus. The Legislature may want to consider accepting this new resident student funding model, reforming the existing performance funding model, or eliminating the*

performance funding model altogether. Please see Resident Student Funding in the Other Issues sections for more information.)

ABOR Specific

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.

Universitywide

The state General Fund appropriation may not be used for alumni association funding.

The increased state General Fund appropriation from Laws 2014, Chapter 18 may not be used for medical marijuana research.

The appropriated monies may not be used for scholarships or any student newspaper.

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.

New Footnotes

When allocating any statewide adjustments, the Joint Legislative Budget Committee Staff shall use the overall appropriated operating budget General Fund/Tuition split for each university in determining that university's specific adjustment.

STATUTORY CHANGES

The Baseline would:

- 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 AFAT. Based on student fees contributed to AFAT in FY 2015, the state's match would grow to \$27,682,000 or an increase of \$17,640,800 over the current appropriation in FY 2017.

- As session law in the General appropriation Act, continue the \$200,000,000 universitywide payment deferral to the universities from FY 2017 to FY 2018.
- As session law, continue to require community colleges and universities to transfer \$6 per pupil by December 1, 2016 for deposit into the Education Learning and Accountability Fund, but have them transfer the monies to the Arizona Department of Administration Automation Projects Fund instead of ADE in order to avoid double counting by ADE. (Please see the Arizona Department of Education budget narrative for more information.)
- As permanent law, modify A.R.S. § 15-1670 to reflect long-term debt service savings from refinance of research infrastructure projects, beginning in FY 2018 through FY 2031. (Please see the 2003 Research Infrastructure Refinancing narrative in the Other Issues section for more information.)

Other Potential Statutory Changes

The Legislature may consider revising its approach to university tuition revenues by making tuition completely appropriated or non-appropriated. If tuition revenues are treated in a uniform fashion, then the Legislature may consider requiring those monies be segregated in a tuition-only fund. (Please see Tuition Revenues in the Other Issues section for more information.)

Other Issues

This section includes information on the following topics:

- October 2015 Special Session and Proposition 123
- Long-Term Budget Impacts: 2003 Research Infrastructure Refinancing
- Long-Term Budget Impacts: FY 2015 Operating Increase
- Health Insurance Trust Fund - FY 2016 Supplemental
- University Additional Resources
- Resident Student Funding
- Tuition Revenues
- Payment Deferral
- 2003 Research Infrastructure Refinancing
- University System Summary Tables

October 2015 Special Session and Proposition 123

As a beneficiary of the Arizona State Land Trust, ABOR receives monies generated from lease revenues and the proceeds from 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 have the discretion to spend their land trust monies as they see fit, 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 supports the Eminent Scholars program, which provides matching funds for the annual earnings on university endowments to attract and retain faculty.

As shown below in *Table 1*, ABOR received \$2,139,100 in monies distributed from university permanent funds in FY 2015.

Table 1

State Land Trust Distributions: Universities ^{1/}

Fund	FY 2015: 2.5% Distribution	FY 2016: Additional Funds under Prop 123
Military Institute	\$ 12,800	\$ 24,600
Normal Schools	82,100	163,600
A&M Colleges	228,000	443,300
School of Mines ^{2/}	258,000	501,200
Universities Land Fund	1,558,200	3,318,000
<i>University Land Code</i>	<i>429,000</i>	<i>851,300</i>
<i>U of A Land - 1881 Fund</i>	<u><i>1,129,200</i></u>	<u><i>2,466,700</i></u>
Total	\$2,139,100	\$4,450,700

^{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.

Conditional upon voter approval in May 2016, Proposition 123 would increase the 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 would receive \$4,450,700 in additional funding beyond what it otherwise would in FY 2016 if the ballot proposition is approved.

(Please see the Department of Education – Endowment Earnings section for more information.)

Long-Term Budget Impacts: 2003 Research Infrastructure Refinancing

Beyond FY 2017 Baseline changes, the JLBC Staff estimates ABOR General Fund costs to increase by \$3,698,800 in FY 2018 over FY 2017 and remain fairly constant between FY 2019 and FY 2031. The additional FY 2018 costs include an increase for 2003 Research Infrastructure Financing payments. These payments were refinanced in FY 2014; most savings occurred 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 Baseline assumes continuation of this \$4.5 million appropriation in FY 2018 and FY 2019.

Health Insurance Trust Fund - FY 2016 Supplemental

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 above for the FY 2016 General Fund reduction by university.)*

Table 2

University HITF General Fund Reductions FY 2016-FY 2017

	Budgeted FY 2016 Reductions	Revised FY 2016 Reductions	FY 2016 Supplemental (Difference)	Revised FY 2017 Reductions
Arizona State University	\$(3,402,200)	\$(1,119,000)	\$2,283,200	\$(2,238,000)
Northern Arizona University	(61,800)	(21,600)	40,200	(43,200)
University of Arizona	<u>(2,591,600)</u>	<u>(839,000)</u>	<u>1,752,600</u>	<u>(1,678,000)</u>
University Total	\$(6,055,600)	\$(1,979,600)	\$4,076,000	\$(3,959,200)

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. The FY 2017 Baseline proposes 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.

Using the Universities' fund splits would restore General Fund monies to the Universities by \$4,076,000. As a result, the Baseline includes a recommended FY 2016 supplemental appropriation of \$4,076,000 from the General Fund to the Universities. To make the issue budget neutral from a General Fund perspective, the Baseline also proposes to transfer \$4,076,000 from HITF to the General Fund.

Because the state's health insurance plans operate on a calendar year basis, the \$(1,979,600) savings for 6 months of FY 2016 will be \$(3,959,200) for the full year of FY 2017. Those annualized savings will appear as a back of the bill adjustment.

Moving forward, the JLBC Staff proposes adding language to the budget that would indicate any additional back of bill adjustments would be determined using the overall operating budget General Fund/Tuition split rather than the Universities' Employee Related Expenses (ERE) allocations.

(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. Each university will receive funding proportionate to the university system reduction in FY 2016. The additional funding will be allocated as follows:

ASU - Tempe/DPC	\$3,745,500
ASU - East	298,000
ASU - West	<u>367,500</u>
<i>ASU Subtotal</i>	<i>\$4,411,000</i>
NAU	\$1,433,200
UA - Main	\$2,314,300
UA - HSC	<u>41,500</u>
<i>UA Subtotal</i>	<i><u>\$2,355,800</u></i>
Total	\$8,200,000

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 has 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 is requesting 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. For existing resident students, ABOR proposes to increase the state share from 34% to 38% at a cost of \$57.4 million in FY 2017. For new resident students, the state share would rise to 50% at a cost of \$10.3 million in FY 2017.

In addition, ABOR is proposing \$200 in state support per resident student on an ongoing basis for facility maintenance and operations. This component would cost \$19.1 million in FY 2017.

Arizona and 36 states have or will eventually have a performance-based model that finances some or all of higher education operations. Given the significant interest in the performance-based model and the multitude of frameworks found in other states, the Legislature may want to evaluate the feasibility of reforming the existing performance-funding model, including how it is financed.

Tuition Revenues

To improve transparency, the Legislature may consider adopting a uniform approach in the FY 2017 budget and either appropriate all or none of tuition.

Total FY 2016 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. 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. Any remaining tuition collections are part of the appropriated budget. While Financial Aid and Debt Service are primarily non-appropriated, general operating expenses appear in both appropriated and non-appropriated budgets.

Either full appropriation or full non-appropriation would make tuition collections more transparent since they would no longer be split as locally retained (non-appropriated) and appropriated. The appropriation of all tuition would require flexibility to account for variance between the projected tuition and actual collections. If tuition were entirely non-appropriated, the universities would reduce administrative costs of the current split approach. The state would lose the interest generated when the tuition funds flow to the state before returning to the individual university for use. The interest generated from the 3 universities’ appropriated tuition in FY 2014, when this issue was last reviewed, was \$218,500.

If non-appropriated, the JLBC Staff recommends that the university fund structure be made more transparent. The locally retained tuition monies are currently in funds labeled as “Designated” funds. The Designated Fund for each university includes the retained tuition and fees as

well as monies from other sources. The Legislature may consider requiring tuition and fees to be retained in 1 fund and labeled as such.

Payment Deferral

The Baseline includes \$200,000,000 from the General Fund for universitywide FY 2016 payments deferred until FY 2017 and includes a universitywide FY 2017 General Fund payment deferral of \$(200,000,000) until FY 2018. The payment deferral has been unchanged since FY 2011.

The FY 2017 payment deferrals would be allocated among the universities 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)

2003 Research Infrastructure Refinancing

Laws 2003, Chapter 267 appropriated for FY 2008 to FY 2031 monies for lease-purchase capital financing of research infrastructure projects such as installations and facilities for continuance and growth of scientific and technological research activities at the university to the respective universities each year.

The Baseline includes an increase of \$3.9 million from the General Fund in FY 2017 to amend research infrastructure lease-purchase payments to their actual debt service obligations. ABOR refinanced the Certificates of Participation (COPs) for the 2003 research infrastructure appropriation, 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. The \$3.9 million increase reflects the additional costs in FY 2017 beyond that of FY 2016. Since Section 134 of the FY 2015 General Appropriation Act reduced individual campus appropriations by these amounts through FY 2017, the

Table 3

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)	\$ 716,100	\$(2,329,800)
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)	\$3,854,500	\$(4,257,600)

additional savings would not need to appear in the FY 2017 General Appropriation Act. Due to Section 134, the General Fund amounts are adjusted by \$716,100 for ASU, \$(1,246,400) for NAU, and \$4,384,800 for UA. (Please see Table 3 above for more information.)

The Baseline would adjust the original debt service appropriation for FY 2018 through FY 2031 to reflect lower debt service payments as a result of the refinance. The average annual savings of the new proposed debt service appropriation for all remaining payments compared to the original appropriation is \$(544,900). The majority of the savings would come from NAU. (Please see Capital Outlay - Arizona Board of Regents section for additional information.)

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 \$5.25 billion, including \$672.9 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 4 summarizes the FY 2017 expenditure authority amounts for the Arizona University System.

Distribution of Tuition

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 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 (see Table 5). The FY 2017 amount is not adjusted for any FY 2017 tuition rate changes.

Tuition Rates

ABOR approved FY 2016 tuition rates on May 4, 2015.

- Over the previous 7 years, NAU has maintained a guaranteed tuition model for incoming freshman. NAU is increasing undergraduate resident tuition by 3.7% for new students.
- UA began a similar program in FY 2015. The rates for new students will increase, but current students can opt-in at the FY 2015 rates. UA is increasing undergraduate resident tuition by 4.1% for new students.
- For FY 2016, ASU resident undergraduate students did not see a tuition increase, but will be charged a \$320 tuition surcharge fee (representing a 3.2% increase to tuition and mandatory fees).

Table 6 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 7 for details.)

Table 4

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	243,651,000	551,220,900	0	286,349,700	1,066,208,200	2,147,429,800
ASU-East	22,460,700	35,722,900	2,000,000	8,377,200	20,447,300	89,008,100
ASU-West	29,121,600	44,241,400	1,600,000	12,608,400	53,429,200	141,000,600
NAU	101,104,400	145,286,600	0	82,890,700	237,598,400	566,880,100
UA-Main	186,198,500	361,149,600	0	229,325,000	998,423,500	1,775,096,600
UA-Health Sciences	68,435,000	44,053,800	0	97,536,300	287,239,200	497,264,300
Total	\$672,899,600	\$1,181,675,200	\$3,600,000	\$718,003,100	\$2,672,949,800	\$5,249,127,700

^{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 5. This amount excludes FY 2017 tuition rate changes.

Enrollment

Between fall 2014 and fall 2015, university enrollment increased from 146,611 FTE to 157,847, or 7.7%, as displayed in *Table 8*. Spring enrollment is traditionally lower than the fall.

Table 5

Tuition Revenue Allocation

	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Appropriated			
Operating Budget	\$1,022,249,500	\$1,181,675,200 ^{1/}	\$1,181,675,200 ^{2/}
Non-Appropriated ^{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 6

**Arizona University System
FY 2016 Undergraduate and Graduate Tuition ^{1/}**

	Resident Undergraduate		Resident Graduate		Non-Resident Undergraduate		Non-Resident Graduate	
	Tuition	Increase	Tuition	Increase	Tuition	Increase	Tuition	Increase
ASU	\$10,478 ^{2/}	3.2%	\$11,604	2.8%	\$25,458 ^{3/}	3.9%	\$27,760	3.9%
NAU	\$10,358	3.7%	\$9,606	4.8%	\$23,348	3.7%	\$21,244	4.9%
UA	\$11,403	4.1%	\$12,048	2.8%	\$32,630	10.9%	\$30,370	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/} ASU resident undergraduate tuition rate did not change; however a \$320 one-year temporary fee was assessed on this student population.

^{3/} ABOR approved a rate of \$26,584 for international undergraduate students at ASU.

Table 7

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 8

Arizona University System 45th Day Enrollment^{1/}

	<u>Fall 2014</u>	<u>Spring 2015</u>	<u>Fall 2015</u>	<u>Fall 2014 to Fall 2015 % Change</u>
ASU-Tempe/ DPC	68,612	66,770	73,926	7.7%
ASU-East	5,687	5,744	6,565	15.4%
ASU-West	6,610	7,282	7,992	20.9%
NAU	25,743	24,865	27,212	5.7%
UA-Main	37,131	36,672	38,593	3.9%
UA-Health Sciences	<u>2,828</u>	<u>3,343</u>	<u>3,559</u>	<u>25.8%</u>
Total	146,611	144,676	157,847	7.7%

^{1/} Adjusted FTE does not include students with excess credit hours.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Arizona Health Education Center Program Fund (BRA2/A.R.S. § 5-522)		Non-Appropriated
Source of Revenue: Lottery proceeds.		
Purpose of Fund: To provide funding for the 5 Arizona Area Health Education Centers, which work to improve healthcare access for rural and underserved communities. These funds are passed through to the universities, and therefore expenditures are not displayed to avoid double counting. Pass-through funds totaled \$4,746,900 in FY 2015 and are expected to be \$4,841,800 in FY 2016 and \$4,955,500 in FY 2017.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal Funds (BRA2000/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Grants from the United States Department of Education.		
Purpose of Fund: To support pre-service, retraining, and in-service educational programs improving the instructional and management skills of K-12 and vocational school teachers and administrators, with an emphasis on core subjects.		
Funds Expended	250,100	1,786,600
Year-End Fund Balance	16,900	32,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Regents Local Fund (BRA1/A.R.S. § 15-1626) Non-Appropriated

Source of Revenue: Contributions of retained tuition from the 3 universities.

Purpose of Fund: To supplement the ABOR operating budget.

Funds Expended	1,991,600	2,992,500
Year-End Fund Balance	737,400	1,164,400

Technology and Research Initiative Fund (BRA2472/A.R.S. § 15-1648) Non-Appropriated

Source of Revenue: A portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute. Total receipts were \$68,142,300 in FY 2015 and are estimated to be \$63,512,200 in FY 2016 and \$63,500,000 in FY 2017.

Purpose of Fund: To provide grants for university technology and research initiatives, with preference given to federal or private partnerships, as well as to programs for non-traditional students; also, for up to 20% of fund monies, to support capital projects, including debt service, relating to technology and research. The displayed expenditures represent only that portion of tax receipts utilized by ABOR. The board transfers all other receipts to university Restricted Funds, which reflect those monies.

Funds Expended	1,616,900	4,850,100
Year-End Fund Balance	2,837,900	0

Trust Land Fund (BRA3131/3132/3134/3136/A.R.S. § 15-1662) Non-Appropriated

Source of Revenue: Monies derived from the lease, sale, or other disposition of lands granted to the state by the United States for the use and benefit of the universities. Land funds are allocated for Agricultural and Mechanical Colleges, Military Institutes, Universities, and Normal Schools, respectively. Total land earnings were \$4,668,200 in FY 2015 and are estimated to be the same in FY 2016 and FY 2017.

Purpose of Fund: To operate agricultural and mechanical colleges, to support university Reserve Officers' Training Corps programs, to match private funds attracting distinguished faculty, and to operate teacher training programs, respectively. The displayed expenditures represent only that portion of trust land earnings transferred to university endowments to support outstanding faculty. ABOR transfers all other trust land earnings to the individual campuses' University Collections Funds, which reflect those monies.

Funds Expended	4,668,100	4,611,500
Year-End Fund Balance	0	0

Arizona State University - Tempe/DPC

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6,142.9	6,552.6	6,552.6
Personal Services	399,828,900	410,189,100	410,189,100
Employee Related Expenditures	117,102,300	125,592,500	125,592,500
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	53,723,400
Equipment	25,119,700	22,183,500	22,183,500
OPERATING SUBTOTAL	625,355,300	649,943,200	653,688,700
SPECIAL LINE ITEMS			
Biomedical Informatics	2,746,600	2,791,900	2,791,900
Downtown Phoenix Campus	122,968,000	127,166,100	127,166,100
Parity Funding	38,843,100	0	0
Research Infrastructure Lease-Purchase Payment	13,032,400	10,509,100	11,225,200
AGENCY TOTAL	802,945,400	790,410,300	794,871,900
FUND SOURCES			
General Fund	290,102,200	239,189,400	243,651,000
<u>Other Appropriated Funds</u>			
University Collections Fund	512,843,200	551,220,900	551,220,900
SUBTOTAL - Other Appropriated Funds	512,843,200	551,220,900	551,220,900
SUBTOTAL - Appropriated Funds	802,945,400	790,410,300	794,871,900
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	2,110,195,300	2,147,429,800

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.

Operating Budget

The Baseline includes \$653,688,700 and 5,581.7 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$217,002,700
University Collections Fund	436,686,000

FY 2017 adjustments would be as follows:

Additional Resources	GF	3,745,500
The Baseline includes an increase of \$3,745,500 from the General Fund in FY 2017 for ASU - Tempe/DPC's share of additional university resources. The 3-year budget plan		

associated with the enacted FY 2016 budget included \$8,200,000 in system-wide ongoing additional resources for the university system beginning in FY 2017. (Please see the Arizona Board of Regents (ABOR) section for more information.)

The \$217,002,700 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 would 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.)

Biomedical Informatics

The Baseline includes \$2,791,900 and 14.9 FTE Positions in FY 2017 for the Biomedical Informatics Department. These amounts consist of:

General Fund	1,931,000
University Collections Fund	860,900

These amounts are unchanged from FY 2016.

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 Baseline includes \$127,166,100 and 956 FTE Positions in FY 2017 for programs headquartered at the DPC. These amounts consist of:

General Fund	13,492,100
University Collections Fund	113,674,000

These amounts are unchanged from FY 2016.

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 14,072 in fall 2015.

Research Infrastructure Lease-Purchase Payment

The Baseline includes \$11,225,200 from the General Fund in FY 2017 for the Research Infrastructure Lease-Purchase Payment line item. FY 2017 adjustments would be as follows:

Refinance Adjustment	GF	716,100
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The Baseline includes an increase of \$716,100 from the General Fund in FY 2017 to adjust anticipated savings associated with the refinancing of Certificates of Participation (COPs).

Laws 2003, Chapter 267 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 ASU research infrastructure appropriation of \$13,555,000 by \$(522,600) in FY 2015, \$(3,045,900) in FY 2016, and \$(2,329,800) in FY 2017.

Since this funding appears in Laws 2003, Chapter 267 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, ASU - Tempe/DPC has issued \$187,200,000 in COPs.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

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.

It is the intent of the Legislature that the state General Fund base funding for Arizona State University - Tempe and Downtown Phoenix Campuses is \$230,425,800. This appropriation includes a deferral of \$74,760,400 from FY 2017 to FY 2018. This deferral shall be paid as required in this act. (Please see *Other Issues* for more information.)

Other Issues

FY 2016 Supplemental

The FY 2017 Baseline would include a FY 2016 supplemental appropriation of \$2,283,200 from the General Fund to ASU for health insurance adjustments. This supplemental would be divided between all ASU campuses. In FY 2017, ASU’s appropriation would be further adjusted for the annualization of savings associated with lower employer contribution rates for health insurance. (Please see the *Health Insurance Trust Fund* section in the ABOR narrative for more information.)

Payment Deferral

The Baseline includes \$74,760,400 from the General Fund for FY 2016 payments that were deferred until FY 2017 and includes a FY 2017 General Fund payment deferral of \$(74,760,400) until FY 2018. These amounts constitute a portion of a \$200,000,000 university-wide payment

deferral. The payment deferral is unchanged from FY 2011. (Please see the ABOR section for more information.)

The FY 2017 General Fund Baseline is \$243,651,000. Of this amount:

- \$155,665,400 would be included in ASU - Tempe/DPC's individual section of the FY 2017 General Appropriation Act.
- \$74,760,400 was appropriated in the FY 2016 General Appropriation Act to reflect the deferral of FY 2016 monies to FY 2017.
- \$13,555,000 was appropriated in Laws 2003, Chapter 267 for a research infrastructure lease-purchase payment.
- \$(2,329,800) was reduced in 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.

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 Baseline has been adjusted upward by \$34,390,400 to \$551,220,900.

The Baseline 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 Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Sales revenues of substantially self-supporting university services.		
<i>Purpose of Fund:</i> To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	141,820,500	151,651,800
Year-End Fund Balance	9,726,600	9,726,400
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants. Tuition and mandatory registration fees comprise \$366,073,700 and \$463,306,200 of the total FY 2015 and FY 2016 revenue, respectively.		
<i>Purpose of Fund:</i> To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	578,260,500	708,551,400
Year-End Fund Balance	312,295,100	312,295,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	1,398,900	0
Year-End Fund Balance	117,981,200	117,981,200
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	281,606,600	286,349,700
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally sponsored research programs.		
Purpose of Fund: To assist and promote non-federally sponsored research.		
Funds Expended	29,357,300	31,368,800
Year-End Fund Balance	1,026,400	1,026,300
Loan Fund (UNI8901/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest on federal student loans and reimbursements from federal loan forgiveness programs.		
Purpose of Fund: To provide one-third of the amount of federal student loans. The federal government provides the other two-thirds. The amounts displayed do not include an administrative allowance, which is reflected in the Designated Fund.		
Funds Expended	504,600	0
Year-End Fund Balance	13,727,800	13,727,800
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	125,559,400	129,945,000
Year-End Fund Balance	47,996,800	46,682,400
University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03)		Non-Appropriated
Source of Revenue: University system revenues.		
Purpose of Fund: To pay annual debt service payments for the \$800,000,000 university Lottery bonding package. Lottery bond debt service is paid with no more than 80% Lottery revenues and at least 20% state university system revenues. (<i>Please see the Capital Outlay ABOR Building System narrative for more information.</i>)		
Funds Expended	6,401,000	11,918,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
University Collections Fund (ASA1411/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings. Tuition and mandatory registration fees comprise \$494,258,100 and \$539,050,100 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To operate the university.		
Funds Expended	512,843,200	551,220,900
Year-End Fund Balance	0	0

Arizona State University - East Campus

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	8,605,300	8,605,300
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	16,751,600
Equipment	1,342,300	664,900	664,900
OPERATING SUBTOTAL	47,876,800	56,968,600	57,266,600
SPECIAL LINE ITEMS			
Parity Funding	6,647,000	0	0
Research Infrastructure Lease-Purchase Payment	917,000	917,000	917,000
TRIF Lease-Purchase Payment	2,000,000	2,000,000	2,000,000
AGENCY TOTAL	57,440,800	59,885,600	60,183,600
FUND SOURCES			
General Fund	25,853,400	22,162,700	22,460,700
<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
SUBTOTAL - Other Appropriated Funds	31,587,400	37,722,900	37,722,900
SUBTOTAL - Appropriated Funds	57,440,800	59,885,600	60,183,600
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	87,309,900	89,008,100

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.

Operating Budget

The Baseline includes \$57,266,600 and 416.2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$21,543,700
University Collections Fund	35,722,900

FY 2017 adjustments would be as follows:

Additional Resources **GF** **298,000**

The Baseline includes an increase of \$298,000 from the General Fund in FY 2017 for ASU - East's share of additional university resources. The 3-year budget plan associated with the enacted FY 2016 budget included

\$8,200,000 in system-wide ongoing additional resources for the university system beginning in FY 2017. (Please see the Arizona Board of Regents (ABOR) 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.)

Research Infrastructure Lease-Purchase Payment

The Baseline 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 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 Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

It is the intent of the Legislature that the state General Fund base funding for Arizona State University - East Campus is \$21,543,700. This appropriation includes a deferral of \$5,750,200 from FY 2017 to FY 2018. This deferral shall be paid as required in this act. *(Please see Other Issues for more information.)*

Other Issues

FY 2016 Supplemental

The FY 2017 Baseline would include a FY 2016 supplemental appropriation of \$2,283,200 from the General Fund to ASU for health insurance adjustments. This supplemental would be divided between all ASU

campuses. In FY 2017, ASU's appropriation would be further adjusted for the annualization of savings associated with lower employer contribution rates for health insurance. (Please see the Health Insurance Trust Fund section in the ABOR narrative for more information.)

Payment Deferral

The Baseline includes \$5,750,200 from the General Fund for FY 2016 payments that were deferred until FY 2017 and includes a FY 2017 General Fund payment deferral of \$(5,750,200) until FY 2018. These amounts constitute a portion of a \$200,000,000 university-wide payment deferral. The payment deferral is unchanged from FY 2011. (Please see the ABOR section for more information.)

The FY 2017 General Fund Baseline is \$22,460,700. Of this amount:

- \$15,793,500 would be included in ASU - East's individual section of the FY 2017 General Appropriation Act.
- \$5,750,200 was appropriated in the FY 2016 General Appropriation Act to reflect the deferral of FY 2016 monies to FY 2017.
- \$917,000 was appropriated in Laws 2003, Chapter 267 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 Baseline has been adjusted upward by \$6,256,400 to \$35,722,900.

The Baseline 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 Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	1,545,600	1,661,000
Year-End Fund Balance	227,100	227,100
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants. Tuition and mandatory registration fees comprise \$37,309,200 and \$37,968,700 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	12,390,100	15,228,500
Year-End Fund Balance	18,210,000	18,210,000
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	85,000	85,000
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	8,211,400	8,377,200
Year-End Fund Balance	0	0
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	2,115,000	2,157,600
Year-End Fund Balance	490,300	908,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Technology and Research Initiative Fund (UNI2472/A.R.S. § 15-1648) Appropriated

Source of Revenue: Automatic appropriations of a portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute.

Purpose of Fund: To make lease-purchase payments on certificates of participation used for technology and research capital projects.

Funds Expended	2,000,000	2,000,000
Year-End Fund Balance	0	0

University Collections Fund (ASA1411/A.R.S. § 15-1626) Appropriated

Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings. Tuition and mandatory registration fees comprise \$29,260,600 and \$35,464,800 of the total FY 2015 and FY 2016 revenue, respectively.

Purpose of Fund: To operate the university.

Funds Expended	29,587,400	35,722,900
Year-End Fund Balance*	(200)	(200)

* As reported by the agency. Actual ending balance will not be negative.

Arizona State University - West Campus

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	562.9	521.1	521.1
Personal Services	34,612,000	33,476,400	33,476,400
Employee Related Expenditures	10,545,200	11,102,900	11,102,900
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	25,587,800
Equipment	559,700	159,100	159,100
OPERATING SUBTOTAL	74,320,500	72,995,500	73,363,000
SPECIAL LINE ITEMS			
TRIF Lease-Purchase Payment	1,600,000	1,600,000	1,600,000
AGENCY TOTAL	75,920,500	74,595,500	74,963,000
FUND SOURCES			
General Fund	33,328,100	28,754,100	29,121,600
<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
SUBTOTAL - Other Appropriated Funds	42,592,400	45,841,400	45,841,400
SUBTOTAL - Appropriated Funds	75,920,500	74,595,500	74,963,000
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	138,800,300	141,000,600

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.

Operating Budget

The Baseline includes \$73,363,000 and 521.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$29,121,600
University Collections Fund	44,241,400

FY 2017 adjustments would be as follows:

Additional Resources **GF** **367,500**
 The Baseline includes an increase of \$367,500 from the General Fund in FY 2017 for ASU - West's share of additional university resources. The 3-year budget plan associated with the enacted FY 2016 budget included \$8,200,000 in system-wide ongoing additional resources for the university system beginning in FY 2017. *(Please*

see the Arizona Board of Regents (ABOR) 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.)*

TRIF Lease-Purchase Payment

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

It is the intent of the Legislature that the state General Fund base funding for Arizona State University - West Campus is \$29,121,600. This appropriation includes a deferral of \$10,064,800 from FY 2017 to FY 2018. This deferral shall be paid as required in this act. *(Please see Other Issues for more information.)*

Other Issues

FY 2016 Supplemental

The FY 2017 Baseline would include a FY 2016 supplemental appropriation of \$2,283,200 from the General Fund to ASU for health insurance adjustments. This supplemental would be divided between all ASU campuses. In FY 2017, ASU's appropriation would be further adjusted for the annualization of savings associated with lower employer contribution rates for health insurance. *(Please see the Health Insurance Trust Fund section in the ABOR narrative for more information.)*

Payment Deferral

The Baseline includes \$10,064,800 from the General Fund for FY 2016 payments that were deferred until FY 2017 and includes a FY 2017 General Fund payment deferral of \$(10,064,800) until FY 2018. These amounts constitute a portion of a \$200,000,000 university-wide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2017 General Fund Baseline is \$29,121,600. Of this amount:

- \$19,056,800 would be included in ASU - West's individual section of the FY 2017 General Appropriation Act.

- \$10,064,800 was appropriated in the FY 2016 General Appropriation Act to reflect the deferral of FY 2016 monies to FY 2017.

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 Baseline has been adjusted upward by \$3,323,800 to \$44,241,400.

The Baseline 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 Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Sales revenues of substantially self-supporting university services.		
<i>Purpose of Fund:</i> To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	276,200	286,300
Year-End Fund Balance	55,100	55,200
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants. Tuition and mandatory registration fees comprise \$41,104,800 and \$39,090,700 of the total FY 2015 and FY 2016 revenue, respectively.		
<i>Purpose of Fund:</i> To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	29,910,000	47,020,200
Year-End Fund Balance	8,293,700	8,293,800
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
<i>Purpose of Fund:</i> To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	33,300	33,300
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
<i>Source of Revenue:</i> Federal grants and contracts.		
<i>Purpose of Fund:</i> To support specific operating and research purposes as identified by the federal government.		
Funds Expended	12,359,000	12,608,400
Year-End Fund Balance	0	0
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
<i>Source of Revenue:</i> Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
<i>Purpose of Fund:</i> To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	4,205,100	4,289,900
Year-End Fund Balance	4,716,100	5,612,900
Technology and Research Initiative Fund (UNI2472/A.R.S. § 15-1648)		Appropriated
<i>Source of Revenue:</i> Automatic appropriations of a portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute.		
<i>Purpose of Fund:</i> To make lease-purchase payments on certificates of participation used for technology and research capital projects.		
Funds Expended	1,600,000	1,600,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
University Collections Fund (ASA1411/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings. Tuition and mandatory registration fees comprise \$33,090,100 and \$43,792,500 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To operate the university.		
Funds Expended	40,992,400	44,241,400
Year-End Fund Balance	100	100

Northern Arizona University

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,057.2	2,249.7	2,249.7
Personal Services	156,428,500	154,129,000	154,129,000
Employee Related Expenditures	48,493,000	48,149,900	48,149,900
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	5,942,600	20,942,600	22,375,800
Equipment	506,300	502,800	502,800
OPERATING SUBTOTAL	225,626,400	232,353,800	233,787,000
SPECIAL LINE ITEMS			
Biomedical Research	3,000,000	3,000,000	3,000,000
NAU - Yuma	3,084,400	3,066,600	3,066,600
Parity Funding	12,549,900	0	0
Research Infrastructure Lease-Purchase Payment	5,491,500	5,493,200	4,246,800
Teacher Training	2,476,500	2,290,600	2,290,600
AGENCY TOTAL	252,228,700	246,204,200	246,391,000
FUND SOURCES			
General Fund	119,371,200	100,917,600	101,104,400
<u>Other Appropriated Funds</u>			
University Collections Fund	132,857,500	145,286,600	145,286,600
SUBTOTAL - Other Appropriated Funds	132,857,500	145,286,600	145,286,600
SUBTOTAL - Appropriated Funds	252,228,700	246,204,200	246,391,000
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	530,075,000	554,270,700	566,880,100

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 29,031 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.

Operating Budget

The Baseline includes \$233,787,000 and 2,212.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$88,500,400
University Collections Fund	145,286,600

FY 2017 adjustments would be as follows:

Additional Resources

GF 1,433,200

The Baseline includes an increase of \$1,433,200 from the General Fund in FY 2017 for NAU's share of additional university resources. The 3-year budget plan associated with the enacted FY 2016 budget included \$8,200,000 in system-wide ongoing additional resources for the university system beginning in FY 2017. (Please see the Arizona Board of Regents (ABOR) section for more information.)

The \$88,500,400 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 would 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.)*

Biomedical Research

The Baseline 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 (Laws 2014, Chapter 18) 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.)*

NAU - Yuma

The Baseline includes \$3,066,600 and 29.4 FTE Positions from the General Fund in FY 2017 for NAU-Yuma. These amounts are unchanged from FY 2016.

NAU operates this campus in conjunction with the Arizona Western College in Yuma.

Research Infrastructure Lease-Purchase Payment

The Baseline includes \$4,246,800 from the General Fund in FY 2017 for the Research Infrastructure Lease-Purchase Payment line item. FY 2017 adjustments would be as follows:

Refinance Adjustment	GF	(1,246,400)
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The Baseline 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 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.

Since this funding appears in Laws 2003, Chapter 267 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, NAU has issued \$77,475,000 in COPs.

Teacher Training

The Baseline 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see the ABOR section for university-wide footnotes.)

It is the intent of the Legislature that the state General Fund base funding for Northern Arizona University is \$93,357,600. This appropriation includes a deferral of \$30,494,800 from FY 2017 to FY 2018. This deferral shall be paid as required in this act. *(Please see Other Issues for more information.)*

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.

Other Issues

FY 2016 Supplemental

The FY 2017 Baseline would include a FY 2016 supplemental appropriation of \$40,200 from the General Fund to NAU for health insurance adjustments. In FY 2017, NAU's appropriation would be further adjusted for the annualization for savings associated with lower employer contribution rates for health insurance. *(Please see the Health Insurance Trust Fund section in the ABOR narrative for more information.)*

Payment Deferral

The Baseline includes \$30,494,800 from the General Fund for FY 2016 payments that were deferred until FY 2017 and includes a FY 2017 General Fund payment deferral of \$(30,494,800) until FY 2018. These amounts constitute a portion of a \$200,000,000 university-wide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2017 General Fund Baseline is \$101,104,400. Of this amount:

- \$62,862,800 would be included in NAU's individual section of the FY 2017 General Appropriation Act.
- \$30,494,800 was appropriated in the FY 2016 General Appropriation Act to reflect the deferral of FY 2016 monies to FY 2017.
- \$5,900,000 was appropriated in Laws 2003, Chapter 267 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.

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 Baseline has been adjusted upward by \$12,429,100 to \$145,286,600.

The Baseline 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 1220.5 FTE Positions. The Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	58,967,200	62,545,500
Year-End Fund Balance	24,015,000	25,730,200

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants. Tuition and mandatory registration fees comprise \$97,816,700 and \$113,277,400 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	107,612,200	128,177,400
Year-End Fund Balance	70,304,300	54,915,100
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	27,392,000	28,423,000
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	77,299,700	78,132,200
Year-End Fund Balance	0	0
Federal Indirect Cost Recovery Fund (UNI8902/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Federally-sponsored research programs.		
Purpose of Fund: To assist and promote federally sponsored research.		
Funds Expended	3,958,000	3,938,100
Year-End Fund Balance	6,524,800	6,524,800
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally sponsored research programs.		
Purpose of Fund: To assist and promote non-federally sponsored research.		
Funds Expended	896,900	1,179,900
Year-End Fund Balance	3,832,000	3,550,500
Loan Fund (UNI8901/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest on federal student loans and reimbursements from federal loan forgiveness programs.		
Purpose of Fund: To provide one-third of the amount of federal student loans. The federal government provides the other two-thirds. The amounts displayed do not include an administrative allowance, which is reflected in the Designated Fund.		
Funds Expended	251,600	235,000
Year-End Fund Balance	7,199,200	7,249,200

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601) Non-Appropriated

Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (*please see the ABOR Summary of Funds*), as well as a portion of financial aid trust fees assessed to students.

Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.

Funds Expended	22,712,900	24,364,300
Year-End Fund Balance	13,323,300	13,323,300

University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03) Non-Appropriated

Source of Revenue: University system revenues.

Purpose of Fund: To pay annual debt service payments for the \$800,000,000 university Lottery bonding package. Lottery bond debt service is paid with no more than 80% Lottery revenues and at least 20% state university system revenues. (*Please see the Capital Outlay ABOR Building System narrative for more information.*)

Funds Expended	6,147,800	9,494,100
Year-End Fund Balance	0	0

University Collections Fund (NAA1421/A.R.S. § 15-1626) Appropriated

Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings. Tuition and mandatory registration fees comprise \$131,292,500 and \$143,621,600 of the total FY 2015 and FY 2016 revenue, respectively.

Purpose of Fund: To operate the university.

Funds Expended	132,857,500	145,286,600
Year-End Fund Balance	0	0

University of Arizona - Main Campus

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	5,393.0	5,605.5	5,605.5
Personal Services	271,490,700	314,469,100	314,469,100
Employee Related Expenditures	85,849,200	96,224,400	96,224,400
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	52,921,200
Equipment	2,980,100	1,601,800	1,601,800
OPERATING SUBTOTAL	402,814,700	467,464,700	469,779,000
SPECIAL LINE ITEMS			
Agriculture	37,199,400	39,423,400	39,423,400
Arizona Cooperative Extension	14,020,500	16,017,700	16,017,700
Freedom Center	492,100	500,000	500,000
Research Infrastructure Lease-Purchase Payment	9,593,200	9,593,600	13,978,400
Sierra Vista Campus	6,227,300	7,649,600	7,649,600
AGENCY TOTAL	470,347,200	540,649,000	547,348,100
FUND SOURCES			
General Fund	209,341,200	179,499,400	186,198,500
<u>Other Appropriated Funds</u>			
University Collections Fund	261,006,000	361,149,600	361,149,600
SUBTOTAL - Other Appropriated Funds	261,006,000	361,149,600	361,149,600
SUBTOTAL - Appropriated Funds	470,347,200	540,649,000	547,348,100
Other Non-Appropriated Funds	961,364,600	972,910,900	998,423,500
Federal Funds	218,280,200	222,645,800	229,325,000
TOTAL - ALL SOURCES	1,649,992,000	1,736,205,700	1,775,096,600

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.

Operating Budget

The Baseline includes \$469,779,000 and 4,627.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$126,120,700
University Collections Fund	343,658,300

FY 2017 adjustments would be as follows:

Additional Resources	GF	2,314,300
The Baseline includes an increase of \$2,314,300 from the General Fund in FY 2017 for UA - Main's share of		

additional university resources. The 3-year budget plan associated with the enacted FY 2016 budget included \$8,200,000 in system-wide ongoing additional resources for the university system beginning in FY 2017. (Please see the Arizona Board of Regents (ABOR) section for more information.)

The \$126,120,700 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 would 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 Baseline includes \$39,423,400 and 715.6 FTE Positions in FY 2017 for the Agriculture Programs. These amounts consist of:

General Fund	28,538,100
University Collections Fund	10,885,300

These amounts are unchanged from FY 2016.

This line item supports agricultural academic programs in Animal Systems; Environment and Natural Resources; Family, Youth, and Community; Human Nutrition, Food Safety and Health; Marketing, Trade, and Economics; and Plant Systems.

Arizona Cooperative Extension

The Baseline includes \$16,017,700 and 186.8 FTE Positions in FY 2017 for the Arizona Cooperative Extension. These amounts consist of:

General Fund	14,317,700
University Collection Fund	1,700,000

These amounts are unchanged from FY 2016.

This line item supports Agriculture Experiment Stations and Cooperative Extension services that provide non-credit community outreach seminars and youth programs throughout the state.

Freedom Center

The Baseline includes \$500,000 from the General Fund in FY 2017 for the Freedom Center. This amount is unchanged from FY 2016.

This line item supports the Freedom Center, which is within the UA College of Social and Behavioral Sciences. The Freedom Center’s functions include: published research, undergraduate education, graduate education, and community outreach.

Research Infrastructure Lease-Purchase Payment

The Baseline includes \$13,978,400 from the General Fund in FY 2017 for the Research Infrastructure Lease-Purchase

Payment line item. FY 2017 adjustments would be as follows:

Refinance Adjustment **GF** **4,384,800**

The Baseline 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 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.

Since this funding appears in Laws 2003, Chapter 267 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 Baseline includes \$7,649,600 and 75.3 FTE Positions in FY 2017 for the Sierra Vista Campus. These amounts consist of:

General Fund	2,743,600
University Collections Fund	4,906,000

These amounts are unchanged from FY 2016.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see Arizona Board of Regents (ABOR) for universitywide standard footnotes.)

It is the intent of the Legislature that the state General Fund base funding for University of Arizona - Main Campus is \$170,220,100. This appropriation includes a

deferral of \$62,153,100 from FY 2017 to FY 2018. This deferral shall be paid as required in this act. *(Please see the Other Issues section for more information.)*

Other Issues

FY 2016 Supplemental

The FY 2017 Baseline would include a FY 2016 supplemental appropriation of \$1,752,600 from the General Fund to UA for health insurance adjustments. This supplemental would be divided between all UA campuses. In FY 2017, UA's appropriation would be further adjusted for the annualization for savings associated with lower employer contribution rates for health insurance. *(Please see the Health Insurance Trust Fund section in the ABOR narrative for more information.)*

Payment Deferral

The Baseline includes \$62,153,100 from the General Fund for FY 2016 payments that were deferred until FY 2017 and includes a FY 2017 General Fund payment deferral of \$(62,153,100) until FY 2018. These amounts constitute a portion of a \$200,000,000 university-wide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2017 General Fund Baseline is \$186,198,500. Of this amount:

- \$108,067,000 would be included in UA – Main's individual section of the FY 2017 General Appropriation Act.
- \$62,153,100 was appropriated in the FY 2016 General Appropriation Act to reflect the deferral of FY 2016 monies to FY 2017.
- \$14,253,000 was appropriated in Laws 2003, Chapter 267 for a research infrastructure lease-purchase payment.
- \$(274,600) was reduced in 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.

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 Baseline has been adjusted upward by \$60,366,600 to \$361,149,600.

The Baseline 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. The Baseline increases the total amount of FY 2016 FTE Positions by 212.5 to 5,605.5. The General Fund accounts for 1,937.7 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	210,012,200	215,646,900
Year-End Fund Balance	30,905,000	31,324,700
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants. Tuition and mandatory registration fees comprise \$274,751,500 and \$281,868,400 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	538,475,100	549,244,600
Year-End Fund Balance	140,901,600	130,395,600
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	160,138,400	163,431,200
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	172,508,900	175,959,000
Year-End Fund Balance*	(14,907,300)	(32,137,600)
Federal Indirect Cost Recovery Fund (UNI8902/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Federally-sponsored research programs.		
Purpose of Fund: To assist and promote federally sponsored research.		
Funds Expended	45,771,300	46,686,800
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally sponsored research programs.		
Purpose of Fund: To assist and promote non-federally sponsored research.		
Funds Expended	10,575,600	10,787,200
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Loan Fund (UNI8901/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest on federal student loans and reimbursements from federal loan forgiveness programs.		
Purpose of Fund: To provide one-third of the amount of federal student loans. The federal government provides the other two-thirds. The amounts displayed do not include an administrative allowance, which is reflected in the Designated Fund.		
Funds Expended	757,500	772,600
Year-End Fund Balance	22,582,800	23,528,000
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	186,230,700	169,555,800
Year-End Fund Balance	46,417,100	47,807,400
University Capital Improvement Lease-to-Own and Bond Fund (BRA3042/A.R.S. § 15-1682.03)		Non-Appropriated
Source of Revenue: University system revenues.		
Purpose of Fund: To pay annual debt service payments for the \$800,000,000 university Lottery bonding package. Lottery bond debt service is paid with no more than 80% Lottery revenues and at least 20% state university system revenues. (<i>Please see the Capital Outlay ABOR Building System narrative for more information.</i>)		
Funds Expended	15,313,500	26,903,800
Year-End Fund Balance	0	0
University Collections Fund (UAA1402/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings. Tuition and mandatory registration fees comprise \$312,005,900 and \$353,801,200 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To operate the university.		
Funds Expended	261,006,000	361,149,600
Year-End Fund Balance	0	0

* As reported by the agency. Actual ending balances will not be negative.

University of Arizona - Health Sciences Center

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,054.1	1,375.9	1,375.9
Personal Services	45,246,700	50,044,300	50,044,300
Employee Related Expenditures	13,778,600	15,248,800	15,248,800
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	2,315,700
Equipment	215,700	94,600	94,600
OPERATING SUBTOTAL	71,877,500	68,877,500	68,919,000
SPECIAL LINE ITEMS			
Clinical Rural Rotation	311,300	350,500	350,500
Clinical Teaching Support	8,587,000	8,484,400	8,484,400
Liver Research Institute	460,800	450,600	450,600
Phoenix Medical Campus	31,457,500	32,445,800	32,445,800
Telemedicine Network	1,854,300	1,838,500	1,838,500
AGENCY TOTAL	114,548,400	112,447,300	112,488,800
FUND SOURCES			
General Fund	69,585,300	68,393,500	68,435,000
<u>Other Appropriated Funds</u>			
University Collections Fund	44,963,100	44,053,800	44,053,800
SUBTOTAL - Other Appropriated Funds	44,963,100	44,053,800	44,053,800
SUBTOTAL - Appropriated Funds	114,548,400	112,447,300	112,488,800
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	550,081,600	497,264,300

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.

Operating Budget

The Baseline includes \$68,919,000 and 938.6 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$34,054,800
University Collections Fund	34,864,200

FY 2017 adjustments would be as follows:

Additional Resources	GF	41,500
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The Baseline includes an increase of \$41,500 from the General Fund in FY 2017 for UA - Health Sciences Center

(UA - HSC)'s share of additional university resources. The 3-year budget plan associated with the enacted FY 2016 budget included \$8,200,000 in systemwide ongoing additional resources for the university system beginning in FY 2017. (Please see the Arizona Board of Regents (ABOR) 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 Baseline includes \$350,500 and 6.2 FTE Positions from the General Fund in FY 2017 for the Clinical Rural Rotation program. These amounts are unchanged from FY 2016.

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 Baseline includes \$8,484,400 and 214.4 FTE Positions from the General Fund in FY 2017 for Clinical Teaching Support. These amounts are unchanged from FY 2016.

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.

Liver Research Institute

The Baseline includes \$450,600 and 6.6 FTE Positions from the General Fund in FY 2017 for the Liver Research Institute. These amounts are unchanged from FY 2016.

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 Baseline includes \$32,445,800 and 194.7 FTE Positions in FY 2017 for the Phoenix Medical Campus (PMC). These amounts consist of:

General Fund	23,256,200
University Collections Fund	9,189,600

These amounts are unchanged from FY 2016.

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 Baseline includes \$1,838,500 and 15.4 FTE Positions from the General Fund in FY 2017 for the Telemedicine Network. These amounts are unchanged from FY 2016.

Telemedicine is the use of computers, video imaging, broadband Internet, and other telecommunication technologies to diagnose and treat patients in rural communities.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes (Please see Arizona Board of Regents (ABOR) for universitywide standard footnotes.)
It is the intent of the Legislature that the state General Fund base funding for University of Arizona - Health Sciences Center is \$68,435,000. This appropriation includes a deferral of \$16,776,700 from FY 2017 to FY 2018. This deferral shall be paid as required in this act. *(Please see Other Issues for more information.)*

Other Issues

FY 2016 Supplemental

The FY 2017 Baseline would include a FY 2016 supplemental appropriation of \$1,752,600 from the General Fund to UA for health insurance adjustments. This supplemental would be divided between all UA campuses. In FY 2017, UA's appropriation would be further adjusted for the annualization for savings associated with lower employer contribution rates for health insurance. *(Please see the Health Insurance Trust Fund section in the ABOR narrative for more information.)*

Payment Deferral

The Baseline includes \$16,776,700 from the General Fund for FY 2016 payments that were deferred until FY 2017 and includes a FY 2017 General Fund payment deferral of \$(16,776,700) until FY 2018. These amounts constitute a portion of a \$200,000,000 universitywide payment deferral. The payment deferral is unchanged from FY 2011. *(Please see the ABOR section for more information.)*

The FY 2017 General Fund Baseline is \$68,435,000. Of this amount:

- \$51,658,300 would be included in UA - HSC's individual section of the FY 2017 General Appropriation Act.
- \$16,776,700 was appropriated in the FY 2016 General Appropriation Act to reflect the deferral of FY 2016 monies to FY 2017.

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 Baseline has been adjusted upward by \$738,200 to \$44,053,800.

The Baseline 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 Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Auxiliary Fund (UNI8906/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Sales revenues of substantially self-supporting university services.		
Purpose of Fund: To provide university-related non-academic services for students, faculty, staff, and the public. Auxiliary enterprises include student housing, bookstores, student unions, and intercollegiate athletics.		
Funds Expended	9,902,400	10,148,000
Year-End Fund Balance*	(806,700)	(89,700)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Designated Fund (UNI8905/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Retained tuition and fees, summer session fees, student aid administrative allowances, and unrestricted gifts and grants. Tuition and mandatory registration fees comprise \$3,778,100 and \$4,129,800 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To provide and administer student financial aid, to pay debt service on university bonds, and to run summer and winter session programs. The university designates monies in the fund into sub-accounts for specific purposes. Indirect Cost Recovery, a Designated Fund sub-account, is presented separately.		
Funds Expended	171,766,500	227,475,200
Year-End Fund Balance	155,440,100	155,305,400
Endowment and Life Income Fund (UNI8904/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Interest income on invested endowment and life income gifts, a portion of financial aid trust fees assessed to students, and a portion of university trust land earnings.		
Purpose of Fund: To support endowment operations and compensate designated beneficiaries.		
Funds Expended	0	0
Year-End Fund Balance	161,940,400	199,802,300
Federal Grants (UNI8903/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Federal grants and contracts.		
Purpose of Fund: To support specific operating and research purposes as identified by the federal government.		
Funds Expended	71,302,700	72,728,800
Year-End Fund Balance*	(5,428,300)	(4,027,600)
Federal Indirect Cost Recovery Fund (UNI8902/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Federally-sponsored research programs.		
Purpose of Fund: To assist and promote federally sponsored research.		
Funds Expended	21,535,800	21,966,500
Year-End Fund Balance	0	0
Indirect Cost Recovery Fund (Non-Federal) (UNI8900/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Non-federally sponsored research programs.		
Purpose of Fund: To assist and promote non-federally sponsored research.		
Funds Expended	2,789,700	2,845,500
Year-End Fund Balance	0	0
Restricted Fund (Excluding Federal Funds) (UNI8907/A.R.S. § 15-1601)		Non-Appropriated
Source of Revenue: Private and non-federal grants, including non-appropriated Technology and Research Initiative Fund grants (<i>please see the ABOR Summary of Funds</i>), as well as a portion of financial aid trust fees assessed to students.		
Purpose of Fund: To support specific operating and research purposes as identified by the private or non-federal donating entities.		
Funds Expended	100,461,000	102,470,300
Year-End Fund Balance	69,986,300	109,054,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
University Collections Fund (UAA1403/A.R.S. § 15-1626)		Appropriated
Source of Revenue: Tuition and registration fees, as well as a portion of university trust land earnings. Tuition and mandatory registration fees comprise \$43,859,300 and \$44,053,800 of the total FY 2015 and FY 2016 revenue, respectively.		
Purpose of Fund: To operate the university.		
Funds Expended	44,963,100	44,053,800
Year-End Fund Balance	0	0

*As reported by the agency. Actual ending balances will not be negative.

Department of Veterans' Services

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	500.3	512.3	512.3
Personal Services	1,631,000	2,002,200	2,002,200
Employee Related Expenditures	617,100	754,300	754,300
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	388,500
Equipment	26,700	18,800	18,800
OPERATING SUBTOTAL	2,894,800	3,219,000	3,219,000
SPECIAL LINE ITEMS			
Arizona State Veterans' Homes	30,132,400	30,986,600	30,986,600
Arizona State Veterans' Cemeteries	274,600	928,000	928,000
Veterans' Benefit Counseling	2,707,600	2,833,700	2,833,700
AGENCY TOTAL	36,009,400	37,967,300	37,967,300
FUND SOURCES			
General Fund	5,217,700	6,077,800	6,077,800
<u>Other Appropriated Funds</u>			
State Home for Veterans' Trust Fund	30,132,400	30,986,600	30,986,600
Veterans' Conservatorship Fund	659,300	902,900	902,900
SUBTOTAL - Other Appropriated Funds	30,791,700	31,889,500	31,889,500
SUBTOTAL - Appropriated Funds	36,009,400	37,967,300	37,967,300
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	48,098,900	40,912,700

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 Baseline includes \$3,219,000 and 62.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$2,316,100
Veterans' Conservatorship Fund	902,900

These amounts are unchanged from FY 2016.

Arizona State Veterans' Homes

The Baseline includes \$30,986,600 and 380 FTE Positions from the State Home for Veterans' Trust Fund in FY 2017

for the Arizona State Veterans' Homes. These amounts are unchanged from FY 2016.

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.

Arizona State Veterans' Cemeteries

The Baseline includes \$928,000 and 12.5 FTE Positions from the General Fund in FY 2017 for the Arizona State Veterans' Cemeteries. These amounts are unchanged from FY 2016.

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 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.

* * *

The federal government typically pays most of the construction cost, but the state is responsible for the ongoing operational cost. Construction for the Flagstaff cemetery began in March 2014 and construction for the Marana cemetery began in August 2014. The department projects both cemeteries will open in January 2016.

FORMAT — Operating Lump Sum with Special Line Items by Agency

Other Issues

Yuma Veterans' Home

The FY 2016 budget included an appropriation from the General Fund for 9 months of operating costs. The FY 2017 Baseline assumes non-appropriated internment fees will offset the annualized operating costs of the new cemeteries.

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.

Veterans' Benefit Counseling

The Baseline includes \$2,833,700 and 57 FTE Positions from the General Fund in FY 2017 for Veterans' Benefit Counseling. These amounts are unchanged from FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Funds (VSA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: U.S. Department of Veterans' Affairs and Department of Defense Grants.		
Purpose of Fund: To supervise and qualify educational and training programs which receive Federal Government Issued (GI) Bill monies and to provide assistance for military personnel transitioning to a career as a public school teacher.		
Funds Expended	732,400	1,382,500
Year-End Fund Balance	393,400	393,400
Military Family Relief Fund (VSA2339/A.R.S. § 41-608.04)		Non-Appropriated
Source of Revenue: Donations, bequests, or other contributions from public or private sources. This fund received a one-time General Fund appropriation of \$100,000 in FY 2008. This fund was only established through December 31, 2018; any funds remaining unencumbered as of that date are transferred to the Veterans' Donation Fund.		
Purpose of Fund: To provide financial assistance to family members of deceased or wounded veterans who became deceased, wounded, injured, or became seriously ill after September 11, 2001. Service members must have been deployed from an Arizona military base, claimed this state as the service member's home of record, or were a member of the Arizona National Guard at the time of deployment.		
Funds Expended	484,900	593,600
Year-End Fund Balance	5,090,600	5,517,000
State Home for Veterans' Trust Fund (VSA2355/A.R.S. § 41-608.01)		Appropriated
Source of Revenue: Charges for services, fees and reimbursements received from residents, the Department of Veterans' Affairs, Medicaid, Medicare, and private insurance carriers.		
Purpose of Fund: To operate and maintain state-operated nursing homes for Arizona veterans.		
Funds Expended	30,132,400	30,986,600
Year-End Fund Balance	6,618,900	8,961,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Statewide Employee Recognition Gifts (VSA2449/A.R.S. § 41-709)		Non-Appropriated
Source of Revenue: Donations, gifts, or contributions from public or private sources.		
Purpose of Fund: For the conduct of employee recognition programs.		
Funds Expended	900	200
Year-End Fund Balance	0	100
Veterans' Cemetery Fund (VSA2481/A.R.S. § 41-608.02)		Non-Appropriated
Source of Revenue: Includes a one-time \$500,000 appropriation from the General Fund and federal monies used as reimbursement for the construction of veterans' cemeteries. The construction of the Flagstaff cemetery is estimated to cost \$6,834,000, and the construction of the Marana cemetery is expected to cost \$7,600,000. Monies for the Flagstaff and Marana cemeteries will be spent from FY 2014 through FY 2016.		
Purpose of Fund: To acquire property for and to establish state veterans' cemeteries.		
Funds Expended	8,088,300	7,065,800
Year-End Fund Balance	691,600	0
Arizona State Veterans' Cemetery Trust Fund (VSA2499/A.R.S. § 41-608.03)		Non-Appropriated
Source of Revenue: Monies, grants, gifts, and contributions from any public or private source.		
Purpose of Fund: To manage and maintain 3 Arizona veterans' cemeteries located in Sierra Vista, Marana, and Flagstaff.		
Funds Expended	184,300	192,800
Year-End Fund Balance	327,200	512,400
Veterans' Conservatorship Fund (VSA2077/A.R.S. § 14-5414.01)		Appropriated
Source of Revenue: Fees collected from veterans, or a veteran's surviving spouse, or minor child, or the incapacitated spouse of a protected veteran, for whom the agency serves as a conservator.		
Purpose of Fund: To operate the Fiduciary Division of the Department of Veterans' Services.		
Funds Expended	659,300	902,900
Year-End Fund Balance	80,900	80,900
Veterans' Donations Fund (VSA2441/A.R.S. § 41-608)		Non-Appropriated
Source of Revenue: Donations from private individuals, corporations and organizations. Donations are made by designating a portion of one's tax refund, purchasing a license plate, or other means. Sales from the Veterans, Freedom, Gold Star, Women Veteran, and Military Scholarship license plates go into this fund. Of the \$25 license plate fee, \$8 is for administrative costs deposited to the State Highway Fund and \$17 is deposited into the Veterans' Donation Fund.		
Purpose of Fund: To benefit veterans within the state of Arizona. Separate subaccounts of this fund are used for 1) the construction and maintenance of the Enduring Freedom Memorial, 2) grants to benefit women veterans in Arizona including providing shelter to homeless women veterans and 3) higher education scholarships for veterans and their dependents.		
Funds Expended	910,000	896,700
Year-End Fund Balance	2,469,700	3,353,000

Arizona State Veterinary Medical Examining Board

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	6.0	6.0	6.0
Personal Services	295,200	323,600	323,600
Employee Related Expenditures	100,300	110,000	110,000
Professional and Outside Services	38,200	40,500	40,500
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	61,200
Equipment	14,300	1,000	1,000
AGENCY TOTAL	530,600	545,200	545,200
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Veterinary Medical Examining Board Fund	530,600	545,200	545,200
SUBTOTAL - Other Appropriated Funds	530,600	545,200	545,200
SUBTOTAL - Appropriated Funds	530,600	545,200	545,200
TOTAL - ALL SOURCES	530,600	545,200	545,200

AGENCY DESCRIPTION — The board licenses and regulates veterinarians, veterinary technicians, and veterinary premises.

Operating Budget

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The Baseline includes \$545,200 and 6 FTE Positions from the Veterinary Medical Examining Board Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

FORMAT — Lump Sum by Agency

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Veterinary Medical Examining Board Fund (VTA2078/A.R.S. § 32-2205)		Appropriated
Source of Revenue: Monies collected by the board from the examination and licensing of veterinarians, veterinary technicians, and veterinary premises. The board retains 90% of these monies and deposits 10% in the General Fund.		
Purpose of Fund: To examine, license, investigate, and regulate veterinarians, veterinary technicians, and veterinary premises, and for board administration.		
Funds Expended	530,600	545,200
Year-End Fund Balance	1,764,800	1,380,500

Water Infrastructure Finance Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
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	238,938,500
Federal Funds	25,904,100	37,020,100	37,020,100
TOTAL - ALL SOURCES	180,108,100	275,958,600	275,958,600

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). The Chairman of the WIFA board is the Director of the Arizona Department of Environmental Quality (ADEQ) or the Director's representative.

Water Supply Development Revolving Fund Deposit

The Baseline 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.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Clean Water Revolving Fund (WFA2254/A.R.S. § 49-1221)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal capitalization grants, loan repayments, loan servicing fees, donations, and interest.		
Purpose of Fund: To make loans for capital improvements at wastewater treatment facilities of political subdivision and Indian tribes. The fund is also used for debt refinancing, bond insurance related to wastewater treatment plants, and for fund administration.		
Funds Expended	104,157,900	171,371,400
Year-End Fund Balance	67,202,600	160,654,700
Drinking Water Revolving Fund (WFA2307/A.R.S. § 49-1241)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal capitalization grants, loan repayments, loan servicing fees, donations, and interest.		
Purpose of Fund: To make loans to drinking water facilities, including forgivable principal, of political subdivisions and Indian tribes. The fund is also used for debt refinancing, bond insurance related to drinking water plants, and for fund administration.		
Funds Expended	49,927,000	67,353,900
Year-End Fund Balance	78,857,700	45,284,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Funds (WFA2000/A.R.S. § 49-1203)		Non-Appropriated
Source of Revenue: Federal grants related to water supply management, and other programs.		
Purpose of Fund: To be used as specified by federal law.		
Funds Expended	25,904,100	37,020,100
Year-End Fund Balance	43,600	43,600
Greater Arizona Development Authority Revolving Fund (WFA2311/A.R.S. § 41-2254)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal monies, gifts, grants, donations, loan repayments, administrative fees and penalties, and interest.		
Purpose of Fund: To help rural communities meet their infrastructure needs. The Greater Arizona Development Authority (GADA) may issue bonds, guarantee debt obligations, and provide technical and financial assistance to political subdivisions, special districts, and Indian tribes. Legislative appropriations to the GADA Revolving Fund may only be used to secure bonds. The state funding only serves as collateral for the loans and is not directly loaned out. The fund was capitalized with \$20,000,000 from the General Fund between FY 1998 and FY 2000. Other revenue to the fund may be used for GADA's operating costs, as well as technical and financial assistance to communities.		
Funds Expended	111,000	213,200
Year-End Fund Balance	13,344,100	13,290,900
Small Water Systems Fund (WFA2225/A.R.S. § 49-355)		Non-Appropriated
Source of Revenue: Legislative appropriations and interest.		
Purpose of Fund: To provide emergency grants to repair or replace water infrastructure.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Water Supply Development Revolving Fund (WFA2336/A.R.S. § 49-1271)		Non-Appropriated
Source of Revenue: Legislative appropriations, federal monies, gifts, grants, donations, loan repayments, administrative fees and penalties, and interest. The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) made a one-time General Fund appropriation to the fund in FY 2015, but this was ex-appropriated by the FY 2016 General Appropriation Act (Laws 2015, Chapter 8).		
Purpose of Fund: To provide financial assistance to construct water supply projects for 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.		
Funds Expended	8,100	0
Year-End Fund Balance	0	0

Department of Water Resources

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	96.0	100.0	100.0
Personal Services	3,160,000	4,285,300	4,285,300
Employee Related Expenditures	1,268,600	1,766,600	1,766,600
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	2,436,400
Equipment	183,900	198,700	198,700
OPERATING SUBTOTAL	6,820,600	9,204,800	9,204,800
SPECIAL LINE ITEMS			
Adjudication Support	1,223,400	1,251,800	1,251,800
Assured and Adequate Water Supply Administration	1,774,300	1,983,200	1,983,200
Automated Groundwater Monitoring	385,500	409,400	409,400
Conservation and Drought Program	409,800	408,300	408,300
Lower Colorado River Litigation Expenses	149,600	500,000	500,000
Rural Water Studies	1,103,600	1,164,500	1,164,500
Water Banking Fund	0	237,400	0
AGENCY TOTAL	11,866,800	15,159,400	14,922,000
FUND SOURCES			
General Fund	11,808,700	12,803,100	12,803,100
<u>Other Appropriated Funds</u>			
Assured and Adequate Water Supply Administration Fund	52,500	266,600	266,600
Water Banking Fund	0	1,448,500	1,211,100
Water Resources Fund	5,600	641,200	641,200
SUBTOTAL - Other Appropriated Funds	58,100	2,356,300	2,118,900
SUBTOTAL - Appropriated Funds	11,866,800	15,159,400	14,922,000
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	25,877,100

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.

Operating Budget

The Baseline includes \$9,204,800 and 48 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$7,852,500
Water Banking Fund	1,211,100
Water Resources Fund	141,200

These amounts are unchanged from FY 2016.

Adjudication Support

The Baseline includes \$1,251,800 and 14.5 FTE Positions from the General Fund in FY 2017 for Adjudication Support. These amounts are unchanged from FY 2016.

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 Baseline includes \$1,983,200 and 19.8 FTE Positions in FY 2017 for the Assured and Adequate Water Supply (AAWS) Program. These amounts consist of:

General Fund	1,716,600
AAWS Administration Fund	266,600

These amounts are unchanged from FY 2016.

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 Baseline includes \$409,400 and 2 FTE Positions from the General Fund in FY 2017 for Automated Groundwater Monitoring. These amounts are unchanged from FY 2016.

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 Baseline includes \$408,300 and 4.7 FTE Positions from the General Fund in FY 2017 for the Conservation and Drought Program. These amounts are unchanged from FY 2016.

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 Baseline 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 Baseline includes \$1,164,500 and 11 FTE Positions from the General Fund in FY 2017 for Rural Water Studies. These amounts are unchanged in FY 2016.

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 Baseline 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. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (237,400)

The Baseline 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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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.

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.

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.

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.

STATUTORY CHANGES

The Baseline would:

- 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.
- As session law, continue to allow the Director to maintain prior year fees in FY 2017 with the provision that the fee revenue be deposited in the Water Resources Fund with the intent that the fees collected not to exceed \$100,200.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Administrative Fund (WCA3025/A.R.S. § 45-113)		Non-Appropriated
Source of Revenue: A portion of application, certificate, license, permit and inspection fees.		
Purpose of Fund: To cover the costs of administrative services and expenses.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Assured and Adequate Water Supply Administration Fund (WCA2509/A.R.S. § 45-580)		Appropriated
Source of Revenue: Fees for applications relating to adequate and assured water supply regulations for newly-created subdivisions.		
Purpose of Fund: To support the costs and expenses incurred when determining and declaring compliance with assured and adequate water supply regulations.		
Funds Expended	52,500	266,600
Year-End Fund Balance	303,200	182,600
Augmentation and Conservation Assistance Fund (WCA2213/A.R.S. § 45-615)		Non-Appropriated
Source of Revenue: A portion of fees for groundwater withdrawal in Active Water Management Areas (AMA).		
Purpose of Fund: Generally, to support water supply augmentation projects, such as groundwater recharge, as well as AMA conservation programs. By law, each AMA has its own sub-account within the fund. The Year-End Fund Balances represent non-obligated cash and do not reflect monies already granted but not yet paid.		
Funds Expended	1,093,400	1,000,000
Year-End Fund Balance	2,370,800	1,807,800
Colorado River Water Use Fee Clearing Account (WCA2538/A.R.S. § 45-333)		Non-Appropriated
Source of Revenue: Fees assessed to those who divert and consume water from the mainstream of the Colorado River.		
Purpose of Fund: Monies are transferred to the Lower River Multispecies Conservation Program.		
Funds Expended	7,000	7,000
Year-End Fund Balance	200	1,200
Dam Repair Fund (WCA2218/A.R.S. § 45-1212.01)		Non-Appropriated
Source of Revenue: Legislative appropriations, dam safety inspection fees, and filing fees.		
Purpose of Fund: Generally, to offer loans and grants for private dam owners to make non-emergency repairs, and for program operations.		
Funds Expended	46,700	76,400
Year-End Fund Balance	2,584,000	2,923,800
Federal Grants (WCA2000/A.R.S. § 45-105)		Non-Appropriated
Source of Revenue: Grants from the federal government.		
Purpose of Fund: To support water protection, rural water studies, and water banking initiatives, as well as certain operating expenses.		
Funds Expended	1,600	155,700
Year-End Fund Balance	82,000	396,300
Flood Warning System Fund (WCA1021/A.R.S. § 45-1503)		Non-Appropriated
Source of Revenue: Legislative appropriations, grants, and contributions from other public agencies.		
Purpose of Fund: To develop a flood warning system, purchase flood warning equipment, and provide assistance to local entities on a cost sharing basis for the planning, design, installation, operation, and maintenance of flood warning systems.		
Funds Expended	38,100	65,000
Year-End Fund Balance	344,800	279,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
General Adjudications Fund (WCA2191/A.R.S. § 45-260)		Non-Appropriated
<i>Source of Revenue:</i> Court fees paid by water claimants and from legislative appropriations.		
<i>Purpose of Fund:</i> To cover postage and other costs of serving legal notices to water rights claimants and of publicizing court proceedings. Also to remit filing fees to the courts.		
Funds Expended	11,900	12,000
Year-End Fund Balance	32,300	25,300
Indirect Cost Recovery Fund (WCA9000/A.R.S. § 45-104)		Non-Appropriated
<i>Source of Revenue:</i> Cost allocation transfers of federal and other non-appropriated funds.		
<i>Purpose of Fund:</i> To provide various indirect administrative services, including security and cashiering.		
Funds Expended	164,900	143,000
Year-End Fund Balance	1,643,300	1,980,800
Interagency Service Agreement Fund (WCA2500/A.R.S. § 35-142)		Non-Appropriated
<i>Source of Revenue:</i> Collections from other state and local agencies.		
<i>Purpose of Fund:</i> To pay for projects based upon interagency service agreements with other agencies.		
Funds Expended	477,900	304,100
Year-End Fund Balance	229,800	135,700
Production and Copying Fund (WCA2411/A.R.S. § 45-115)		Non-Appropriated
<i>Source of Revenue:</i> From monies received for department publications and for copies of department records. Any amount in excess of \$20,000 at the end of each fiscal year reverts to the Water Resources Fund.		
<i>Purpose of Fund:</i> To produce and distribute department publications, as well as to copy department records.		
Funds Expended	100	300
Year-End Fund Balance	17,600	20,300
Publication and Mailing Fund (WCA2410/A.R.S. § 45-116)		Non-Appropriated
<i>Source of Revenue:</i> From monies received for the publication and mailing of legal notices as required by law. Any amount in excess of \$20,000 at the end of each fiscal year reverts to the Water Resources Fund.		
<i>Purpose of Fund:</i> To publish and mail legal notices.		
Funds Expended	4,800	5,000
Year-End Fund Balance	1,900	1,900
Purchase and Retirement Fund (WCA2474/A.R.S. § 45-615)		Non-Appropriated
<i>Source of Revenue:</i> A portion of fees for groundwater withdrawal in AMAs.		
<i>Purpose of Fund:</i> To purchase and retire grandfathered groundwater rights, those entitlements legally owned or used before the creation of an AMA in a given area. By law, each AMA has its own sub-account within the fund.		
Funds Expended	0	0
Year-End Fund Balance	137,100	137,600
Statewide Donations Fund (WCA2025/A.R.S. § 45-105)		Non-Appropriated
<i>Source of Revenue:</i> Grants, gifts or donations of money or other property from any source.		
<i>Purpose of Fund:</i> Funds may be used for any purpose consistent with the duties and powers of the Director of the Department of Water Resources as described in statute.		
Funds Expended	8,400	10,000
Year-End Fund Balance	187,700	227,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Water Banking Fund (WCA2110/A.R.S. § 45-2425)		Partially-Appropriated
<p>Source of Revenue: General Fund appropriations and fees associated with the purchase, lease, storage, accreditation, and delivery of Colorado River water to municipalities and industrial water users. Revenue also comes from a portion of the 4% property tax collected by CAWCD to pay for water storage. By law, each AMA has its own sub-account within the fund. This fund operates on the calendar year. Because fees and taxes are collected at the end of the fiscal year, the Year-End Fund Balances are not reflective of the calendar year-end balances. Pursuant to an interstate water banking agreement with Nevada, the fund received a combined total of \$100,000,000 in FY 2005 and FY 2006. In 2004, the Southern Nevada Water Authority (SNWA) agreed to pay the Arizona Water Banking Authority (AWBA) an additional \$230,000,000 for delivery and storage of water. Equal payments of \$23,000,000 per year from Nevada to the AWBA were to begin in 2009 and continue through 2018. The agreement was amended allowing SNWA to delay payment until FY 2015. The agreement was further amended in 2013 to remove the FY 2015 payment resumption date and allow SNWA to pay as water is stored. In FY 2010, the AWBA received \$12,685,000 for storage and delivery of Nevada's own water in lieu of water purchased from Arizona. Appropriations from this fund may include monies received through the water banking agreement with Nevada that are used for purposes outside of contractual agreement with Nevada (Laws 2009, Chapter 332).</p> <p>Purpose of Fund: To purchase and store the unused portion of Arizona's Colorado River water allotment. The department provides administrative support for this fund, but control of expenditures is vested with AWBA. In addition, pursuant to an interstate water banking agreement with Nevada, to obtain, store, and retrieve water for Nevada.</p>		
Appropriated Funds Expended	0	1,448,500
Non-Appropriated Funds Expended	8,050,500	7,924,800
Year-End Fund Balance	6,919,700	4,781,400
Water Protection Fund (WCA1302/A.R.S. § 45-2111)		Non-Appropriated
<p>Source of Revenue: From purchases or leases of CAP water.</p> <p>Purpose of Fund: To provide 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 determines annual recipients. The department provides administrative support for this fund, but control of expenditures is vested with the commission. The Year-End Fund Balances represent non-obligated cash and do not reflect monies already granted but not yet paid.</p>		
Funds Expended	676,900	808,400
Year-End Fund Balance	3,284,500	909,300
Water Quality Fund (WCA2304/A.R.S. § 45-618)		Non-Appropriated
<p>Source of Revenue: From annual Water Quality Assurance Revolving Fund (WQARF) transfers negotiated with the Arizona Department of Environmental Quality (ADEQ), as well as from legislative appropriations, grants, and contributions from other public agencies.</p> <p>Purpose of Fund: To inspect wells for groundwater contamination and to take appropriate remedial action on contaminated wells. Inspections are done in conjunction with the ADEQ WQARF program.</p>		
Funds Expended	161,400	140,900
Year-End Fund Balance	472,100	462,200
Water Resources Fund (WCA2398/A.R.S. § 45-117)		Appropriated
<p>Source of Revenue: Consists of monies from legislative appropriations, donations, and fees collected by ADWR to carry out its statutory functions, as well as existing fees that had been deposited into the General Fund.</p> <p>Purpose of Fund: Fees deposited in the Water Resources Fund are to be held in trust and only used to carry out its statutory responsibilities, including managing the state's water supplies, enforcing groundwater laws, and representing the state's water rights.</p>		
Funds Expended	5,600	641,200
Year-End Fund Balance	3,794,800	3,650,600

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Well Administration and Enforcement Fund (WCA2491/A.R.S. § 45-606)		Non-Appropriated
Source of Revenue: Well-drilling filing and permit fees.		
Purpose of Fund: To monitor, investigate, and enforce regulations concerning the construction, replacement, deepening, and abandonment of wells, as well as the capping of open wells.		
Funds Expended	330,600	302,500
Year-End Fund Balance	314,100	359,600

Department of Weights and Measures

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
PROGRAM BUDGET			
General Services	1,635,200	1,728,400	0
Oxygenated Fuel	772,100	787,800	0
Vapor Recovery	529,800	652,000	0
AGENCY TOTAL	2,937,100	3,168,200	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	499,300	0
Equipment	68,200	59,000	0
AGENCY TOTAL	2,937,100	3,168,200	0
FUND SOURCES			
General Fund	1,361,900	1,399,000	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	3,168,200	0
TOTAL - ALL SOURCES	2,937,100	3,168,200	0

AGENCY DESCRIPTION — The department regulates the determination and representation of weight and measurement in the marketplace and also maintains 2 environmentally related gasoline inspection programs. All programs investigate 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 Baseline includes no funding in FY 2017 for the operating budget. FY 2017 adjustments would be as follows:

	FY 2017
Agency Consolidation	GF \$(1,399,000)
	OF (1,769,200)

The Baseline includes a decrease of \$(3,168,200) and (38.4) FTE Positions in FY 2017 for the Weights and Measures agency consolidation. These amounts consist of:

General Fund	(1,399,000)
Air Quality Fund	(1,439,800)
MVLIE Fund	(329,400)

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 new Division within ADA, except for:

- Responsibilities relating to taxis, limousines and livery vehicles are transferred to ADOT.
- Responsibilities relating to the Moving Truck Violation Enforcement Program are transferred to DPS.

The Executive currently estimates operating savings from the agency consolidation to be \$(330,600). (See Table 1 for more information on appropriated monies transferred during the Weights and Measures agency consolidation.)

The Director of the Arizona Department of Administration will submit a succession plan to the Joint Legislative Budget Committee for review by March 1, 2016. (Please see the Arizona Department of Agriculture and the Arizona Department of Transportation for more information.)

As of October 2015, the Department of Weights and Measures has completed the agency consolidation process 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.

	General Fund		Other Appropriated Funds	
	FY 2016 Appropriation	FY 2017 Baseline	FY 2016 Appropriation	FY 2017 Baseline
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	0	0	0	329,400
Total	\$1,399,000	\$1,068,400 ^{1/}	\$1,769,200	\$1,769,200

^{1/} The Executive currently estimates operating savings from the Weights and Measures agency consolidation to be \$(330,600).

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Air Quality Fund (EVA2226/A.R.S. § 49-551)		Appropriated
Source of Revenue: Monies received from the \$1.50 fee assessed on motor vehicle registration, as well as gifts, grants, donations, and legislative appropriations.		
Purpose of Fund: To pay the costs of air quality research, experiments, education, and programs conducted by or for the department.		
Funds Expended	1,301,900	1,439,800
Year-End Fund Balance	1,068,300	1,068,300
Motor Vehicle Liability Insurance Enforcement Fund (DTA2285/A.R.S. § 28-4151)		Appropriated
Source of Revenue: Fees received by the department pursuant to A.R.S. Title 28, Chapter 9, Article 4 (mandatory motor vehicle insurance), such as fees to reinstate drivers' licenses and vehicle registrations canceled due to lack of insurance.		
Purpose of Fund: To enforce mandatory motor vehicle liability insurance laws on vehicles. The Department of Weights and Measures uses these funds to verify that passenger-carrying vehicles have the proper insurance and vehicle license plates.		
Funds Expended	273,300	329,400
Year-End Fund Balance	75,200	75,200

CAPITAL OUTLAY ESTIMATES

Capital Outlay Summary

	FY 2017 BASELINE
BUILDING RENEWAL	
ADOA Building System	15,112,400
ADOT Building System	3,396,800
ABOR Building System	0
SUBTOTAL	18,509,200
INDIVIDUAL PROJECTS	
ADOA Building System	0
ADOT Building System	289,694,900
ABOR Building System	0
SUBTOTAL	289,694,900
LEASE-PURCHASE PAYMENTS	
Lease-Purchase Obligations	114,566,400
TOTALS	
ADOA Building System	129,678,800
ADOT Building System	293,091,700
ABOR Building System	0
TOTAL - ALL PROJECTS	422,770,500
FUND SOURCES	
General Fund	114,566,400
<u>Other Appropriated Funds</u>	
Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
State Aviation Fund	19,284,800
State Highway Fund	273,806,900
State Lottery Fund	118,100
SUBTOTAL - Other Appropriated Funds	308,204,100
SUBTOTAL - Appropriated Funds	422,770,500
Other Non-Appropriated Funds	342,567,000
Federal Funds	670,034,000
TOTAL - ALL SOURCES	1,435,371,500

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.

The following amounts are one-time appropriations:

Summary

	FY 2017
Capital Outlay	GF \$114,566,400
	OF 308,204,100

The Baseline includes a total of \$422,770,500 from Appropriated Funds in FY 2017. Of the total, \$114,566,400 is from the General Fund and \$308,204,100 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 Baseline includes total funding of \$18,509,200 in FY 2017 for Building Renewal, which consists of \$18,509,200 from Other Appropriated Funds. These amounts include:

Arizona Department of Administration Capital Outlay Stabilization Fund @ 22.1% (excludes ADC, Game and Fish, Lottery buildings)	\$9,000,000
Department of Corrections ADC Building Renewal Fund @ 27.2%	5,464,300
Game and Fish Department Game and Fish Fund @ 59.4%	530,000
State Lottery Commission State Lottery Fund @ 100%	<u>118,100</u>
Subtotal - ADOA	\$15,112,400
Arizona Department of Transportation State Highway Fund @ 26.0%	\$3,191,900
State Aviation Fund @ 88.2%	<u>204,900</u>
Subtotal - ADOT	\$3,396,800

(See the individual building systems' write-ups for more information.)

Individual Projects

The Baseline includes total funding of \$289,694,900 in FY 2017 for individual capital projects, which consists of \$289,694,900 from Other Appropriated Funds. *(See the individual building systems' write-ups for more information.)*

Lease-Purchase Payments

The Baseline 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.)*

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FOOTNOTES

Capital Standard Footnotes

Building Renewal

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.

Individual Projects

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 estimated cost of more than \$250,000.

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

Arizona Department of Administration Building System

FY 2017
BASELINE

BUILDING RENEWAL

Department of Administration	9,000,000
Department of Corrections	5,464,300
Game and Fish Department	530,000
Arizona State Lottery Commission	118,100
SUBTOTAL	15,112,400

TOTAL - ALL PROJECTS

15,112,400

FUND SOURCES

Other Appropriated Funds

Capital Outlay Stabilization Fund	9,000,000
Department of Corrections Building Renewal Fund	5,464,300
Game and Fish Fund	530,000
State Lottery Fund	118,100
SUBTOTAL - Other Appropriated Funds	15,112,400
SUBTOTAL - Appropriated Funds	15,112,400

TOTAL - ALL SOURCES

15,112,400

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.

The following amounts are one-time appropriations:

Building Renewal

FY 2017

Building Renewal OF \$15,112,400

The Baseline includes \$15,112,400 from Other Appropriated Funds in FY 2017 for Building Renewal within the ADOA Building System. This amount consists of:

- \$9,000,000 to ADOA from the Capital Outlay Stabilization Fund (COSF). This amount funds 22.1% of the non-Department of Corrections (ADC) building renewal formula. 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.
- \$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.
- \$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.

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital standard footnotes.)

Building Renewal

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.

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.

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.

Individual Projects

The Department of Administration shall report on the status of project-specific FTE Positions for capital projects in its annual capital budget request.

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.

The appropriations made for statewide highway construction and airport planning and development 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. Except as above 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.

Other Issues

COSF Rental Rate Change & Payment Adjustments

The Baseline 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:

	<u>General Fund</u>	<u>Total Funds</u>
• Lease-Purchase	\$ 916,200	\$9,177,000
• PLTO	(1,244,600)	(10,202,000)
• State Building Rent	<u>(52,700)</u>	<u>(83,400)</u>
	\$ (381,100)	\$(1,108,400)

Lease-Purchase

In FY 2017, lease-purchase payments will increase by \$9,177,000, of which \$916,200 is from the General Fund, \$7,041,300 from Other Appropriated Funds, and \$1,219,500 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 \$(83,400), which consists of \$(52,700) from the General Fund, \$(11,900) from Other Appropriated Funds, and \$(18,800) from Non-Appropriated Funds. Any change in rental charges would be funded from existing agency appropriations and would have not corresponding change in agency funding levels.

The Baseline 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.)*

LEASE-PURCHASE APPROPRIATIONS 1/ Department of Administration Building System

	Fiscal Year 2016 - Appropriations Report			Fiscal Year 2017 - Baseline			FY 2017-FY 2016 Difference					
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Administration, AZ Department of												
Sale/Lease-Back												
Arizona Department of Administration Buildings 2/	\$84,114,600		\$0	\$84,114,600	\$84,117,400			\$84,117,400	\$2,800			\$2,800
Accountancy, State Board of												
Administration, Arizona Department of												
Deaf and Hard of Hearing, Commission for the												
Equalization, State Board of												
Tax Appeals, State Board of												
Subtotal - ADOA Building	\$0	\$0	\$0	\$0	\$922,700	2,389,700	215,800	\$3,527,500	\$922,700	\$2,389,700	\$215,800	\$3,527,500
Corrections, Arizona Department of												
4,000 Public Prison Beds 3/	16,061,900			16,061,900	15,804,400			15,804,400	(257,500)			(257,500)
Water and Wastewater Projects 3/	657,000			657,000	650,000			650,000	(7,000)			(7,000)
1,000 Public Prison Beds - Refinance 4/	3,075,300			3,075,300	3,075,800			3,075,800	500			500
Subtotal - AZ Department of Corrections	\$19,794,200	\$0	\$0	\$19,794,200	\$19,530,200	\$0	\$0	\$19,530,200	(\$264,000)			(\$264,000)
Arizona Department of Environmental Quality Building 2/												
Criminal Justice Commission, Arizona												
Environmental Quality, Department of												
Environmental Quality, Department of - WIFA												
Fire, Building and Life Safety, Department of												
Forester, State												
Gaming, Department of												
Housing, Department of												
Insurance, Department of												
Residential Utility Consumer Office												
Technical Registration, State Board of												
Tourism, Office of												
Subtotal - ADEQ Building	\$0	\$0	\$0	\$0	\$247,300	\$4,609,900	\$1,003,700	\$5,860,900	\$247,300	\$4,609,900	\$1,003,700	\$5,860,900
Health Services, Department of												
Health Services Building - Refinance 5/	1,858,600	1,239,400		3,098,000	1,920,500	1,280,700		3,201,200	61,900	41,300		103,200
Health Lab - Refinance 3/		2,033,000		2,033,000		2,033,400		2,033,400		400		400
Arizona State Hospital Forensic Unit 3/	3,113,700			3,113,700	3,062,700			3,062,700	(\$51,000)			(\$51,000)
Subtotal - Department of Health Services	\$4,972,300	\$3,272,400	\$0	\$8,244,700	\$4,983,200	\$3,314,100	\$0	\$8,297,300	\$10,900	\$41,700	\$0	\$52,600
GRAND TOTAL	\$108,881,100	\$3,272,400	\$0	\$112,153,500	\$109,800,100	\$10,313,700	\$1,219,500	\$121,333,300	\$919,000	\$7,041,300	\$1,219,500	\$9,179,800

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 ICJR 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 ICJR 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 ICJR 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 ICJR 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.

PRIVATIZED LEASE-TO-OWN APPROPRIATIONS 1/

	Fiscal Year 2016 - Appropriation Report			Fiscal Year 2017 - Baseline			FY 2017 - FY 2016 Difference					
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
Arizona Department of Administration Building												
Accountancy, State Board of	0	113,200	0	113,200	0	0	0	0	0	(113,200)	0	(113,200)
Administration, Arizona Department of	840,600	2,166,000	226,300	3,232,900	0	0	0	0	(840,600)	(2,166,000)	(226,300)	(3,232,900)
Deaf and Hard of Hearing, Commission for the	0	217,300	0	217,300	0	0	0	0	0	(217,300)	0	(217,300)
Equalization, State Board of	88,600	0	0	88,600	0	0	0	0	(88,600)	0	0	(88,600)
Tax Appeals, State Board of	34,000	0	0	34,000	0	0	0	0	(34,000)	0	0	(34,000)
Subtotal - ADOA Building	963,200	2,496,500	226,300	3,686,000	0	0	0	0	(963,200)	(2,496,500)	(226,300)	(3,686,000)
Arizona Department of Environmental Quality Building												
Criminal Justice Commission, Arizona	0	11,500	178,000	189,500	0	0	0	0	0	(11,500)	(178,000)	(189,500)
Environmental Quality, Department of	0	4,054,000	0	4,054,000	0	0	0	0	0	(4,054,000)	0	(4,054,000)
Environmental Quality, Department of - WIFA	0	0	114,000	114,000	0	0	0	0	0	0	0	0
Fire, Building and Life Safety, Department of	148,400	0	54,800	203,200	0	0	0	0	(148,400)	0	0	(148,400)
Forester, State	113,000	0	0	113,000	0	0	0	0	(113,000)	0	0	(113,000)
Gaming, Department of 2/	0	778,800	0	778,800	0	0	0	0	0	(778,800)	0	(778,800)
Housing, Department of	0	30,300	476,000	506,300	0	0	0	0	0	(30,300)	(476,000)	(506,300)
Insurance, Department of	0	0	57,700	57,700	0	0	0	0	0	0	(57,700)	(57,700)
Residential Utility Consumer Office	0	120,900	0	120,900	0	0	0	0	0	(120,900)	0	(120,900)
Technical Registration, State Board of	0	186,500	0	186,500	0	0	0	0	0	(186,500)	0	(186,500)
Tourism, Office of	0	0	192,100	192,100	0	0	0	0	0	0	(192,100)	(192,100)
Subtotal - ADEQ Building	\$261,400	\$5,182,000	\$1,072,600	\$6,516,000	\$0	\$0	\$0	\$0	(\$261,400)	(\$5,182,000)	(\$1,072,600)	(\$6,516,000)
GRAND TOTAL	\$1,224,600	\$7,678,500	\$1,298,900	\$10,202,000	\$0	\$0	\$0	\$0	(\$1,224,600)	(\$7,678,500)	(\$1,298,900)	(\$10,202,000)

1/ Pursuant to Laws 2001, Chapter 317, the Arizona Department of Administration (ADOA) entered into 3 privatized lease-to-own (PLTO) agreements with private entities for the construction of 3 office buildings on the Capitol Mall. At the end of the lease period, the state will take possession of these buildings. The original DHS Building PLTO was converted to a traditional lease-purchase agreement as part of a refinancing review by JCCR in October 2012. The ADOA and ADEQ Building PLTO were converted to a traditional lease-purchase agreement as part of a financing review by JCCR in June 2015. As a result, the state currently has no active PLTO agreements.

2/ Includes \$155,600 for the Arizona Department of Racing PLTO agreement. The FY 2016 Agency Consolidation Budget Reconciliation Bill (Laws 2015, Chapter 19) merges the Department of Racing into the Department of Gaming, effective July 3, 2015.

SUMMARY OF RENT CHARGES 1/2/

	Fiscal Year 2016 - Appropriations Report			Fiscal Year 2017 Baseline			FY 2017 - FY 2016 Difference					
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
BUDGET UNITS												
Acupuncture Board of Examiners												
1400 W Washington	0	4,500	0	4,500	0	4,500	0	4,500	0	0	0	0
Administration, AZ Department of												
1400 W Washington	3,400	3,100	0	6,500	3,400	3,100	0	6,500	0	0	0	0
1510 W Adams	0	353,600	0	353,600	0	41,900	0	41,900	0	(311,700)	0	(311,700)
1520 W Adams	0	0	0	0	0	353,700	0	353,700	0	353,700	0	353,700
1522 W Adams	0	184,800	0	184,800	0	184,800	0	184,800	0	0	0	0
1537 W Jackson	0	41,900	0	41,900	0	0	0	0	0	(41,900)	0	(41,900)
1616 W Adams	0	89,100	0	89,100	0	89,200	0	89,200	0	100	0	100
1802 W Jackson	0	77,300	0	77,300	0	77,300	0	77,300	0	0	0	0
1840 W Jackson	0	24,900	61,900	86,800	0	24,900	61,900	86,800	0	0	0	0
1850 W Jackson	0	63,600	0	63,600	0	63,700	0	63,700	0	100	0	100
1700 W Washington	32,600	78,800	0	111,400	34,200	44,500	0	78,700	1,600	3,800	0	5,400
1789 W Jefferson (DES West)	0	16,400	0	16,400	0	82,600	0	116,800	0	0	0	0
1801 W Madison	0	21,500	0	21,500	0	16,500	0	16,500	0	100	0	100
1805 W Madison	0	24,700	0	24,700	0	21,500	0	21,500	0	0	0	0
400 W Congress, Tucson	0	53,500	0	53,500	0	24,700	0	24,700	0	0	0	0
402 W Congress, Tucson	0	56,200	0	56,200	0	47,600	0	47,600	0	(5,900)	0	(5,900)
416 W Congress, Tucson	0	2,700	0	2,700	0	56,200	0	56,200	0	0	0	0
Subtotal - AZ Dept of Administration	\$36,000	\$1,136,600	\$61,900	\$1,234,500	\$71,000	\$1,134,900	\$61,900	\$1,234,400	\$1,600	(1,700)	0	(100)
Administrative Hearings, Office of												
1400 W Washington	71,000	900	131,500	203,400	71,000	900	131,500	203,400	0	0	0	0
400 W Congress, Tucson	0	11,400	0	11,400	0	11,400	0	11,400	0	0	0	0
Subtotal - Office of Administrative Hearings	\$71,000	\$12,300	\$131,500	\$214,800	\$71,000	\$12,300	\$131,500	\$214,800	0	0	0	0
African American Affairs, Commission on												
1700 W Washington	\$9,300	\$0	\$0	\$9,300	\$9,300	\$0	\$0	\$9,300	0	0	0	0
Agriculture, AZ Department of												
1520 W Adams	106,500	0	0	106,500	106,500	0	0	106,500	0	0	0	0
1688 W Adams	197,700	0	222,800	420,500	197,700	0	222,800	420,500	0	0	0	0
400 W Congress, Tucson	32,100	0	4,700	36,800	32,100	0	4,700	36,800	0	0	0	0
Subtotal - AZ Dept of Agriculture	\$336,300	\$0	\$227,500	\$563,800	\$336,300	\$0	\$227,500	\$563,800	0	0	0	0
AZ Health Care Cost Containment System												
Kingman Building	6,800	0	6,600	13,400	6,800	0	6,600	13,400	0	0	0	0
Arts, AZ Commission on the												
417 W Roosevelt	0	0	49,700	49,700	0	0	49,700	49,700	0	0	0	0
Attorney General - Department of Law												
1275 W Washington	550,300	315,500	320,200	1,186,000	550,300	315,500	320,200	1,186,000	0	0	0	0
400 W Congress, Tucson	32,600	25,600	19,100	77,300	31,300	24,500	18,300	74,100	(1,300)	(800)	0	(3,200)
402 W Congress, Tucson	137,700	107,900	79,900	325,500	137,700	107,900	79,900	325,500	0	0	0	0
Capitol Center	991,900	348,500	0	1,340,400	967,700	340,000	0	1,307,700	(24,200)	(8,500)	0	(32,700)
Subtotal - Attorney General - Dept of Law	\$1,712,500	\$797,500	\$419,200	\$2,929,200	\$1,887,000	\$787,900	\$418,400	\$2,893,300	(25,500)	(9,600)	(800)	(35,900)
Automobile Theft Authority												
1400 W Washington	0	34,800	0	34,800	0	34,800	0	34,800	0	0	0	0
Barbers, Board of												
1400 W Washington	0	12,500	0	12,500	0	12,500	0	12,500	0	0	0	0
Charter Schools, State Board for												
1616 W Adams	70,500	0	0	70,500	70,500	0	0	70,500	0	0	0	0
Child Safety, Department of												
1400 W Washington	0	0	42,400	42,400	0	0	42,400	42,400	0	0	0	0
Kingman Building	18,800	38,500	25,900	83,200	18,800	38,500	25,900	83,200	0	0	0	0
400 W Congress, Tucson	21,200	20,000	9,500	50,700	21,200	20,000	9,700	50,900	0	0	0	0
Capitol Center	117,100	32,500	67,200	216,800	117,100	32,500	67,200	216,800	0	0	0	0
Subtotal - Department of Child Safety	\$157,100	\$91,000	\$145,000	\$393,100	\$157,100	\$91,000	\$145,200	\$393,300	0	0	0	0
Citizens Clean Election Commission												
1616 W Adams	0	0	54,300	54,300	0	0	54,300	54,300	0	0	0	0
Contractors, Registrar of												
400 W Congress, Tucson	0	38,000	0	38,000	0	38,000	0	38,000	0	0	0	0
1700 W Washington	0	418,700	0	418,700	0	418,700	0	418,700	0	0	0	0
Subtotal - Registrar of Contractors	\$0	\$456,700	\$0	\$456,700	\$0	\$456,700	\$0	\$456,700	0	0	0	0
Corporation Commission												
1200 W Washington	0	527,800	0	527,800	0	527,800	0	527,800	0	0	0	0
1300 W Washington	0	375,500	0	375,500	0	375,500	0	375,500	0	0	0	0

SUMMARY OF RENT CHARGES 1/2

	Fiscal Year 2016 - Appropriations Report			Fiscal Year 2017 Baseline			FY 2017 - FY 2016 Difference		
	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp
1400 W Washington	0	153,300	0	0	153,300	0	0	0	0
400 W Congress, Tucson	5,500	47,900	3,100	5,500	47,900	3,100	0	0	0
Subtotal - Corporation Commission	\$5,500	\$1,104,500	\$3,100	\$5,500	\$1,104,500	\$3,100	0	0	0
Corrections, State Department of									
1601 W Jefferson	749,800	0	0	749,800	0	0	0	0	0
1645 W Jefferson	668,600	0	0	668,700	0	0	100	0	100
1831 W Jefferson	266,300	0	0	266,300	0	0	0	0	0
Subtotal - State Dept of Corrections	\$1,684,700	\$0	\$0	\$1,684,800	\$0	\$0	100	0	100
Deaf and the Hard of Hearing, Commission for the									
1400 W Washington	0	8,400	0	8,400	0	0	0	0	0
Economic Security, Department of									
1400 W Washington	0	0	58,000	0	58,000	0	0	0	0
1624 W Adams	64,100	29,200	23,400	64,100	29,200	23,400	0	0	0
1700 W Washington	12,800	5,900	4,700	12,800	5,900	4,700	0	0	0
1789 W Jefferson (DES West)	1,430,600	356,500	472,900	1,430,700	356,500	472,900	100	0	100
Kingman Building	31,900	65,500	44,000	31,900	65,500	44,000	0	0	0
400 W Congress, Tucson	190,600	179,600	86,400	190,600	179,600	86,400	0	0	0
DES Group Homes	139,200	200,100	0	139,200	200,100	0	0	0	0
Capitol Center	78,600	21,900	45,100	78,600	21,900	45,100	0	0	0
Subtotal - Department of Economic Security	\$1,947,800	\$858,700	\$734,500	\$1,947,900	\$858,700	\$734,500	100	0	100
Education, Department of									
1535 W Jefferson	311,000	106,300	578,900	300,800	102,900	560,200	(10,200)	(3,400)	(18,800)
400 W Congress, Tucson	0	12,000	42,500	0	12,000	42,500	0	0	0
416 W Congress, Tucson	0	900	21,100	0	900	21,100	0	0	0
Subtotal - Department of Education	\$311,000	\$119,200	\$642,500	\$300,800	\$115,800	\$623,800	(10,200)	(3,400)	(18,800)
Education, State Board of									
1535 W Jefferson	0	\$0	\$0	32,400	0	0	32,400	0	32,400
1700 W Washington	0	0	0	41,400	0	0	41,400	0	41,400
Subtotal - State Board of Education	\$0	\$0	\$0	73,800	0	0	73,800	0	73,800
Emergency and Military Affairs, Department of									
400 W Congress St	\$0	\$0	\$0	\$0	\$0	\$9,100	0	0	9,100
Environmental Quality, Department of									
400 W Congress, Tucson	0	96,800	0	96,800	0	0	0	0	0
Equal Opportunity, Governor's Office of									
1700 W Washington	13,000	0	0	0	0	0	(13,000)	0	(13,000)
Equalization, State Board of									
416 W Congress, Tucson	1,400	0	0	1,400	0	0	0	0	0
Executive Clemency, Board of									
1645 W Jefferson	86,200	0	0	86,200	0	0	0	0	0
Financial Institutions, Department of									
2910 N 44th Street	166,000	32,400	0	166,000	32,400	0	0	0	0
Fire, Building, and Life Safety, Department of									
400 W Congress, Tucson	12,300	0	7,500	12,300	0	7,500	0	0	0
Funer Directors & Embalmers, State Board of									
1400 W Washington	0	15,000	0	0	15,000	0	0	0	0
Gaming, Department of									
400 W Congress, Tucson	0	14,000	0	0	14,000	0	0	0	0
Geological Survey, AZ									
402 W Congress, Tucson	17,500	0	0	17,500	0	0	0	0	0
416 W Congress, Tucson	147,200	0	0	147,200	0	0	100	0	100
Subtotal - AZ Geological Survey	\$165,200	\$0	\$0	\$165,300	\$0	\$0	100	0	100
Governor, Office of the									
1700 W Washington	571,500	0	134,500	548,100	0	129,000	(23,400)	0	(28,900)
400 W Congress, Tucson	30,000	0	0	30,000	0	0	0	0	0
Subtotal - Office of the Governor	\$601,500	\$0	\$134,500	\$578,100	\$0	\$129,000	(23,400)	0	(5,500)
Gov's Ofc of Strategic Planning & Budgeting									
1700 W Washington	131,200	0	0	131,200	0	0	0	0	0
Health Services, Department of									
1740 W Adams	0	1,013,500	0	0	1,013,500	0	0	0	0
1818 W Adams	209,600	0	0	209,600	0	0	0	0	0
400 W Congress, Tucson	84,100	50,300	0	84,100	50,300	0	0	0	0
402 W Congress, Tucson	0	3,300	0	0	3,300	0	0	0	0
416 W Congress, Tucson	0	56,400	0	0	56,400	0	0	0	0
Subtotal - Department of Health Services	\$293,700	\$1,123,500	\$0	\$293,700	\$1,123,500	\$0	0	0	0

SUMMARY OF RENT CHARGES 1/2/

	Fiscal Year 2016 - Appropriations Report			Fiscal Year 2017 Baseline			FY 2017 - FY 2016 Difference		
	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp	General Fund	Other Fund	Non-Approp
Historical Society, Arizona									
1502 W Washington	360,700	0	0	360,700	0	0	360,700	0	0
Homeland Security, AZ Dept of									
1700 W Washington	0	0	131,400	131,400	0	0	131,400	0	0
Homeopathic & Integrated Medicine Examiners,									
1400 W Washington	0	4,900	0	4,900	0	0	4,900	0	0
Independent Redistricting Commission									
1100 W Washington	24,200	0	0	24,200	0	0	24,200	0	0
Indian Affairs, AZ Commission of									
1700 W Washington	10,100	0	0	10,100	0	0	10,100	0	0
Insurance, Department of									
2910 N 44th Street	323,400	0	107,800	431,200	0	107,800	431,200	0	0
Judiciary - Court of Appeals									
400 W Congress, Tucson	380,700	0	0	380,700	0	0	380,700	0	0
Judiciary - Supreme Court									
1501 W Washington	2,859,800	0	0	2,859,800	0	0	2,859,800	0	0
400 W Congress, Tucson	83,800	0	0	83,800	0	0	83,800	0	0
Subtotal - Supreme Court	\$2,943,600	\$0	\$0	\$2,943,600	\$0	\$0	\$2,943,600	\$0	\$0
Subtotal - Judiciary	\$3,324,300	\$0	\$0	\$3,324,300	\$0	\$0	\$3,324,300	\$0	\$0
Juvenile Corrections, Department of									
1624 W Adams	364,700	0	0	364,700	0	0	364,700	0	0
Land Department, State									
1616 W Adams	0	779,700	0	779,700	0	0	779,700	0	0
Legislature - Auditor General									
1520 W Adams	11,800	0	0	11,800	0	0	11,800	0	0
2910 N 44th Street	342,200	0	0	342,200	0	0	342,200	0	0
400 W Congress, Tucson	45,100	0	0	45,100	0	0	45,100	0	0
Subtotal - Legislature - Auditor General	\$399,100	\$0	\$0	\$399,100	\$0	\$0	\$399,100	\$0	\$0
Liquor Licenses and Control, Department of									
400 W Congress, Tucson	0	21,700	0	21,700	0	0	21,700	0	0
Medical Board, AZ									
9500 Doubletree Rd.	0	200,100	0	200,100	0	0	200,100	0	0
Massage Therapy Board									
1400 W Washington	0	28,500	0	28,500	0	0	28,500	0	0
Mine Inspector, State									
1700 W Washington	84,200	0	0	84,200	0	0	84,200	0	100
Naturopathic Physicians Medical Board									
1400 W Washington	0	4,300	0	4,300	0	0	4,300	0	0
Navigable Stream Adjudication Commission, AZ									
1700 W Washington	10,100	0	0	10,100	0	0	10,100	0	0
Nursing Care Inst. Admin. & Asstd. Living Fac. Mgrs.									
1400 W Washington	0	23,000	0	23,000	0	0	23,000	0	0
Opticians, State Board of Dispensing									
1400 W Washington	0	5,200	0	5,200	0	0	5,200	0	0
Optomtery, State Board of									
1400 W Washington	0	9,100	0	9,100	0	0	9,100	0	0
Osteopathic Examiners, AZ Board of									
9500 Doubletree Rd.	0	34,200	0	34,200	0	0	34,200	0	0
Parks Board, AZ State									
1300 W Washington	0	61,700	250,500	312,200	0	262,200	326,700	2,800	11,700
1616 W Adams	0	0	66,000	66,000	0	51,500	51,500	0	(14,500)
Subtotal - AZ State Parks Board	\$0	\$61,700	\$316,500	\$378,200	\$0	\$313,700	\$378,200	2,800	(2,800)
Personnel Board									
1400 W Washington	0	24,800	0	24,800	0	0	24,800	0	0
Pest Management, Office of									
1688 W Adams	0	46,300	0	46,300	0	0	46,300	0	0
400 W Congress, Tucson	0	3,900	0	3,900	0	0	3,900	0	0
Subtotal - Office of Pest Management	\$0	\$50,200	\$0	\$50,200	\$0	\$0	\$50,200	\$0	\$0
Pharmacy, AZ State Board of									
1616 W Adams	0	117,800	0	117,800	0	0	117,800	0	0
Podiatry Examiners, State Board of									
1400 W Washington	0	4,400	0	4,400	0	0	4,400	0	0
Private Postsecondary Education, State Board for									
1400 W Washington	0	13,600	3,300	16,900	0	3,300	16,900	0	0

SUMMARY OF RENT CHARGES 1/2/

	Fiscal Year 2016 - Appropriations Report			Fiscal Year 2017 Baseline			FY 2017- FY 2016 Difference					
	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total	General Fund	Other Fund	Non-Approp	Total
	Psychologist Examiners, State Board of	0	20,500	0	20,500	0	20,500	0	20,500	0	0	0
Public Safety, Department of	20,100	5,300	5,600	31,000	20,100	5,300	5,600	31,000	0	0	0	0
14 N 18th Avenue	51,000	13,300	14,000	78,300	51,000	13,300	14,000	78,300	0	0	0	0
1700 W Washington	10,900	2,800	2,900	16,600	10,900	2,800	2,900	16,600	0	0	0	0
400 W Congress, Tucson	\$82,000	\$21,400	\$22,500	\$125,900	\$82,000	\$21,400	\$22,500	\$125,900	0	0	0	0
Subtotal - Department of Public Safety	235,900	0	0	235,900	235,900	0	0	235,900	0	0	0	0
Real Estate Department, State	0	19,800	0	19,800	0	19,800	0	19,800	0	0	0	0
2910 N 44th Street	116,900	59,500	0	176,400	116,900	59,500	0	176,400	0	0	0	0
Revenue, Department of	113,100	38,200	0	151,300	113,100	38,200	0	151,300	0	0	0	0
402 W Congress, Tucson	74,900	0	0	74,900	74,900	0	0	74,900	0	0	0	0
416 W Congress, Tucson	1,377,200	709,400	0	2,086,600	1,377,300	709,400	0	2,086,700	100	0	0	100
1600 W Monroe	\$1,569,000	\$807,100	\$0	\$2,376,100	\$1,569,100	\$807,100	\$0	\$2,376,200	100	0	0	100
Subtotal - Department of Revenue	0	11,200	0	11,200	0	11,200	0	11,200	0	0	0	0
Rio Nuevo Board	80,500	0	33,000	113,500	80,500	0	33,000	113,500	0	0	0	0
400 W Congress, Tucson	0	0	0	0	0	0	0	0	0	0	0	0
School Facilities Board	23,500	0	0	23,500	23,500	0	0	23,500	0	0	0	0
Secretary of State - Dept of State	193,700	0	0	193,700	193,700	0	0	193,700	0	0	0	0
1030 N 32 Street	6,000	0	0	6,000	6,000	0	0	6,000	0	0	0	0
1100 W Washington	303,400	0	0	303,400	303,400	0	0	303,400	400	0	0	400
1700 W Washington	1,593,000	0	0	1,593,000	1,593,000	0	0	1,593,000	0	0	0	0
Records Management Addition	\$2,119,600	\$0	\$0	\$2,119,600	\$2,120,000	\$0	\$0	\$2,120,000	400	0	0	400
Polly Rosenbaum Building	0	43,000	0	43,000	0	43,000	0	43,000	0	0	0	0
Subtotal - Secretary of State - Dept of State	0	127,500	0	127,500	0	127,500	0	127,500	0	0	0	0
State Boards' Office	0	142,000	0	142,000	0	142,000	0	142,000	0	0	0	0
1400 W Washington	25,300	0	0	25,300	25,300	0	0	25,300	0	0	0	0
Transportation, Department of	\$16,806,800	\$8,308,200	\$3,243,500	\$28,558,500	\$16,754,100	\$8,496,300	\$3,225,000	\$28,475,400	52,700	(11,900)	(18,800)	(83,400)
1275 W Washington 3/	0	0	0	0	0	0	0	0	0	0	0	0
Treasurer, State	0	0	0	0	0	0	0	0	0	0	0	0
1700 W Washington	0	0	0	0	0	0	0	0	0	0	0	0
Veterinary Medical Examining Board, AZ State	0	0	0	0	0	0	0	0	0	0	0	0
9500 Doubletree Rd.	0	0	0	0	0	0	0	0	0	0	0	0
GRAND TOTAL												

1/ Reflects the FY 2016 rental rates enacted by laws 2015, Chapter 11, Section 7, 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. 5-41-792.01, 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.

Capital Outlay

Arizona Department of Transportation Building System

FY 2017
BASELINE

BUILDING RENEWAL

ADOT Building Renewal	3,396,800
SUBTOTAL	3,396,800

INDIVIDUAL PROJECTS

Airport Planning and Development	19,079,900
Controlled Access Highways	94,382,000
Debt Service	126,141,000
Statewide Highway Construction	50,092,000
SUBTOTAL	289,694,900

TOTAL - ALL PROJECTS

293,091,700

FUND SOURCES

Other Appropriated Funds

State Aviation Fund	19,284,800
State Highway Fund	273,806,900
SUBTOTAL - Other Appropriated Funds	293,091,700
SUBTOTAL - Appropriated Funds	293,091,700

Other Non-Appropriated Funds
Federal Funds

342,567,000
670,034,000

TOTAL - ALL SOURCES

1,305,692,700

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.

The following reflects one-time appropriations:

Building Renewal

The Baseline amounts in the Building Renewal section would fund projects at the same level as FY 2016.

Building Renewal OF **FY 2017**
\$3,396,800

The Baseline includes \$3,396,800 in FY 2017 for Building Renewal within ADOT's Building System, the same level as in FY 2016. This amount consists of \$3,191,900 from the State Highway Fund (SHF) and \$204,900 from the State Aviation Fund (SAF). 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 26% funding of

the revised highways building renewal formula and 88.2% funding of the aviation building renewal formula.

Individual Projects

Besides debt service, the Baseline figures in the *Individual Projects* section would fund projects based on estimated revenue available from their respective fund sources.

Airport Planning and Development OF **19,079,900**

The Baseline includes \$19,079,900 from SHF in FY 2017 for ADOT's airport construction program. Fund revenues are generated from a flight property tax, aircraft lieu tax, and revenues from the operations of the Grand Canyon Airport.

Controlled Access Highways OF **94,382,000**

The Baseline includes \$94,382,000 from SHF in FY 2017 for the Highway User Revenue Fund (HURF) formula dedicated to the construction of urban freeways. The Maricopa Association of Governments (MAG) receives

75% and the Pima Association of Governments (PAG) receives 25%.

Debt Service OF 126,141,000

The Baseline 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.)

Statewide Highway Construction OF 50,092,000

The Baseline includes \$50,092,000 from SHF in FY 2017 for highway construction. Please see Table 6 for the HURF distribution analysis, which shows that \$50,092,000 of net SHF monies will be available for statewide highway construction in FY 2017 from the FY 2017 HURF revenue cash flow. Only a small portion of the state's total \$1,714,800,000 highway construction funding is appropriated. Other monies available for highway construction include beginning balances and bond revenues from SHF, Federal Funds, the Maricopa Regional Area Road Fund (MRARF), and HURF for controlled access roads. (See the Total Highway Construction Funding discussion and Table 5 in Other Issues for additional information.)

Expenditure of highway construction funding is determined by the State Transportation Board, which develops a 5-year plan.

Table 1 shows the allocation of the Baseline related to highway construction.

Table 1	
FY 2017 Highway Construction & Debt Service	
	Capital Outlay Bill
Controlled Access	\$ 94,382,000
Debt Service	126,141,000
Highway Construction	50,092,000
Total	\$270,615,000

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes (Please see Capital Outlay Summary for Capital standard footnotes.)

Individual Projects

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.

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.

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.

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.

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 must appear in the same format as tables 2, 3 and 5, as found in the FY 2016 Appropriations Report.

The appropriation made for statewide highway construction and airport planning and development does 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.

Except as provided above 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.

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. 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.)

Total Highway Construction Funding

Only a small portion of the state's total highway construction funding is appropriated. The Baseline provides \$270,615,000 for highway construction, including \$50,092,000 of net SHF monies for statewide highway construction.

Table 2

Non-Appropriated Capital Fund Expenditures (\$ in Thousands)			
	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

Table 3

**Highway Construction Projects Beginning in FY 2017
(\$ in Thousands)**

	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.

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.

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 \$137.9 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 \$50,092,000 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 October 2015, HURF year-to-date collections were 6.1% higher than the prior year. The Baseline projects HURF revenue to grow by 3.2% in both FY 2016 and FY 2017.

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 \$2.14 in mid-November, or (72) cents per gallon lower than a year ago, according to the American Automobile Association. If

Table 4

Percentage Distribution of HURF Monies

Cities	30.5%
Counties	19.0%
Controlled Access ^{1/}	7.7%
State Highway Fund ^{1/}	42.8%
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.

this trend of dramatically lower gas prices continues, fuel consumption could increase.

For the first time since FY 2007, all HURF revenue categories experienced year-over-year growth in FY 2015. VLT revenue increased by the largest percentage, growing by 6.1% over the prior year. VLT revenue growth was followed by use fuel tax (diesel) growth of 4.6%, motor carrier fee revenue growth of 3.6%, registration fee revenue growth of 3.0%, and, as previously mentioned, gas tax revenue growth of 3.0%.

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 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	-	-	50.1
Total SHF - Appropriated	\$ 143.7	\$ 453.9	\$ 229.3
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	\$ 237.1
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	\$ 1,714.8
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	\$ 83.9
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	\$ 1,399.8
Total Highway Construction Expenditures	\$ 1,339.3	\$ 2,193.5	\$ 1,714.8

^{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	653
Dept. of Public Safety Transfer from HURF ^{3/}	89,255	96,409	96,409
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	\$1,246,287
Less: Cities ^{5/}	358,409	367,120	380,117
Counties ^{5/}	223,271	228,697	236,794
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>94,382</u>
Net SHF (Discretionary)	\$ 496,232	\$ 508,443	\$ 526,552
Plus: Other Income ^{10/}	43,971	28,153	28,753
Less: Operating Budget ^{11/}	350,539	341,900	341,900
Dept of Public Safety Transfer from Highway Fund ^{12/}	6,744	7,273	7,273
Capital Outlay	3,477	5,190	0
Building Renewal	3,192	3,192	3,192
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	\$ 39,902	\$ 50,092
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	\$ 381,360	\$ 136,573

^{1/} Provides monies for economic strength highway projects recommended by the Commerce Authority and approved by the State Transportation Board.

^{2/} The FY 2015 amount of \$651,800 includes \$300 for statewide adjustments. The FY 2016 amount of \$652,700 includes \$900 for statewide adjustments.

^{3/} The FY 2015 amount of \$89,255,000 includes \$7,900 for statewide adjustments. The FY 2016 amount of \$96,409,200 includes \$(403,100) for statewide adjustments.

^{4/} The FY 2016 Revenue Budget Reconciliation Bill (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 Department of Public Safety budget.

^{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 \$28,752,700 includes \$28,100,000 in miscellaneous revenue and \$652,700 for the Registration Compliance program.

^{11/} The FY 2016 amount of \$341,899,700 includes \$(1,056,200) for statewide adjustments.

^{12/} The FY 2015 amount of \$6,743,900 includes \$100 for statewide adjustments. The FY 2016 amount of \$7,273,200 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.

3-Year HURF Distribution to Local Governments

The FY 2015 Revenue BRB required \$30.0 million of HURF revenues in both FY 2015 and FY 2016 and \$60.0 million of HURF revenues in FY 2017 to be allocated directly to counties, cities and towns in percentages reflecting the current non-state distribution of HURF revenues. The FY 2016 Revenue BRB decreased the distribution in FY 2017 from \$60.0 million to \$30.0 million. The language specifies that these HURF revenues may only be spent on direct construction/repair and right-of-way expenditures. *(Please see footnote 4 in Table 6 for the impact of this policy on the HURF distribution.)*

Prior to FY 2015, \$119.2 million of HURF funding had been allocated to the Department of Public Safety (DPS) for highway patrol expenses. By replacing \$30.0 million of HURF with General Fund in the DPS budget, the Legislature made the additional \$30.0 million available to local governments through the HURF distribution in FY 2015, FY 2016, and FY 2017. Consistent with the 3-year budget projections associated with the enacted FY 2016 budget, the FY 2017 Baseline continues the \$30.0 million local HURF allocation in FY 2018.

As seen in *Table 6*, approximately 50% of HURF funding is distributed to local governments. Because DPS receives \$96.4 million from HURF for highway patrol expenses, local governments forego \$48.2 million of their HURF monies. With the \$30.0 million special distribution offset, local governments forgo \$18.2 million as a result of the DPS HURF distribution.

Capital Outlay
Arizona Board of Regents Building Systems

FY 2017
 BASELINE

BUILDING RENEWAL

Arizona Board of Regents

TOTAL - ALL PROJECTS

0

0

FUND SOURCES

General Fund

TOTAL - ALL SOURCES

0

0

DESCRIPTION — The Arizona Board of Regents (ABOR) Building System is comprised of buildings controlled by the Universities.

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 Baseline includes no funding for Building Renewal in the ABOR Building System.

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 \$29,414,900. 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 2015, 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). The FY 2017 Research Infrastructure debt service appropriation will be \$3,854,500 above the amount in FY 2016 due to declining savings from the refinancing of the COPs. The Baseline would adjust the original debt service appropriation for FY 2018 through FY 2031 to reflect lower debt service payments as a result of the refinance. The average annual savings of the new proposed debt service appropriation

compared to the original Chapter 267 appropriation is \$(544,900). The majority of the savings would come from Northern Arizona University (NAU). (See the ABOR operating section for additional information on universitywide refinance savings.)

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.*)

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	ASU	16,000,000	16,000,000	14,520,000	1,480,000	0
Building Renewal/ New Construction	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</u> ^{1/}	<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

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.
^{3/} 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.)
^{4/} 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.
^{5/} 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.)
^{6/} 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 October 2015 based on available information from ABOR.
^{6/} Represents the 20% university share.

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 Baseline 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 Baseline forecast (made in January 2016) and ABOR debt service estimates from that time period.

Capital Outlay

Debt and Lease-Purchase Financing

FY 2017
BASELINE

LEASE-PURCHASE PAYMENTS AND DISTRIBUTIONS*

Arizona Department of Administration - 2010 Leaseback Financing	84,117,400
Phoenix Convention Center	20,449,000
Rio Nuevo Distribution	10,000,000
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 GF FY 2017 **\$84,117,400**

The Baseline 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/lease-back 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/lease-back 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/lease-back 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 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 prepayment by the state until FY 2020.

Phoenix Convention Center GF 20,449,000

The Baseline 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 just calendar year 2015 alone, \$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 GF 10,000,000

The Baseline 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 will assure greater transparency and will be 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

* * *

FORMAT — Lump Sum by Project by Fund

FOOTNOTES

Standard Footnotes

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 lease-back of state buildings authorized by Laws 2009, 3rd Special Session, Chapter 6, Section 32.

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 lease-back of state buildings authorized by Laws 2010, 6th Special Session, Chapter 4, Section 2.

Pursuant to A.R.S. § 9-602, \$20,449,000 of State General Fund revenue is allocated in FY 2017 to the Arizona Convention Center Development Fund established by A.R.S. § 9-601.

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.

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. Using Moody’s credit ratings as of May 2015, in comparison to other states, 25 states have a higher rating, 9 states have a similar rating, and 15 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.

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 will reduce SFB's lease-purchase payments by a combined total of \$15,100,000 in FY 2016 through FY 2024.

In addition, all other lease-purchase payments and PLTO payments are estimated to change by the following amounts in FY 2017: 1) Lease-purchase payments will increase by \$916,200 from the General Fund and \$9,177,000 from All Other Funds; and 2) PLTO payments will decrease by \$(1,244,600) from the General Fund and \$(10,202,000) from All Other 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

<u>Lease-Purchase Summary</u>	<u>Overall Balance</u>	<u>GF Balance</u>	<u>Overall FY 17 Payment</u>	<u>FY 17 GF Payment</u>	<u>Retirement FY</u>
<u>ADOA Building System</u>					
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	\$ 1,169,300	FY 28
<i>Subtotal - ADOA</i>	\$ 1,040,375,000	\$ 1,010,060,000	\$ 121,333,300	\$ 109,800,100	
<u>School Facilities Board</u>					
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	257,835,000	257,835,000	76,446,500	76,446,500	FY 20
2016 Refinance	257,835,000	257,835,000	11,465,800	11,465,800	FY 24
<i>Subtotal - SFB</i>	\$ 736,867,700	\$ 736,867,700	\$ 170,006,600	\$ 170,006,600	
<u>ABOR Building System</u>					
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	4,246,600	FY 31
University of Arizona	338,959,000	144,580,000	49,119,000	13,978,000	FY 72
<i>Subtotal - ABOR</i>	\$ 700,263,100	\$ 343,860,000	\$ 82,887,300	\$ 29,414,900	
Phoenix Convention Center 4/5/	\$ 260,124,300	\$ 260,124,300	\$ 20,449,000	\$ 20,449,000	FY 44
<i>TOTAL - Lease-Purchase</i>	\$ 2,737,630,100	\$ 2,350,912,000	\$ 394,676,200	\$ 329,670,600	
<u>Bonding Summary</u>					
<u>School Facilities Board</u>					
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
<u>ABOR Building System</u>					
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	\$ 7,403,642,600	\$ 2,684,522,000	\$ 890,898,200	\$ 367,172,100	

- 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 Anticipatlon 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.)*

REVENUE FORECAST

GENERAL FUND REVENUE

FY 2016

FY 2016 General Fund Baseline revenues are projected to be \$9.74 billion. As indicated in *Table 1*, the revised FY 2016 revenue estimate is \$641.4 million higher than the estimate from the FY 2016 budget enacted March 2015.

Table 1	
FY 2016 Revenue Forecast	
(\$ in Millions)	
Adopted FY 2016 Revenue Estimate	\$9,099.0
Revised Revenue Forecast	\$ 641.4
Revised FY 2016 Revenue Estimate	\$9,740.4

The Baseline Revenue projection is \$641.4 million above the original forecast primarily due to:

- A gain of \$312 million in ongoing revenues under the updated January consensus forecast, as discussed below.
- An increase of \$29 million in the estimate of one-time financing sources, primarily due to higher-than-projected collections from the September to October 2015 Tax Amnesty program.
- A \$300 million increase in the balance forward from FY 2015. The original budget assumed an ending balance of \$12 million for FY 2015 while the actual balance carried forward was \$312 million.

Current year base revenue estimates are based on the consensus forecasting process (*see FY 2017 section below*). “Base Revenues” reflect the underlying growth in the economy and do not include one-time adjustments, urban revenue sharing or new tax law changes. *Table 2* shows the base revenue growth rates in FY 2016 through FY 2019 for the “Big 3” General Fund revenue sources (sales tax, individual, and corporate income tax) provided by each of the components comprising the 4-sector consensus forecast.

Based on the weighted average of the components of the 4-sector consensus forecast, “Big 3” General Fund revenue would grow by 3.6% in FY 2016. After adjusting for small revenue categories, the base revenue growth rate is 3.5%. After including tax law changes, one-time revenues, Urban Revenue Sharing, and the carry forward balance, overall revenues are projected to grow 1.7% in FY 2016.

The individual revenue detail for FY 2016 is found in *Table 6* at the end of this section.

FY 2017 and Beyond

The FY 2017 JLBC Baseline forecasted total net revenues of \$10.0 billion represents 2.6% growth above FY 2016. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenue is projected at \$10.16 billion. This amount reflects a base revenue increase of 4.0% compared to FY 2016. Base revenue growth is projected at 4.5% for sales, 3.8% for individual income and 2.4% for corporate income tax.

The FY 2017 Baseline also incorporates revenue planning estimates for FY 2018 and FY 2019, which are shown in *Table 7*. Under the consensus estimates, base revenue would increase by 4.6% in FY 2018 and FY 2019.

The Baseline 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:

- 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 Baseline model. The model is a simultaneous-equation model consisting of more than 100 equations that are updated on a regular basis to reflect changes in the economy. The model uses more than 200 variables related to Arizona’s economy and is updated quarterly.
- EBR’s conservative forecast model, and
- JLBC Staff projections.

The growth rates from each sector of the forecast for FY 2016 through FY 2019 are detailed in *Table 2*.

Risks to the Revenue Forecast

While growth in state revenue always faces uncertainty, some of the large risks from prior years have eased. This outlook is reflected by the Federal Reserve Board’s (the Fed) decision to begin raising short-term interest rates in December 2015, after holding rates near 0% during the prior 7 years to support the economic recovery. Recent

Table 2

4-Sector Estimates
Forecast Percentages (FY 2016 - FY 2019)
Base Revenue ^{1/}

	<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>
Sales Tax	4.1%	3.0%	4.0%	4.0%	3.8%	5.2%	2.6%	5.6%	4.6%	4.5%
Individual Income Tax	5.2%	1.9%	2.5%	4.6%	3.6%	5.4%	(0.1%)	4.6%	5.3%	3.8%
Corporate Income Tax	4.1%	(4.6%)	5.4%	5.4%	2.6%	5.5%	(2.8%)	1.9%	4.4%	2.4%
Overall ^{2/}	4.4%	2.0%	3.4%	4.2%	3.5%	5.1%	1.3%	4.7%	4.7%	4.0%
	<u>FY 2018</u>					<u>FY 2019</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>
Sales Tax	4.8%	4.7%	6.0%	4.5%	5.0%	4.3%	4.9%	6.0%	4.3%	4.9%
Individual Income Tax	5.2%	4.6%	5.5%	4.5%	5.0%	4.4%	5.2%	5.7%	4.5%	4.9%
Corporate Income Tax	4.8%	(5.5%)	(1.7%)	4.2%	0.8%	3.9%	(4.1%)	(5.5%)	4.0%	0.1%
Overall ^{2/}	4.8%	4.0%	5.1%	4.3%	4.6%	4.2%	4.6%	5.2%	4.3%	4.6%

^{1/} Prior to any tax law or other revenue changes.

^{2/} The growth rates for each sector represent the weighted average of Big-3 revenue estimates plus JLBC Staff estimates of other base revenue categories.

demographic data also reveals there has been a modest acceleration in household formation, potentially halting the previous trend of decelerating growth. Continued improvement in household growth may increase demand for housing and related construction activity, sectors of Arizona's economy that were hit especially hard in the recession. Passage of the Bipartisan Budget Act of 2015 has limited risk of future fiscal drag on the economy by suspending the federal debt ceiling until March 2017 and lifting annual spending caps through the end of federal fiscal year 2017.

Despite those improvements, the state revenue forecast faces the national and global risks below:

Unforeseen Natural Disasters and Geopolitical Events – An escalation of U.S. participation in the Middle East conflict is one example of an event that would affect the national economy during the forecast cycle.

International Economics – Although the U.S. is less dependent on international trade than most other developed economies, slower growth among our major trading partners could adversely affect the U.S. economy.

China's economy has decelerated in recent years and may become further weighed down by the country's over-investment in industrial capacity. Economies of Japan and major Eurozone countries improved in 2015 but may still be vulnerable to any missteps in monetary or fiscal policy. Additionally, the Fed's expected hikes to U.S. interest rates (see below) could further strengthen the value of the dollar, which could reduce exports if U.S. goods become more expensive to the rest of the world.

Monetary Policy – In December 2015, the Fed began a series of expected increases to short-term interest rates, gradually phased in as the U.S. economy improves. There is a risk that if the timing and pace of such rate hikes are poorly executed, the current economic recovery could stall. Changes in inflation and economic performance often lag the Fed's changes to interest rates, making it difficult to gauge the immediate impact of its actions. If interest rates are increased too rapidly, and the economy is more vulnerable than originally thought, the high interest rates could drive the country into a recession. Conversely, if interest rates are raised too slowly, and inflation and economic performance begin to exceed Fed

targets, the bank may abruptly increase rates, which could also stall the recovery.

Average Length of Expansion – Since 1945, the average length of a U.S. economic expansion has been approximately 5 years and the longest has been 10 years. The current expansion has lasted over 6 years and would reach 10 years if it continues through the end of the 4-sector forecast range of FY 2016 through FY 2019. Expansions usually end as a result of a specific economic or policy event, such as many of the items listed above. While there is no natural length of time for sustained periods of economic activity, if historical averages were to hold true, the U.S. economic expansion will end at some point within the forecast range.

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.

	FY 2016	%	FY 2017	%
Base Revenue	\$9,769.6 ^{1/}	2.5%	\$10,158.4	4.0%
Prior Budget Legislation	N/A		(97.8)	
Urban Revenue Sharing	(605.6)		(663.7)	
One-Time Financing Sources:				
Balance Forward	312.3		499.3	
Fund Transfers	217.0		100.0	
Tax Amnesty	<u>47.0</u>		<u>0.0</u>	
Subtotal	576.3		599.3	
Adjusted Revenue	<u>\$9,740.4</u>	1.7%	<u>\$9,996.3</u>	2.6%

^{1/} The FY 2016 Base Revenue of \$9.8 billion includes \$(97.9) million in ongoing tax law and revenue changes. Adjusting for these changes, the FY 2016 base increase is 3.5%.

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 Baseline assumes a base revenue growth of 4.0% in FY 2017. Actual General Fund revenue, which includes the impact of prior budget legislation, urban revenue sharing and one-time financing sources, is estimated to increase by 1.7% in FY 2016 and 2.6% in FY 2017.

The following section provides a detailed description of prior year budget legislation that has 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).

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.

Each of the previously enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in Table 5.

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 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. 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.

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 makes inflation indexing of the tax brackets permanent, beginning in TY 2016. As a result, the original estimate for FY 2016 has been 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 also claim 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.

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 million in fund transfers from various Superior Court and Supreme Court funds to the General Fund, beginning in FY 2016.

17) Insurance Fraud Assessment – Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) continues to suspend the statutory requirement that the Department of Insurance (DOI) set fees so that fee revenues are between 95% and 110% of the department's appropriation for FY 2016. 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) increases the maximum Disproportionate Share Hospital payment allocation for the Maricopa Integrated Health System in FY 2015 and FY 2016. The act provides 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 currently 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.

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 individual and corporate 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 \$682.2 million in FY 2019, which will result in net General Fund revenue losses of \$(12.5) million and \$(6.0) million in FY 2018 and FY 2019, respectively.

Table 4

Prior Year Budget Legislation with Ongoing Revenue Impact in FY 2016 through FY 2019
 (\$ Millions) ^{1/2/}

<u>Prior Year 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/}	(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>Prior Year 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) Assumes ongoing Judiciary fund transfers to General Fund	\$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	<u>0.0</u>	<u>(1.3)</u>	<u>0.0</u>	<u>0.0</u>
Revenue Impact over Prior Year	\$ (97.9)	\$ (97.8)	\$ (90.4)	\$ (73.3)
^{1/} Represents marginal pricing: All revenue impacts are stated relative to the prior year.				
^{2/} Some provisions have been revised since the enactment of the FY 2016 budget in March 2015.				
^{3/} Includes impact of Laws 2012, Chapter 343 provision, which eliminated individual company cap of 400 eligible employees.				
^{4/} Impact began in FY 2014.				
^{5/} Impact began in FY 2015.				

One-Time Financing

As shown in *Table 5*, one-time financing sources are included in the budget for FY 2016 and FY 2017. 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, which 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, generated a total of \$47.0 million in General Fund revenues in FY 2016.

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 subsequently reduced to \$212.9 million. In addition, since the Baseline includes a recommended FY 2016 supplemental appropriation of \$4.1 million from the General Fund to the Universities, the expected FY 2016 fund transfer amount is therefore \$217.0 million.

Balance Forward

The FY 2015 General Fund ending balance carried forward into FY 2016 was \$312.3 million.

FY 2017

The \$599.3 million in one-time financing sources for FY 2017 includes:

Fund Transfers

The FY 2016 General Appropriation Act transfers \$100.0 million from the Special Employee Health Insurance Trust Fund (HITF) to the General Fund in FY 2017 for the purpose of providing adequate support and maintenance for state agencies.

Balance Forward

The FY 2016 General Fund ending balance carried into FY 2017 is estimated to be \$499.3 million.

FY 2018 & FY 2019

As shown in *Table 5*, no one-time financing sources are currently included for FY 2018 and FY 2019. The projected FY 2017 ending balance of \$625.3 million is presumed to be allocated as part of the FY 2017 budget process.

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	\$ 499.3	--	--
Budget Legislation				
Tax Amnesty	47.0	0.0	0.0	0.0
Fund Transfers	<u>217.0</u>	<u>100.0</u>	<u>0.0</u>	<u>0.0</u>
Total One-Time Financing	<u>\$576.3</u>	<u>\$599.3</u>	<u>\$0.0</u>	<u>\$0.0</u>

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)
Subtotal w/Tax Law Changes	9,535,344.6	7.1%	9,769,648.5	2.5%	234,303.8	10,060,579.2	3.0%	290,930.8
Urban Revenue Sharing (URS)	(608,935.7)	N/A	(605,634.3)	N/A	3,301.4	(663,652.1)	N/A	(58,017.8)
Subtotal w/Tax Law Changes/URS	8,926,408.9	7.0%	9,164,014.2	2.7%	237,605.2	9,396,927.1	2.5%	232,913.0
One-Time Financing Sources:								
Fund Transfers	78,123.5	-44.8%	217,017.7	177.8%	138,894.2	100,000.0	-53.9%	(117,017.7)
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	100,000.0	-62.1%	(164,066.2)
Subtotal - Revenues	9,004,532.4	6.1%	9,428,080.4	4.7%	423,547.9	9,496,927.1	0.7%	68,846.9
Balance Forward	577,399.2	-35.5%	312,276.0	-45.9%	(265,123.2)	499,325.5	59.9%	187,049.5
Total - Resources	9,581,931.6	2.1%	9,740,356.4	1.7%	158,424.7	9,996,252.6	2.6%	255,896.4

^{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	4,765,939.1	5.0%	225,382.8	4,998,734.2	4.9%	232,795.1
Income - Individual	4,249,181.4	5.1%	206,767.4	4,458,842.8	4.9%	209,661.3
- 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
- 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	483,213.2	1.2%	5,515.0	491,633.3	1.7%	8,420.1
Other Taxes (Includes MV Tax)	8,285.2	2.3%	186.3	8,285.2	0.0%	0.0
Subtotal - Taxes	10,112,196.2	3.6%	347,069.4	10,480,470.9	3.6%	368,274.7
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	33,990.4	3.0%	990.0	35,010.1	3.0%	1,019.7
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	60,804.3	3.0%	1,771.0	62,628.4	3.0%	1,824.1
Disproportionate Share Revenue	94,608.6	0.3%	287.0	94,727.4	0.1%	118.8
Subtotal - Other Non-Tax	409,017.8	4.0%	15,765.4	425,269.9	4.0%	16,252.1
Subtotal On-Going Revenue	10,521,214.0	3.6% ^{3/}	362,834.8	10,905,740.8	3.7% ^{4/}	384,526.8
Previously Enacted Tax Law Changes	(90,400.0)	N/A	7,400.0	(73,300.0)	N/A	17,100.0
Subtotal w/Tax Law Changes	10,430,814.0	3.7%	370,234.8	10,832,440.8	3.9%	401,626.8
Urban Revenue Sharing (URS)	(676,193.8)	N/A	(12,541.8)	(682,236.8)	N/A	(6,043.0)
Subtotal w/Tax Law Changes/URS	9,754,620.2	3.8%	357,693.0	10,150,204.0	4.1%	395,583.9
One-Time Financing Sources:						
Fund Transfers	0.0	-100.0%	(100,000.0)	0.0	N/A	0.0
Tax Amnesty	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	-100.0%	(100,000.0)	0.0	N/A	0.0
Subtotal - Revenues	9,754,620.2	2.7%	257,693.0	10,150,204.0	4.1%	395,583.9
Balance Forward	0.0	-100.0%	(499,325.5)	0.0	N/A	0.0
Total - Resources	9,754,620.2	-2.4%	(241,632.5)	10,150,204.0	4.1%	395,583.9

^{3/} Adjusting for the \$(97.8) million in tax law changes in FY 2017, the base FY 2018 increase is 4.6%.

^{4/} Adjusting for the \$(90.4) 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 not made until 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 2014

In CY 2013, Arizona real adjusted personal income grew by 0.85%, with a trend growth rate of (0.38)%. Since the “excess” growth rate in CY 2013 was 1.23%, the formula recommended a BSF deposit of \$112.2 million in FY 2014. The Legislature, however, did not authorize such deposit.

Laws 2013, 1st Special Session, Chapter 9 deposited \$1.0 million in BSF interest earnings into the Arts Fund (administered by the Arizona Commission on the Arts) in FY 2014. In addition, Chapter 9 authorized the transfer of \$1.0 million in interest earnings into the Arizona State Parks Board's State Parks Revenue Fund in FY 2014.

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.

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	\$8,344,278.8	\$8,926,408.9	\$9,164,014.2	\$9,396,927.1
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	584,099.5	624,848.6	641,481.0	657,784.9
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	0.85%	2.12%	2.83%	2.59%
7-Year Average Income Growth	<u>(0.38)%</u>	<u>(0.26)%</u>	<u>0.49%</u>	<u>2.10%</u>
Annual Difference	1.23%	2.38%	2.35%	0.49%
BSF Transactions				
Beginning BSF Balance	454,101.7	455,333.9	457,627.4	461,277.4
BSF Formula Recommendation	112,163.1	198,435.6	209,770.6	44,903.7
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 ^{2/}	(2,000.0)	0.0	0.0	0.0
Transfer of BSF Interest Income – L'14, Ch. 9 ^{3/}	<u>0.0</u>	<u>(1,000.0)</u>	<u>0.0</u>	<u>0.0</u>
SUBTOTAL	(2,000.0)	(1,000.0)	0.0	0.0
Balance	452,101.7	454,333.9	457,627.4	461,277.4
Interest Earnings & Equity Gains/Losses ^{4/}	3,232.2	3,293.5	3,650.0	3,800.0
Ending BSF Balance	\$ 455,333.9	\$ 457,627.4	\$ 461,277.4	\$ 465,077.4
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/} 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.

^{3/} Laws 2014, Chapter 9 appropriated \$1.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2015.

^{4/} Estimated interest earnings for FY 2016 and FY 2017 was provided by the State Treasurer's Office.

FY 2016

The University of Arizona's Economic and Business Research Center (EBR) estimates that Arizona real adjusted personal income increased by 2.83% in CY 2015. Since this is 2.35% above the estimated trend growth rate of 0.49%, the formula is expected to recommend a BSF deposit of \$209.8 million in FY 2016. A deposit of such amount could not be made, however, since this would result in a BSF balance that would exceed the 7% cap in FY 2016 by \$25.9 million. The FY 2016 budget enacted in March 2015 did not include any deposit into the BSF.

FY 2017

EBR currently projects that Arizona real adjusted personal income will grow by 2.59% in CY 2016. Since this is 0.49% above the estimated trend growth rate of 2.10%, the formula is projected to recommend a BSF deposit of \$44.9 million in FY 2017.

STATUTORY CHANGES

The Baseline would, as session law, continue to withstand the requirements for any deposit to or withdrawals from the Budget Stabilization Fund through FY 2019.

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)
- Potential Statutory Changes
 - *Private Equity Fee Reporting Template*
- 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 (PBI)
 - 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.

The employer contribution rate for the retirement systems may change each year depending on the latest

actuarial valuation. Based on the JLBC Baseline estimates, the FY 2017 employer contribution will increase for ASRS, PSPRS, and CORP. As part of the 3-year spending plan associated with the enacted FY 2016 budget, only the rate increase for the Arizona Department of Corrections (ADC) would be funded. The FY 2017 Baseline does not increase any other agency budget for these costs. Some of the retirement costs may be covered by agencies' non-appropriated funding sources. The increases are as follows (*Please see Table 1 for the total costs*):

- 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.
- PSPRS – A General Fund increase of \$418,600 and Total State Funds increase of \$1.9 million.
- CORP – A General Fund increase of \$914,000 and Total State Funds increase of \$959,500.
- 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 20 more years. The Legislature may consider revisiting EORP's existing funding levels. (*Please see EORP Funding Options in the EORP and EODC System section for more information.*)
- UORP – Because the employer contribution rate is fixed at 7%, there is no change in the FY 2017 employer contribution rate.

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.

Table 1

Arizona Public Retirement FY 2017 System Employer Cost

	FY 2017 Change ^{1/}			FY 2017 Total Cost ^{2/}		
	General Fund	All Other Funds ^{3/}	Total	General Fund	All Other Funds ^{3/}	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 ^{4/}	-	-	-	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. The FY 2017 Baseline does not increase agency budgets to account for these costs, except for increases in the Department of Corrections.

^{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.

^{4/} There are 4 options to resolve increase EORP liabilities based on the outcome of the *Fields* and *Hall* cases. None are reflected in the table.

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 would increase the General Fund cost by \$58,900 and the Total State Funds cost by \$245,800 in FY 2017. The FY 2017 Baseline does not increase agency budgets for these costs. *(Please see Table 2 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 4 for reasons behind contribution rate changes and Fields v. Elected Officials’ Retirement Plan section for more information on the case.)

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). All other state agencies

Table 2

**ASRS Contribution Rates
(Excludes Disability)**

<u>Fiscal Year</u>	<u>Rate 1/</u>	<u>Fiscal Year</u>	<u>Rate 1/</u>	
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.

enrolled in PSPRS and CORP had to absorb the cost of the full rate increase into their existing budgets.

The projected FY 2017 employer contribution rate for PSPRS and CORP would 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. As part of the 3-year spending plan associated with the enacted FY 2016 budget, only the rate increase for the Arizona Department of Corrections (ADC) is funded. The FY 2017 Baseline does not increase any other agency budget for these costs.

PSPRS – The retirement system consists of numerous state and local subgroups, each with its own contribution rate (see Table 3). The aggregate employer rate would increase 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 0.27% for supplemental disability insurance, an increase of 0.02% from FY 2016.

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.

(Please see Table 1 for the state costs of contribution rate increases, Table 4 for reasons for change in the contribution rates by system.)

<u>Retirement System</u>	<u>Employer</u>		<u>Employee</u>
	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2017</u> ^{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.

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 20 years.

In order to extend this 20-year period and ensure payment of all benefits, the plan actuaries provide 4 possible 30-year funding options for EORP. Option A only addresses the *Fields* ruling while the other options include potential impacts of the *Hall* case. (See *Other Litigation for more information on the Hall case.*)

In addition to the contribution rate change listed in the options mentioned below, the options would also require the annual General Fund deposit to increase by \$15.0 million, from the current \$5.0 million, to \$20.0 million.

- Option A: Increase the employer contribution rate to 40.2%. Under this option, the pre-Chapter 357 PBI is restored for current retirees only (to comply with the *Fields* ruling). This option is projected to cost the General Fund \$2.1 million (\$2.2 million Total State Funds) in FY 2017. However, if the state were to pay the resulting contribution on behalf of local governments, the General Fund and Total State Funds increase would instead be \$10.8 million.
- Option B: Increase the employer contribution rate to 41.6%. Under this option, the pre-Chapter 357 PBI is restored for current retirees, plus the additional employee contributions of 6% of pay are refunded and eliminated for current members (i.e., EORP returns to the lower pre-Chapter 357 fixed 7% employee rate instead of the current 13%). This

option is projected to cost the General Fund and Total State Funds \$2.3 million in FY 2017.

- Option C: Increase the employer contribution rate to 46.6%. Under this option, the pre-Chapter 357 PBI is restored for current and future retirees. This option is projected to cost the General Fund \$2.9 million (\$3.0 million Total State Funds) in FY 2017.
- Option D: Increase the employer contribution rate to 47.9%. Under this option, the pre-Chapter 357 PBI is restored for current and future retirees, plus the additional employee contributions of 6% of pay are refunded and eliminated for current members (i.e., EORP returns to the lower pre-Chapter 357 fixed 7% employee rate instead of the current 13%). Option D represents a ruling against the state in both the *Fields* and *Hall* cases. This option is projected to cost the General Fund \$3.1 million (\$3.2 million Total State Funds) in FY 2017.

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.

Table 4

Reasons for Change in the Employer Contribution Rate ^{1/}

	ASRS	PSPRS	CORP
FY 2016 Contribution Rate	11.47%	41.37%	18.25%
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.

Potential Statutory Changes

As session law, the Legislature may consider requiring ASRS and PSPRS to adopt the finalized International Limited Partners Association (ILPA) template for private equity fees and report annually on the total cost and overall performance of private equity investments.

The ILPA, a trade group that represents over 300 institutions and public pensions, has developed standards of disclosure for private equity managers. The draft template is expected to be finalized in January 2016 and will detail how private equity managers should disclose their fees and expenses to investors like ASRS and PSPRS.

Historically, private equity managers have not reported fees consistently, making it difficult for investors to compare the costs and overall performance of private equity investments.

In addition to providing more information to the pension managers, other pension funds, such as the California Public Employees’ Retirement System (CalPERS) have used the template to provide aggregate cost and performance information of private equity to the public.

To increase transparency in private equity investing, the Legislature may want to consider requiring ASRS and PSPRS to use the ILPA template for fees and costs of private equity investments. However, some ILPA members have raised concerns that mandatory reporting of private equity fees may reduce the number of investment firms willing to provide their services due to the sensitive nature of fee negotiations across clients.

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, however, ruled in *Fields v. Elected Officials’ Retirement Plan* 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;

however, all 5 justices recused themselves (given that they are members of EORP and would be affected by the ruling) and appointed a five-person panel of lower-court judges who are not members of EORP. This panel will hear 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, retired, and Deferred Retirement Option Plan (DROP) members enrolled. 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;
- 57.3% for CORP;
- 49.0% for PSPRS; 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. This transfer is not affected by 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.

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 6 for more information.)*

Table 5

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%
CORP 4/5/	18.21%	8.41%	26.62%	18.71%	8.41%	27.12%	18.34%	8.41%	26.75%
EORP 5/	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%
PSPRS 4/5/	41.37%	11.65%	53.02%	42.61%	11.65%	54.26%	42.46%	11.65%	54.11%

^{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 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 3 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%.

Table 6

Arizona Public Retirement System Contribution Rate Historical and Trend Data (Full Rate)

	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%).

Table 7

Arizona Public Retirement System Valuation Data as of June 30

Membership	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	N/A	N/A	1,559	1,675	N/A	N/A	N/A	N/A
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.

LONG TERM GENERAL FUND ESTIMATES

LONG TERM GENERAL FUND ESTIMATES

Summary

A.R.S. § 35-125 requires the annual General Appropriation Act to include a 3-year revenue and expenditure projection. To assist in this effort, the JLBC Staff has developed General Fund Baseline estimates through FY 2019, as shown in *Table 2*. Based on the assumptions described below, the Baseline ending balance is estimated to be \$148 million in FY 2018 and \$325 million in FY 2019. These estimates assume that Proposition 123 is enacted by vote of the people at the May Special Election. Proposition 123 is estimated to require \$47 million and \$38 million in additional General Fund spending in those years, respectively.

These estimates exclude the Budget Stabilization Fund (BSF) monies. The BSF is estimated to have a fund balance of about \$460 million by the end of FY 2017.

Given the multiple year forecast, 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 \$625 million in the third year.

Baseline Revenues

The Baseline revenue estimates are based on a consensus forecasting process. As with FY 2017 revenues, the long run estimates average 4 different forecasts. This process is described in more detail in the *General Fund Revenue* section.

The “4-sector” consensus projected an average General Fund base revenue growth of 4.0% in FY 2017 and 4.6% in both FY 2018 and FY 2019. *Table 1* includes the individual forecast components in FY 2018 and FY 2019. These growth rates reflect revenue growth prior to tax law changes and Urban Revenue Sharing.

The Legislature enacted significant multi-year tax reductions in prior years. In FY 2018, these adjustments are projected to reduce revenue by \$(90) million relative to FY 2017. There would be a further reduction of \$(73) million in FY 2019 relative to FY 2018. The details of the tax reductions are in *Table 4* of the *General Fund Revenue* section.

General Fund revenues are projected to increase from FY 2016 to FY 2017. While base revenues will grow modestly through FY 2019, the loss of one-time revenues (primarily the beginning balance) will produce a decrease of overall revenues in FY 2018. The projected level of General Fund

revenue would increase from \$9.74 billion in FY 2016 to \$10.0 billion in FY 2017, decrease to \$9.75 billion in FY 2018, then increase to \$10.15 billion in FY 2019. The Baseline presumes that the projected FY 2017 ending balance of \$625 million is allocated as part of the FY 2017 budget process. The *General Fund Revenue* section also details the potential risks to the forecast.

Table 1
4-Sector Consensus Forecast Percentages

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
FY 2018					
Sales Tax	4.8%	4.7%	6.0%	4.5%	5.0%
Individual Income Tax	5.2%	4.6%	5.5%	4.5%	5.0%
Corporate Income Tax	4.8%	(5.5)%	(1.7)%	4.2%	<u>0.8%</u>
Wgt Avg					4.6%
FY 2019					
Sales Tax	4.3%	4.9%	6.0%	4.3%	4.9%
Individual Income Tax	4.4%	5.2%	5.7%	4.5%	4.9%
Corporate Income Tax	3.9%	(4.1)%	(5.5)%	4.0%	<u>0.1%</u>
Wgt Avg					4.6%

Baseline Spending

The long term General Fund expenditures reflect the requirements of existing statutory funding formulas and other obligations. This spending is projected to increase by \$236 million in FY 2018 (2.5%) above FY 2017 and \$219 million in FY 2019 (2.3%) above FY 2018.

These spending adjustments include normal caseload growth in caseload-driven agencies such as the Arizona Department of Education (ADE) and AHCCCS.

Overall spending would be \$9.61 billion in FY 2018 and \$9.83 billion in FY 2019. (*See Table 3 for the projected spending levels of major agencies under this scenario.*)

These estimates assume that Proposition 123 is enacted by vote of the people at the May Special Election. Proposition 123 is estimated to require \$47 million and \$38 million in additional General Fund spending.

In addition, the long term estimates assume the continued annual suspension of over \$490 million of funding formula requirements permanently authorized in law and the continued non-funding of \$176 million in non-statutory funding formulas for building renewal. (*See Table 4.*)

Table 2

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

	FY 2016 Adjusted	FY 2017 Baseline	FY 2018 Baseline	FY 2019 Baseline
REVENUES				
Ongoing Revenues	\$9,769,648,500	\$10,158,379,200	\$10,521,214,000	\$10,905,740,800
Previously Enacted Changes		(97,800,000)	(90,400,000)	(73,300,000)
Urban Revenue Sharing	(605,634,300)	(663,652,100)	(676,193,800)	(682,236,800)
Net On-going Revenues	\$9,164,014,200	\$9,396,927,100	\$9,754,620,200	\$10,150,204,000
One-time Financing Sources				
Balance Forward	\$312,276,000	\$499,325,500		
Tax Amnesty	47,048,500			
Fund Transfers	217,017,700	100,000,000		
Subtotal One-time Revenues	\$576,342,200	\$599,325,500	\$0	\$0
Total Revenues	\$9,740,356,400	\$9,996,252,600	\$9,754,620,200	\$10,150,204,000
EXPENDITURES				
Operating Budget Appropriations	\$9,230,421,600	\$9,410,928,500	\$9,646,908,000	\$9,865,437,300
Supplementals	29,409,300			
Administrative Adjustments	85,000,000	70,000,000	70,000,000	70,000,000
Revertments	(110,000,000)	(110,000,000)	(110,000,000)	(110,000,000)
Subtotal Ongoing Expenditures	\$9,234,830,900	\$9,370,928,500	\$9,606,908,000	\$9,825,437,300
One-time Expenditures				
Capital Outlay	\$6,200,000			
Subtotal One-time Expenditures	\$6,200,000	\$0	\$0	\$0
Total Expenditures	\$9,241,030,900	\$9,370,928,500	\$9,606,908,000	\$9,825,437,300
Ending Balance <u>2/</u>	\$499,325,500	\$625,324,100 <u>3/</u>	\$147,712,200	\$324,766,700
Structural Balance <u>4/</u>	(\$70,816,700)	\$25,998,600	\$147,712,200	\$324,766,700

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/ The projected FY 2017 ending balance is presumed to be allocated as part of the FY 2017 budget process.

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

Table 3

BASELINE GENERAL FUND SPENDING ESTIMATES BY MAJOR BUDGET UNITS

	FY 2016 Adjusted	FY 2017 \$ Above FY 16	FY 2017 Baseline	FY 2018 \$ Above FY 17	FY 2018 Baseline	FY 2019 \$ Above FY 18	FY 2019 Baseline
EXPENDITURES							
Operating Budget							
-- Department of Administration	\$10,377,300		\$10,377,300		\$10,377,300		\$10,377,300
-- ADOA - Automation Projects Fund	7,783,000	(2,783,000)	5,000,000		5,000,000		5,000,000
-- ADOA - Dept. of Child Safety							
-- AHCCCS	1,205,162,300	595,969,300	1,801,131,600	77,193,500	1,878,325,100	97,513,900	1,975,839,000
-- Attorney General	23,623,700	350,000	23,973,700		23,973,700		23,973,700
-- Department of Child Safety	356,448,200	(8,758,200)	347,690,000		347,690,000		347,690,000
-- Commerce Authority	26,800,000	(5,000,000)	21,800,000		21,800,000		21,800,000
-- Community Colleges	54,373,200	(267,700)	54,105,500	256,600	54,362,100	388,600	54,750,700
-- Department of Corrections	1,029,900,600	22,554,100	1,052,454,700	7,090,800	1,059,545,500		1,059,545,500
-- County Funding	6,000,500		6,000,500		6,000,500		6,000,500
-- Department of Economic Security	496,181,900	23,858,200	520,040,100	25,462,900	545,503,000	28,690,800	574,193,800
-- Department of Education	3,941,873,900	84,157,800	4,026,031,700	137,569,200	4,163,600,900	123,564,300	4,287,165,200
-- Department of Environmental Quality	7,000,000		7,000,000		7,000,000		7,000,000
-- Department of Health Services	602,738,300	(517,304,700)	85,433,600		85,433,600		85,433,600
-- Judiciary	106,178,000		106,178,000		106,178,000		106,178,000
-- Department of Juvenile Corrections	26,984,600	(1,000,000)	25,984,600		25,984,600		25,984,600
-- State Land Department	12,520,500		12,520,500	(12,520,500)			
-- Department of Public Safety	93,374,800	136,200	93,511,000		93,511,000		93,511,000
-- Public Safety Personnel Retirement System	6,000,000		6,000,000		6,000,000		6,000,000
-- Department of Revenue	30,338,600		30,338,600		30,338,600		30,338,600
-- School Facilities Board	216,878,100	(5,856,500)	211,021,600	(1,419,500)	209,602,100	(35,474,500)	174,127,600
-- Office of Tourism	7,110,400		7,110,400		7,110,400		7,110,400
-- Universities	660,845,100	12,054,500	672,899,600	3,698,800	676,598,400	(58,000)	676,540,400
-- Department of Water Resources	12,803,100		12,803,100		12,803,100		12,803,100
-- All Other Budgets 1/	174,545,100	(9,789,100)	164,756,000	(3,400,000)	161,356,000	3,400,000	164,756,000
-- Civic Center Payment	20,449,000		20,449,000	2,050,000	22,499,000	497,300	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	2,800	84,117,400	(2,300)	84,115,100	6,900	84,122,000
-- Hiring Freeze/Consolidations 2/							
-- HITF Employer Rate Reduction		(7,800,000)	(7,800,000)		(7,800,000)		(7,800,000)
-- Unallocated Adjustments	16,800	(16,800)					
Total - Operating Budget	\$9,230,421,600	\$180,506,900	\$9,410,928,500	\$235,979,500	\$9,646,908,000	\$218,529,300	\$9,865,437,300
-- FY 2016 Supplementals	29,409,300	(29,409,300)					
-- Capital Outlay	6,200,000	(6,200,000)					
-- Administrative Adjustments	85,000,000	(15,000,000)	70,000,000		70,000,000		70,000,000
-- Reversions	(110,000,000)		(110,000,000)		(110,000,000)		(110,000,000)
Total Spending	\$9,241,030,900	\$129,897,600	\$9,370,928,500	\$235,979,500	\$9,606,908,000	\$218,529,300	\$9,825,437,300

1/ See page 552 for more detail.

2/ In FY 2016, these savings were originally estimated at \$(20.7) million. Of that amount \$(1.0) million has been identified in specific consolidation savings which is reflected in individual agency budgets. The remaining \$(19.7) million is no longer displayed as savings.

	FY 2016 Adjusted	FY 2017 \$ Above FY 16	FY 2017 Baseline	FY 2018 \$ Above FY 17	FY 2018 Baseline	FY 2019 \$ Above FY 18	FY 2019 Baseline
All Other Budgets							
Administrative Hearings, Office of	\$861,700		\$861,700		\$861,700		\$861,700
African-American Affairs Commission	125,000		125,000		125,000		125,000
Agriculture, Arizona Department of	8,287,400	932,200	9,219,600		9,219,600		9,219,600
Charter Schools, State Board for	1,200,900	(6,800)	1,194,100		1,194,100		1,194,100
Corporation Commission	614,200		614,200		614,200		614,200
Deaf and the Blind, Schools for the	21,596,400		21,596,400		21,596,400		21,596,400
State Board of Education	1,325,200		1,325,200		1,325,200		1,325,200
Emergency & Military Affairs, Dept of	11,102,700	38,500	11,141,200		11,141,200		11,141,200
Equal Opportunity, Governor's Office of	189,000		189,000		189,000		189,000
Equalization, State Board of	642,800		642,800		642,800		642,800
Executive Clemency, Board of	956,000		956,000		956,000		956,000
Financial Institutions, Department of	3,008,000		3,008,000		3,008,000		3,008,000
Fire, Building and Life Safety, Department of	2,202,000	(12,600)	2,189,400		2,189,400		2,189,400
Forester, State	9,012,300		9,012,300		9,012,300		9,012,300
Gaming, Department of	1,779,500		1,779,500		1,779,500		1,779,500
Geological Survey, Arizona	941,000		941,000		941,000		941,000
Governor, Office of the	6,889,000		6,889,000		6,889,000		6,889,000
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		3,157,200		3,157,200		3,157,200
Historical Society, Prescott	825,800		825,800		825,800		825,800
Independent Redistricting Commission	1,115,300		1,115,300		1,115,300		1,115,300
Indian Affairs, Arizona Commission of	57,400		57,400		57,400		57,400
Insurance, Department of	5,867,400	(11,400)	5,856,000		5,856,000		5,856,000
Legislature							
Auditor General	17,933,300		17,933,300		17,933,300		17,933,300
House of Representatives	13,289,500		13,289,500		13,289,500		13,289,500
Joint Legislative Budget Committee	2,490,900		2,490,900		2,490,900		2,490,900
Legislative Council	8,233,300		8,233,300		8,233,300		8,233,300
Senate	8,223,900		8,223,900		8,223,900		8,223,900
SUBTOTAL - Legislature	\$50,170,900	\$0	\$50,170,900	\$0	\$50,170,900	\$0	\$50,170,900
Mine Inspector, State	1,215,200		1,215,200		1,215,200		1,215,200
Navigable Stream Adjudication Commission	126,600		126,600		126,600		126,600
Postsecondary Education, Commission for	1,396,800		1,396,800		1,396,800		1,396,800
Radiation Regulatory Agency	1,595,000	(30,000)	1,565,000		1,565,000		1,565,000
Real Estate Department, State	2,985,200		2,985,200		2,985,200		2,985,200
Secretary of State	24,306,500	(9,300,000)	15,006,500	(3,400,000)	11,606,500	3,400,000	15,006,500
Tax Appeals, State Board of	266,400		266,400		266,400		266,400
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
Veterans' Services, Department of	6,077,800		6,077,800		6,077,800		6,077,800
Weights and Measures, Department of	1,399,000	(1,399,000)	-		-		-
Total Spending	\$174,545,100	(\$9,789,100)	\$164,756,000	(\$3,400,000)	\$161,356,000	\$3,400,000	\$164,756,000

Table 4

FY 2017 FUNDING FORMULA SUSPENSIONS 1/

	<u>FY 2017 Formula Requirement</u>
<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%	1,747,400 <u>4/</u>
Department of Environmental Quality - WQARF	8,000,000
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>5/</u>
Department of Health Services - Sexually Violent Persons (SVP)	3,022,200 <u>6/</u>
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	86,409,200 <u>7/</u>
Universities - Financial Aid Trust	<u>17,640,800</u>
 Total - FY 2017 Statutory Funding Formula Suspensions	 \$ 489,569,300
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 31,716,400
Department of Corrections - Building Renewal	14,652,600
Universities - Building Renewal	<u>129,900,000</u>
 Total - FY 2017 Non-Statutory Funding Formula Suspensions	 \$ 176,269,000

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/ Excludes costs that counties incur to treat RTC patients in alternative facilities.

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

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

TECHNICAL BUDGET ASSUMPTIONS

TECHNICAL BUDGET ASSUMPTIONS

Baseline

This book reflects General Fund baseline revenue and spending estimates. The revenue projections are based on a consensus economic forecast while the spending estimates represent funding formula requirements and other obligations. The Baseline does not represent a budget proposal. By providing an estimate of available resources after statutory requirements, however, the Baseline will help members of the Legislature evaluate the availability of resources for these discretionary adjustments. As such, the Baseline is only a starting point for discussion on the FY 2017 budget.

FY 2017 Budget

A.R.S. § 35-101 specifies 17 state agencies as “annual budget units” receiving one annual appropriation; all other agencies are “biennial budget units” receiving biennial appropriations with the dollar amounts itemized for each fiscal year. The biennial period starts with the even-numbered year. Since the FY 2016 budget suspended biennial budgeting and permitted all agencies to only submit a FY 2017 budget request, the Baseline includes only FY 2017 funding for all budget units. The Baseline also includes supplemental FY 2016 funding for selected budget units. All FY 2017 changes are referenced to the original FY 2016 appropriated amount.

Changes from Prior Year

The Baseline includes adjustments for one-time appropriations, annualization of any items funded for a partial year, and funding formula requirements.

The individual agency descriptions in this volume provide further narrative detail on these changes. In addition, the book provides the line item detail for individual agency budgets. The major technical issues with regard to each of these line items are described below.

The individual agency descriptions also include the following years of budget data:

- *FY 2015 Actual* - This dollar amount represents the FY 2015 expenditures as reported by the agency. The amount may include administrative adjustments, or payments for obligations incurred in FY 2014 but for which the state was not billed until FY 2015.
- *FY 2016 Estimate* - This dollar amount represents the FY 2016 appropriations as of the end of the 52nd Legislature, 1st Special Session.

- *FY 2017 Baseline* - This dollar amount represents the FY 2017 Baseline spending estimate.

Each budget summary includes the level of non-appropriated and Federal Funds available to the agency. The detail for these funds can be found in the “Summary of Funds” section at the end of each individual agency’s narrative pages.

Statewide and Standard Changes

Personal Services - This category includes salaries paid to state employees. The Baseline does not include a state employee pay adjustment for FY 2017.

ERE Rates - This category typically represents changes in the state’s cost of employee benefits. The rates have been held constant from FY 2016 to FY 2017 in the Baseline.

Medical and Dental Insurance - The Baseline includes a decrease of \$(7,800,000) from the General Fund and \$(8,561,500) from Other Appropriated Funds to reflect the annualization of reduced employer premiums effective January 1, 2016 and enacted in the FY 2016 budget. These annualization changes will be allocated to agencies as a statewide adjustment. The \$(7.8) million General Fund decrease is \$(8.4) million less than the \$(16.2) General Fund million reduction assumed in the 3-year budget projections associated with the enacted FY 2016 budget. The difference is primarily the result of revised estimates based on updated University payroll data, which reduced the amount of General Fund savings. The Baseline would also restore \$4,076,000 in General Fund monies to the Universities as an FY 2016 supplemental and transfer \$4,076,000 from the Health Insurance Trust Fund (HITF) to the General Fund. As a result of the employer premium reduction, ongoing revenues to HITF are expected to decline from \$834.6 million in FY 2016 to \$798.3 million in FY 2017.

Total FY 2017 medical and dental insurance costs are estimated to be approximately \$807.0 million in total funds, a combination of estimated ongoing FY 2016 costs of \$787.2 million plus \$19.8 million of new FY 2017 costs, reflecting 2.5% medical expenditure growth. The Baseline assumes that this 2.5% increase will be funded by drawdowns of the HITF balance.

In addition, the FY 2016 budget authorized the transfer of \$100.0 million from HITF to the General Fund. The transfer will generate a requirement to reimburse the

federal government for its share of the transfer. This amount is estimated at \$11.3 million.

After all adjustments are incorporated, the FY 2017 ending balance is estimated at \$257.0 million. *(Please see the Health Insurance Trust Fund (HITF) discussions in the Arizona Department of Administration (ADOA) narrative for further details on HITF balances and in the Arizona Board of Regents narrative for further details on the calendar year 2016 employer premium reductions.)*

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)
- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

Information Technology Planning - 0.20% of Personal Services for each agency, unchanged from the FY 2016 rate. The government information technology review function in the ADOA 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.

Attorney General Legal Services - \$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.)*

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.

Federal Insurance Contributions Act (FICA) - Social Security employer taxes are paid at a rate of 6.20% up to \$118,500. 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.

Retirement - FY 2016 rates as determined by the state's retirement systems have changed from the FY 2015 rates. The total contribution from ASRS employees and employers combined will decrease slightly from 22.70% in FY 2016 to 22.68% in FY 2017, excluding disability insurance; both employers and employees will each pay 11.34% in FY 2017, a decrease from 11.35% in FY 2016. Employee contribution rates for the Elected Officials Retirement Plan and the Public Safety Personnel Retirement Plan also changed pursuant to changes set in statute. The Baseline does not adjust agency budgets for changes in retirement rates except in the Department of Corrections.

Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.

Disability Insurance - For Arizona State Retirement Systems (ASRS) employees, the employer pays 0.14% of Personal Services for disability insurance, increased slightly from the FY 2016 rate of 0.12%. The employee rate will also increase to 0.14%.

For non-ASRS employees the rate is 0.27% of Personal Services, an increase of 0.02% from the FY 2016 rate.

Risk Management - Individual agency budgets' Other Operating Expenditures include funding for Risk Management charges billed by ADOA. The billings vary by individual agency and are unchanged from the budgeted FY 2016 rates.

Rent - Individual agency budgets' Other Operating Expenditures include monies to pay rent for state-owned, lease-purchase or privatized lease-to-own (PLTO) space, as well as for privately-owned space.

ADOA charges \$13.08 per square foot for all state agencies occupying state-owned space and \$4.74 per square foot for state-owned storage space in FY 2016. These rates are based upon usable square feet. The Baseline assumes no changes to these rates for FY 2017.

Please see the Capital Outlay - ADOA Building System narrative for more details.

The Baseline does not address increases in rent for privately-owned space.

Agency Hiring Freeze and Consolidation Savings - The 3-year budget projections associated with the enacted FY 2016 budget assumed new FY 2017 General Fund savings of \$(20,700,000) from a hiring freeze and agency consolidations. The projections did not specify savings by agency.

The FY 2017 Baseline includes \$(950,700) of FY 2017 General Fund savings for the following 3 agency consolidations as identified by the Executive:

- Behavioral health funding moved from the Department of Health Services to AHCCCS: \$(607,500)
- Elimination of Department of Weights and Measures and merger into Departments of Agriculture, Public Safety, and Transportation: \$(330,600)
- Merger of Board of Appraisal into Department of Financial Institutions: \$(12,600)

The remaining \$(19,749,300) of savings from the original \$(20,700,000) estimate have not yet been identified by the Executive; as a result, the Baseline does not incorporate those savings.

Full-Time Equivalent (FTE) Positions

Each agency section in this book includes the proposed FY 2017 ceiling of Full-Time Equivalent (FTE) Positions for the agency, along with the FTE Position ceiling for FY 2015 and FY 2016. Any changes from the prior year total are noted in the agency narrative. The number of FTE Positions reflects personnel funded from both Personal Services and Special Line Items.

Format

Each agency section in this book includes the proposed agency budget format. Any changes from the prior year format are noted. The format governs how an agency's

appropriation will appear in the General Appropriation Act. The most common budget formats are as follows:

- *Lump Sum by Agency*
- *Lump Sum by Program*
- *Modified Lump Sum by Agency*
- *Detailed Line Item by Agency*

A less detailed format will provide an agency with more discretion in implementing the budget at the expense of legislative oversight for that agency. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds to a purpose different from that originally intended by the Legislature.

Details on each of these common formats are below:

Lump Sum by Agency - The appropriation consists of a single dollar amount, thereby allowing the agency to shift funds among line items and programs without further legislative review. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Lump sum appropriation	\$100,000

Within this format, the Legislature will need to determine whether Special Line Items (funds generally granted to entities or individuals outside of state government, or which merit special attention) will be included in the Lump Sum or listed separately.

Lump Sum by Program - The appropriation consists of a single dollar amount for each agency program. Agencies must receive ADOA approval prior to shifting monies from one program to another. Any Special Line Items would be listed under the program with which they are associated. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Program A	\$30,000
Program B	30,000
Program C	<u>40,000</u>
Total Appropriations - Agency X	\$100,000

Modified Lump Sum - The appropriation consists of at least 3 lines: Personal Services, Employee Related Expenditures, and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, an agency must seek approval of the Joint Legislative Budget Committee before moving any funds into or out of the Personal Services or ERE line items (A.R.S. § 35-173(e)). In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
All Other Operating Expenditures	<u>25,000</u>
Total Appropriations - Agency X	\$100,000

Detailed Line Item - The appropriation consists of each line item listed in this book, including Personal Services, Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenditures, and Equipment. Any Special Line Items would be listed separately. While the same rules govern Personal Services/ERE transfers as noted in the Modified Lump Sum description, the detailed line item appropriation requires the agency to seek ADOA approval before transferring monies between any other line items.

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
Professional & Outside Services	3,000
Travel - In State	7,500
Travel - Out of State	2,500
Other Operating Expenditures	5,000
Equipment	2,000
Local Grants	<u>5,000</u>
Total Appropriations - Agency X	\$100,000

Footnotes

The individual agency sections of this book include proposed footnotes, which are narrative statements in the General Appropriation Act that establish conditions for expenditures, reporting requirements, and legislative intent. A footnote, however, cannot be used to modify an existing program's authorizing law. Footnotes are classified into one of the following categories:

- Standard Footnotes
- New Footnotes
- Deletion of Prior Year Footnotes

Please see the *Major Footnote Changes* section for a listing of major footnote changes from FY 2016.

Statewide Footnotes

In addition to individual agency footnotes, the Baseline would include several footnotes applying to statewide issues to the General Appropriation Act. All the following footnotes are unchanged from FY 2016 unless noted.

Expenditure Reporting - 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.

FTE Position Reporting - The FTE Positions in the General Appropriation Act are subject to appropriation. The ADOA Director shall compile an FTE Position utilization report for FY 2017 for submission to the JLBC Director by October 1, 2017. This report shall include both appropriated and non-appropriated positions. The Universities are exempt from the ADOA report but are to report in a comparable manner. The Department of Economic Security and Department of Environmental Quality were also exempt from the ADOA report in prior footnotes but will now have their positions reported in the ADOA report. In addition, each agency shall 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.

Transfer Authority - ADOA shall provide a monthly report to JLBC Staff on agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements - ADOA shall provide to the JLBC a preliminary estimate of the FY 2016 General Fund ending balance by September 15, 2016. The 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.

Long-Term Budget Estimates - 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 to be based on existing statutory funding requirements. A.R.S. § 35-125 requires the Legislature to discuss the estimates in a public hearing before the adoption of the General Appropriation Act. (Please see the *Long-Term General Fund Estimates* section for details on the FY 2017 - FY 2019 revenue and expenditure estimates.)

Non-Lapsing Appropriations - The General Appropriation Act will designate certain appropriations with "*", meaning that the appropriation is exempt from lapsing.

Expenditure Authority - For the 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 - For the 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.

Statutory Changes

The individual agency sections of this book include proposed statutory changes related to the budget. These changes will be introduced in Budget Reconciliation Bills (BRBs). *(Please see the FY 2017 Budget Reconciliation Bill Provisions section for a complete listing of proposed statutory changes.)*

In addition to agency-specific statutory changes, the Baseline would, as session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services. The Baseline would also, as session law, continue to require that all agencies only submit annual budgets for FY 2018.

Other Issues

This section may also include other information of general interest, including FY 2016 supplementals.

Statewide Expenditure Adjustments

In addition to changes in individual agency budgets, the Baseline includes 2 “balance sheet” expenditure items not discussed elsewhere: Administrative Adjustments, Revertments, and Statutory Revertments.

Administrative Adjustments - The Baseline assumes that state agencies will have expenditures totaling \$85,000,000 in FY 2016 for FY 2015 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2015 but for which the state was unbilled until FY 2016. An agency’s administrative adjustments cannot exceed its prior year revertment, or unused appropriation authority. The \$85,000,000 is an increase of \$15,000,000 from the originally-budgeted FY 2016 total. The FY 2016 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 revertments, within the range from previous years of below 30% to above 70%. Most of the unspent revertments are in caseload-driven agencies such as the Arizona Department of Education (ADE) and AHCCCS.

In addition to the FY 2016 figure, the Baseline assumes a FY 2017 administrative adjustment total of \$70,000,000, a decrease of \$(15,000,000) from the revised FY 2016 total. The FY 2017 amount reflects 64% of prior-year revertments *(see Revertments discussion below)*.

Revertments - The Baseline assumes that state agencies will revert \$(110,000,000) of FY 2016 appropriations back to the General Fund because the agencies will not spend their entire appropriation. Agencies will be permitted to make administrative adjustments totaling no more than this amount in FY 2017. This amount is a decrease of revertments of \$1,380,700 from the originally-budgeted FY 2016 total of \$(111,380,700). The revised FY 2016 amount reflects 1.2% of total spending, reflecting a moderate level of revertments.

In addition to the FY 2016 estimate, the Baseline also assumes a FY 2017 revertment total of \$(110,000,000), unchanged from the FY 2016 total. This amount is about 1.2% of total spending.

***JLBC STAFF
AND
AGENCY DIRECTORY LISTINGS***

**DIRECTORY OF JLBC ANALYSTS
AND AGENCY/DEPARTMENT HEADS
(As of January 15, 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 Gress	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	Matt Gress	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 [Interim 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	John Blackburn, Jr. [Executive Director]	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 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	Andy Tobin [Interim Superintendent]	602-771-2800
Fire, Building and Life Safety, Department of	Henry Furtick	Debra Blake [Interim Director]	602-364-1022
Forester, State	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
Geological Survey, Arizona	Krista MacGahan	M. Lee Allison, Ph.D. [Director and State Geologist]	520-770-3500
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
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

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
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
Indian Affairs, Arizona Commission of	Bob Hull	Kristine FireThunder [Executive Director]	602-542-4421
Industrial Commission of Arizona	Bob Hull	Andrew Wade [Acting Director]	602-542-4411
Insurance, Department of	Jeremy Gunderson	Andy Tobin [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 [Assistant 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	Tony Bouie [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 Safety and Health Review Board	Bob Hull	Gary Lasham [Chairman]	602-542-4411
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
Pest Management, Office of	Henry Furtick	Mark Killian [Director]	602-542-5729
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 [Interim 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 Gress	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	Phil Williams [Interim Director]	602-542-4457
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

<u>AGENCY/DEPT./BUDGET AREA</u>	<u>JLBC ANALYST</u>	<u>AGENCY/DEPARTMENT HEADS</u>	<u>TELEPHONE NUMBER</u>
Tax Appeals, State Board of Technical Registration, State Board of Tourism, Office of Transportation, Department of Treasurer, State	Jeremy Gunderson Henry Furtick Henry Furtick Ben Beutler Eric Billings	Karen Rice-Brogdon [Chairperson] Melissa Cornelius [Executive Director] Debbie Johnson [Director] John Hallikowski [Director] Honorable Jeff DeWit [State Treasurer]	602-364-1102 602-364-4930 602-364-3717 602-712-7227 602-604-7800
University of Arizona Veterans' Services, Department of Veterinary Medical Examining Board, Arizona State Water Infrastructure Finance Authority Water Resources, Department of	Micaela Larkin Rebecca Perrera Steve Grunig Josh Hope Micaela Larkin	Ann Weaver Hart, Ph.D. [President] Colonel Wanda Wright [Director] Victoria Whitmore [Executive Director] Sandy Sutton [Executive Director] Thomas Buschatzke [Director]	520-621-5511 602-255-3373 602-542-8150 602-364-1310 602-771-8426
Weights and Measures, Department of ^{1/}	Henry Furtick	Mark Killian [Director]	602-542-5729
<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/ The Department of Agriculture 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.

**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
..... Matt Gress
..... 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